adidas Group Stakeholder Dialogue 2009:

Environmental Strategy Development and Energy Management

SUMMARY REPORT

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I. Morning Session: adidas Environmental Supply Chain Strategy Dialogue

The stakeholder dialogue began with a morning session designed to allow adidas to communicate clearly with its suppliers regarding its vision, past progress, and future plans for environmental strategy, including energy efficiency.

Following introductory remarks by Bill Anderson, Asia Pacific VP of adidas Social and Environmental Affairs, Maureen Vickers, VP of adidas Apparel Sourcing, and Hoa Ly, Head of Sourcing Operations for adidas Footwear, the morning session featured a presentation by Lyn Ip, Regional Manager, Environmental Health and Safety for adidas, to summarize progress and feedback since adidas' 2007 stakeholder dialogue. Since 2007, adidas' efforts in responding to supplier feedback have come in 3 main areas:

- ***Capacity Building***

  One key area of feedback was the desire from suppliers to have energy saving workshops and capacity building sessions which was one of the geneses of the 2009 stakeholder dialogue. Since receiving that feedback, adidas conducted an online training needs survey of suppliers conducted in 2008, a review and revision of energy workshops to focus on the main industries and problems in the footwear, apparel and accessories & gear industries.

  Moving forward, adidas will be looking to undertake capacity building initiatives in areas such as water and waste management and looking to work with suppliers to go beyond the low hanging fruit and execute more challenging environmental initiatives that maximize impact.

- ***Collaboration and Sustainable Products***

  Other key areas of feedback included requests from suppliers for more brand collaboration opportunities and more education and dialogue around sustainable products. Following this feedback, adidas established an EHS Practitioner's Group composed of various brands, and collaborated with other brands and groups including GE and the WFSGI on environmental health and safety and energy issues. adidas is currently looking to expand on these efforts by working with other brands to develop a common approach to calculating carbon emissions in the supply chain.

  adidas has also made large strides in the area of sustainable products since 2007, launching the Better Place product line in 2009, adding to other "green" product lines like adiGrun and SLVR. adidas has also increased efforts around recycled packaging and has conducted retail store environmental audits. Lyn shared how adidas looks forward to further

expanding and integrating Better Place into more sports categories and factories every season and determining which suppliers are serious about moving ahead with adidas on these premium products.

- ***Resource and Relationship Management***

  Finally, factories responded that they were looking for further information and leadership regarding both resource management, including recycling, energy prices, and waste collection as well as the management of the factory engagement process. Since 2007, adidas has begun not only designing out excess materials and components in different product lines, but looking into more recycling and hazardous waste co-processing solutions. In 2009, adidas will look to expand and increase on these efforts.

  On the issue of stakeholder dialogue, adidas has begun to work with its Tier 2 suppliers to start to manage environmental issues and has continued to liaise with its key suppliers to identify areas of mutual support. Moving forward, adidas will be looking to establish a concerted effort across its supply chain to manage environmental compliance issues from brands, suppliers, and factories.

Following Lyn's presentation, Karin Ekberg, adidas' Head of Environmental Services, led a one hour dialogue with suppliers over adidas' environmental supply chain strategy in 2009.

adidas' environmental supply chain strategy is centered on three overall objectives that impact its suppliers: Eliminating environmental risks and building sound management systems, building a premium supply chain that has environment embedded in business operations, and increasing leverage through partnerships to create a reduced industry footprint.

Discussion of how adidas could partner with its suppliers to implement these three key strategies in 2009 led to a dialogue that emerged around three key themes:

- **Suppliers find themselves increasingly impacted by environmental issues**

  Following suggestions by Karin about different methods companies can use to understand environmental risks in their operations, including their sub-suppliers, all suppliers fed back that their companies are definitely impacted by various environmental trends. Examples included water, noise, waste management, radiation, CO2 emission, energy emission, climate change and others.

  Key drivers for suppliers on improving environmental performance included not only the Chinese Government as it imposes more stringent environmental regulations on companies especially those in major cities but also increased consumer awareness and resulting brand focus on environmentally responsible products and green manufacturing processes.

- **Collaboration will be needed from adidas, its Tier 1 and Tier 2 suppliers to improve environmental footprint of the entire supply chain in an effective way**

Responding to suggestions that suppliers support collaborative partnerships targeted at specific environmental issues across the supply chain, suppliers identified many areas where they could play a positive and proactive role. These included increasing education efforts in the workplace to build a company culture around environmental compliance and energy savings, look for cost-savings energy management opportunities, link production more closely between design and materials and continuing to explore opportunities in green manufacturing and renewable energy.

At the same time, suppliers are also looking for more investment by adidas in China on the environmental front with more communication of expectations to suppliers and a clear roadmap for long term education with a time table. Suppliers are also looking for increased leadership from adidas on the standardization of KPIs and integration of different schemes, expert technical advice on technical innovations for energy-savings, working with other stakeholders, including the government, to develop greener materials and even taking one of the factories in the Better Place program as pilot factory and sharing the results with other suppliers.

- **Environmental compliance is a baseline for doing business in China**

The final area of discussion centered on solving common environmental compliance risks in the factory, including non-existing or incorrect permits, inefficient waste/wastewater/waste air treatments and chemical handling. Most suppliers responded that environmental compliance is of high importance and the baseline for doing business. Traditional risks can be solved through a combination clear standards and targets, along with regular auditing and remediation processes. Suppliers also looked to adidas for further resource and information sharing on successful best practice examples.

II. Afternoon Session: Best Practice and Experience Sharing

The morning dialogue was followed by a series of case studies from variety of experts, including suppliers, consultants and technology providers to give all meeting participants useful experience and lessons they could take home with them.

adidas was very pleased to have two of its suppliers, one from the apparel industry and another from the golf club industry, share their recent successful efforts to reduce energy consumption in their factories through a variety of steps. Participants responded well to these case studies, expressing the most interest in presentations were results-oriented, provided case studies the suppliers could relate to, and were concrete and practical in detail. Each supplier shared a combination of steps they took, from creating energy management teams and better managing current resources to building automation and the use of new energy efficient technology.

These case studies were followed by presentations from a series of external experts who each presented a different aspect of energy management to adidas suppliers as well as case studies of different Chinese companies who had successfully used those methods to save energy costs. They included:

- The Guangzhou-based Operations Manager of a global sustainability consulting and training organization shared the successful experiences of both multinational and local companies in China who used energy efficiency committees, target setting, and management systems to achieve lasting reductions in energy use.
- A representative from a Hong Kong-based power supplier and energy auditing specialist who shared successful case studies of how footwear factories had used low-cost measurement and management systems to reduce their energy costs.
- An energy efficiency expert in the garment industry presented examples of how garment factories used financial calculations to get senior management buy-in and implement energy-saving retrofits.
- The head of a Hong Kong-based energy service company explained to factories how a performance contracting model can provide funding to factories looking to undertake comprehensive energy technology retrofits and share in the savings.
- The principal consultant of a Hong Kong-based government-related productivity training organization introduced the funding opportunities available from the Hong Kong government to Hong Kong owned factories for energy audits and retrofit projects.

Feedback from participants following the presentations showcased the two largest outcomes from the experience sharing session:

- **Increased awareness about access to funding sources**

  Introduction to the government funding models and performance contracting made many participants aware for the first time that funding help was available to them for investment in energy efficiency. Many respondents indicated a plan to follow up with those funders to evaluate new opportunities.

- **Consensus around the importance of management buy-in and company culture**

  In both group discussions and questionnaire feedback, many respondents reflected on the importance of senior management leadership and company culture in achieving energy efficiency gains. This was found in specific comments about the case study presentations ("Both companies are true believers and doers in environmental improvement. This can be successful only if this is a company culture and being viewed as 'cost reduction' project"). It was also reflected in that the largest percentage of respondents said that further

discussion with management was what they needed most before they could take the first step.

III. Recommended Next Steps for adidas

Decide on a unified focus in the energy conservation space and communicate that to suppliers

With many different components in environmental compliance, it is easy for energy savings to be placed at the middle or bottom of the list when it comes to company risk factors. However, if adidas would like to work with suppliers to have them reduce their energy consumption and reduce waste, one way to accomplish that would be to set clear targets, expectations, or recommended actions to suppliers. Setting clear expectations and roles was one common request from suppliers at the meeting.

Create partnerships with organizations that can evaluate different energy service providers and provide recommendations to suppliers

As many suppliers remarked that they are unsure who to contact in the energy services marketplace or how to evaluate different options, adidas can consider linking with different organizations that can help provide a list of top providers or provide training to suppliers on different types of technologies and their relative strengths and weaknesses. Depending on resource availability, adidas or its partners could then create guidance to factories in the form of toolkits that they can implement.

Continue to engage regularly with key suppliers on a draft environmental strategy before releasing it

Following comments from suppliers about their desire for further engagement with adidas on these issues and potential concerns about the new environmental strategy, adidas might consider a regular (monthly) discussion with a handful of key suppliers. Increased engagement, although requiring investment of time and resources, could effectively increase compliance in the long run.

Other suggestions from suppliers throughout the course of the day that may be considered include working with suppliers to engage their Tier 2 suppliers, especially on the issue of raw material environmental compliance, engaging the local government and obtaining their support, and continuing to regularly share end-user and customer information with suppliers.

IV. Conclusion

Through the day's presentations and discussion sessions, adidas was able to build on its environmental supply chain strategy stakeholder engagement initiatives since 2007 with effective sharing best practices and ideas moving forward. In the morning dialogue session, suppliers were given an opportunity to provide adidas with suggestions as its environmental supply chain strategy continues to evolve. adidas was able to respond specifically to supplier requests from the 2007 stakeholder dialogue and provide several successful case studies in energy management than can be implemented in supplier factories. A wrap-up discussion in the afternoon session around which energy management techniques were most practical and applicable to suppliers also gave adidas a chance to learn the best ways to engage with its suppliers on environmental issues moving forward.

As the combination of a global rise in energy prices, government movement towards increased regulation, and growing consumer awareness of climate change issues made strategic energy and carbon emissions management a business priority for companies around the world, many leading multinational companies have announced and expanded global sustainability initiatives, which typically include cuts in carbon emissions or improvements in energy efficiency. As adidas' suppliers deal with increasing pressure from brands, government, and global markets to increase their energy efficiency and lower carbon emissions, a few key first steps from the afternoon presentations include:

- Engage in discussions with your local electric utilities about receiving electricity saving rebates

- Begin working your management team to create a culture of resource saving and environmental protection. As one supplier recommended, "Protecting the environment is a synergy in motion – it's not my role or your role. It's our role – it's PARTNERSHIP."

  Culture-building can include worker training on better equipment maintenance and turning off machines, motors, and fans when they are not in use to prevent wastage during machine idling.

- Continually look at the plant as an area of improvement for energy saving. Large energy improvements come from the accumulation of many different initiatives put together.

- Work with equipment suppliers to seek energy efficiency solution. One example includes switching from AC Induction motors to DC Motors.

- For factories that use large amounts of steam, re-using steam and water condensate back into a steam boiler can reduce the frequency of boiler firings and save large amounts of energy.

- De-lamping areas of low manpower or lowering the height of lights in work areas can save thousands of dollars per year.

- Create ownership over energy savings by assigning work areas or rooms to designated people responsible for turning off lights and all equipment, including computers. Their performance against these targets can be brought into their personal evaluations.

- Use passive infra –red sensor light switches in toilets rather than manual switches.

- Consider installing variable speed or frequency conversion devices on motors or air compressors to reduce power demand.

- Look at using solar water heaters for dormitory use to reduce the need for gas or coal fired boilers.

- Replace your existing incandescent lights with energy efficient T5 fluorescent bulbs.

- Engage your internal colleagues about getting an energy management committee started.

- Talk to energy auditors or install metering technology to establish a baseline and get ideas for where and how to reduce energy use.

- Engage funders or technology providers to understand what they can offer and how to get started.

- Any first step is a good one. The ones that achieve lasting energy efficiency are those that set targets, utilize data, create ownership for energy reduction within the factory, have senior management buy-in and are core to the business.

V. Appendix – Group Discussion Session Notes

Morning Session

1. Which trends in the environmental area do you believe impact your company?

Pressure is coming from a variety of stakeholders

- All the groups share the view that their companies are impacted by various environmental trends. For example water, noise, waste management, radiation, CO2 emission, energy emission, human rights, climate change etc.
- The pressure in having better environmental performance is driven by the **government** – particularly the Chinese Government as it imposes more stringent environmental regulations on companies especially those in major cities.
- Another driving force comes from **consumer awareness** affected by the marketing message from brands that influences the production of sustainable products and hence green manufacturing.
- Some groups mentioned that a better reputation in social compliance attracts more investment.
- Another common trend noticed by different groups is that **CSR is increasingly becoming a requirement for doing business** instead of just adding value to the business.
- Suppliers are urged by **brands** to implement environmental compliance measures more quickly.
- Companies are also urged by **brands** to produce greener products though green manufacturing processes and the use of green materials.

2. How can we improve our joint environmental footprint in an effective way?

Suppliers are seeking support from adidas in the following ways:

- Some suppliers hoped for more investment by adidas in China on the environmental front with more communication of expectations to suppliers and a clear roadmap for long term education with a time table. E.g. a 5-year of environmental plan, a carbon footprint policy etc.
- adidas can work directly with Tier 2 suppliers and urge them to develop eco-friendly materials and energy savings plans.

- Universal measurements: standardization of KPIs and integration of different schemes.
- Expert technical advice on technical innovations for energy-savings.
- Take one of the factories in the Better Place program as pilot factory and share with other suppliers.
- Work with other stakeholders, including the government, to develop greener materials.

Suppliers are seeking support from government:

- Involve local government in programs such as waste management and energy-saving incentives schemes.

Suppliers also recognized their role in improving the situation:

- Education: convey a message of environmental compliance and energy savings to both management and workers and develop it into a company culture.
- Improvement in energy management should be cost-saving and finding ways to reduce losses through technological advancement.
- Management requires training and education, focus on green, savings/investment and renewable energy.
- Product-dependent: link production closely between design and materials.
- Consider the financial aspects of environmental initiatives in the context of the financial crisis, how to integrate financial survival and environmental compliance.

3. How can compliance issues be solved, e.g. non-existing or incorrect permits, inefficient waste/wastewater/waste air treatments, chemical handling? Do you see these issues as important?

Compliance as a baseline but with possible incentives to high performers

- One of the groups pointed out that "Compliance is the baseline" and the rest recognize the importance of complying to local and international environmental standards
- Compliance issues could be solved with standards, targets, audits, warning, exit
- These issues are important especially when dealing with the government. But sometimes the companies' interest may conflict with these standards.
- Both government and brands provide more incentives to companies which have good environmental and compliance programs

Resource and information sharing

- Sharing of adidas and BSR resources on environmental management and successful case study examples
- Can use adidas' help in understanding the needs of the consumer and integrate it into the design process
- Sharing of manufacturing implementation
    - Sharing/transparency
    - Forum/localized sharing of innovation and developmental process

Afternoon Session

1. After hearing the afternoon case study presentations, what were the most implementable solutions that you heard? What are respective opportunities and barriers? Will you need additional funding?

- Some suppliers commented that they have already been implementing projects related to energy efficiency such as the WWF LCMP program.
- They also suggested that more could be done:
    - Electricity reduction: 1) Heat reuse in casting machines 2) heat exchanger possibilities 3)Infrared heater, light reduction and machines allocation 4) going beyond T5 lighting
    - Utilize solutions from EESCO and the HKPC Cleaner Production Scheme which provide funding, energy mapping, evaluation on return on investment
    - Energy mapping can be extended to raw material suppliers/Tier 2 and take the approach of "re-thinking" instead of "replacement"
    - Water recycling

2. What tools will you need to move forward?

- Funding support is essential
- Get an energy audit to have a better understanding of the current energy usage and opportunities for improvement

3. **What are some implementable steps you can take in the next 3 months?**

Equipment replacement

- Can use biomass boiler instead of a furnace oil boiler, it has a more efficient utilization of steam in fabric manufacturing
- Improve air-conditioning chilling efficiency by low-cost pipe installation
- Replace inefficient condenser

External Partnerships

- Partnering with Build Operate Transfer (BOT) Model outsourcing companies or Energy Efficiency Services companies (EESCO) to get funding
- Sharing of experience and practices in transparency by US suppliers to those in PRC
- Consensus on approach within internal management needs to be met

Knowledge Management

- Self-assessment to understand the situation and identifying gaps
- Material management, peer learning and education

4. What is adidas' potential role in these improvements?

Many groups expected adidas to play an important role in supporting suppliers to become more energy efficient. Some suggestions included

- Road map which provides a guideline for timeline, standards
- Setting roles and expectations
- A list of recommend energy technology vendors
- Being a role model for suppliers
- Engaging the local government and obtaining their support
- Continual promotion of environmental programs
- Encourage sharing of information, especially to adidas' customers

5. **What can you do to promote energy efficiency in your supply chain?**

- Further training, measurement and education
- To share adidas vision to Tier 2 suppliers with details and feedback procedure