

adidas®

GROUP

connected
by football

social and environmental report 2005



our new approach to reporting	02
group profile	03
CEO statement	04
one team, one vision: managing our business	06
strategy and tactics: improving the way we work with suppliers	16
performing responsibly: environment, employees and community	22
are we improving? progress against targets and targets for 2006	32
glossary and feedback	36
index: this report and online reporting	37

football is everywhere and adidas is football. with the 2006 fifa world cup™ in our home country of germany, our commitment to the game has never been greater. football is where we started and football is a major part of where we are today. that is why we feel a responsibility for all the people involved in the sport. a responsibility to players, to fans, and to the people who make our products.

our new approach to reporting

We have often said that we want to act responsibly and communicate transparently. We also want our reports to be engaging. Our social and environmental reports should help readers understand our approach to issues they are concerned about, so they can form their own view about how well we are doing.

We have produced five previous social and environmental reports. Though they had been largely well-received, we wanted to do better. In particular, we felt it was time to reconsider how we report comprehensively and also hold the reader's attention. We want to convey our passion for this work, not overwhelm people with detail. So for this, our sixth report, we are trying something different, something to engage new audiences, while continuing to interest regular readers.

To be truly useful, a corporate report must reflect both the nature and circumstances of the company and the concerns of its stakeholders. So we considered the sale of Salomon, the acquisition of Reebok, and our focus during 2005 preparing for the 2006 FIFA World Cup™ in Germany. As a principal sponsor of this huge sporting event, we expect 2006 will see more people than ever interested in our social and environmental performance, especially as it relates to football.

During 2005, our corporate website was redesigned, creating an opportunity to expand on the amount of content we had previously published online.

And so we arrived at a solution: to produce this shorter, football-themed report in print, and report about all our current activities on our corporate website www.adidas-Group.com/en/sustainability/welcome.asp

Throughout this report, you will see that we point you to our website for additional information. Usually this is non-football related or information about our activities and performance in 2005. Our website also references the Global Reporting Initiative, which we continue to use to guide our reporting.

We think this approach is innovative. We hope it is successful. Ultimately this is up to you, the reader, to decide. Do let us know what you think by writing to us at sustainability@adidas.de

our report

- follows a football theme
- directs readers to particular sections of our website for additional information
- is available in print and as a pdf from our website [> sustainability > reporting](#)

our website

- www.adidas-Group.com/en/sustainability/welcome.asp
- is newly expanded and covers all the information, such as performance data, that we have previously published in our report
- a pdf of the majority of our website content covering our sustainability performance and other GRI elements is available [> sustainability > reporting](#)

group profile



Number of employees (continuing operations)



The number of adidas Group suppliers



Percentage of women in the Company



The total number of people our suppliers employ



adidas has 20 licensees located in 10 countries that source products from 137 suppliers in 26 countries



Percentage of suppliers in Asia



The number of factories owned by the adidas Group

You need to have a sense of the nature and scale of our business, so you can judge how well we are performing. The adidas Group, including the adidas and TaylorMade-adidas Golf brands, offers consumers a broad range of sports products in footwear, apparel and hardware. 2005 saw two important changes for the adidas Group: the Group sold the Salomon business segment to the Amer Sports Corporation; and the acquisition of Reebok was announced on 3 August 2005 with the deal closed on 31 January 2006. Both of these changes support the adidas Group's core competencies and strategic focus on the global athletic footwear, apparel and hardware markets.

For more
[> about us](#)
[> investors](#)
[> our brands](#)
[> sustainability](#)



Net sales in billion euros across the whole Group in 2005 (continuing operations)



Football apparel products in millions manufactured in 2005



Pairs of football boots and shoes in millions manufactured in 2005



Football accessories & gear products in millions manufactured in 2005

ceo statement

The FIFA World Cup™ is the biggest sporting event in the world in 2006. Taking place in our home country of Germany, it is an extraordinary opportunity for the adidas Group to show the world our passion for football. People everywhere love to play and follow football, and never is this truer than in World Cup year.



Great football teams have great team spirit. +Teamgeist™ was our choice of name for the official match ball for the FIFA World Cup™. This same idea also underpins our football employee concept – Team 2006 – uniting the global adidas family and focusing our skills and energies for our big year.

We have a fan's passion for football – it is the heart of our business. We have a great history as a football brand, going back more than 50 years to Adi Dassler's innovative idea in designing modern football boots with different studs for particular ground conditions. These stories still inspire us today. We bring Adi's passion and dedication to performance to the challenges of responding to stakeholder concerns and being a responsible business.

Are we making a difference? We made considerable progress during 2005 in

integrating supplier compliance into the Group's core operations, a fundamental factor for the programme's success. We have established a new Key Performance Indicator (KPI) to measure the effectiveness of actions our suppliers take to meet our standards. Great teamwork means this KPI reflects performance requirements from both a social compliance and operational perspective. We have streamlined and strengthened our approval system, raising the bar on accepting new suppliers. More suppliers now undertake a self-assessment of their compliance activities – an important step in becoming self-governing. And the environmental data system established by our Asian footwear suppliers has matured into a decision-making tool that they use to manage resources more efficiently and reduce their environmental footprint.

We continue to collaborate with others in tackling the challenges of our industry and we participate in many multi-stakeholder initiatives. These include the Fair Labor Association's FLA 3.0 'Soccer' project in Thailand and China, the Jo-In project in Turkey, addressing issues such as hours of work and the WWF Better Cotton project, seeking long-term improvements in the cotton industry's social and environmental performance.

During the year, we have clarified our position on publishing the list of our suppliers: we want to ensure that all supply chain data is reliable and up to date. For years we have disclosed supplier data to third parties with a legitimate interest, including unions and NGOs, and we will continue to do so. With coordinated disclosure we can ensure the data's accuracy.

We remain committed to transparency and reporting. This year we recognised that our printed reports were becoming unwieldy. So we have written a more succinct, though still rigorous, report in print, and refer readers to our expanded website for additional information. In keeping with our 2005 business focus, this report tells the story of our social and environmental performance through the lens of football.

Our efforts in the last year have not gone unnoticed. The Fair Labor Association has accredited our compliance programme. The Dow Jones Sustainability Index lists us as an industry leader. And we are also recognised on the FTSE4GOOD Index and Ethibel's ESI Europe Index.

Despite these successes, we did not meet all our goals. We failed to issue comprehensive guidelines on worker-management communications and guidance for small and medium-sized enterprises on health and

safety. And although we have established a good community affairs management structure, we have not yet extended the successful social programme approach taken with our HIV-AIDS project in Vietnam to other countries and initiatives.

Now that Reebok is part of the adidas Group, integrating the two companies' corporate responsibility programmes will be a focus for the year ahead. We will seek feedback on our programme from our key stakeholders – including our employees and the workers in our supply chain whose conditions are the focus of many of our activities. This feedback will help shape our programme for the future – a future that will of course include new and more complex challenges. But with our passion, our commitment and our Teamgeist, I am confident that we can rise to these challenges and continue progressing towards our long-term goal of becoming a sustainable business.

Herbert Hainer,
CEO and Chairman
of the Executive Board



one team, one vision: managing our business

Our founder, Adi Dassler was devoted to performance, to innovation, to athletes. We draw on his passion as we respond to the challenges we face in becoming a sustainable company.

mission and values

There is no other brand which is more connected by football than adidas. adidas has a unique heritage and experience centered on football. Football is the biggest sport on the planet with players, fans, managers and workers everywhere around the world connected to the game and its products. And for decades adidas has influenced football with far-reaching technical innovations: remember the introduction of lightweight screw-in studs' boots in the fifties; the revolutionary upper designs in 1998; or the first machine-stitched, thermo-bonded football today.

Where did it begin? It all started with Adi Dassler, a man who restlessly strived to provide athletes with the equipment they needed to perform at their best.

As a passionate sportsman devoted to innovation and performance, he wanted to learn as much as possible about athletes' real needs and the diverse conditions under which they perform. So he was always listening to them. And he also listened to his employees because he understood they were crucial for his business success.

Acting responsibly With outsourcing of our supply chain came new challenges. Because we wanted to continue to apply Adi's principles of fairness, of innovation and of good management, eight years ago we

established the Group-wide function Social & Environmental Affairs (SEA) to strengthen our efforts in managing our corporate responsibility. For five years we have reported about our efforts, successes and failures in the field of social compliance and environmental management.

We have developed a firm understanding about the conditions and issues in supplier factories and this gives us a solid platform from where we can innovate. We test and develop new ways of working, new ways that help us fulfil our mission to become a sustainable company and improve the lives of those who make our products.

[> sustainability > mission and values > sustainability principles](#)
[> sustainability > mission and values > SEA mission](#)

Football and acting responsibly Football has always played an important part in our social compliance programme:

- At the end of the 1990s it was allegations of child labour in the supply chain in Pakistan and India, where footballs were stitched, that galvanised the industry to take concerted action;
- These allegations also spurred the development of a common code of conduct for the sporting goods industry and the Group's own Standards of Engagement and led, ultimately, to the establishment



On our website you will find our missions in Social and Environmental Affairs, Human Resources and Community Affairs.

Our Standards of Engagement set out what we expect from our suppliers in terms of acceptable working conditions. They cover issues such as child labour, freedom of association and health and safety. See page 12.



The year we established our Social and Environmental Affairs team.

of the SEA team [> sustainability > mission and values > SEA team](#);

- Football, and specifically our licensing arrangements with FIFA, has demanded closer scrutiny and greater transparency of our supply chain;
- Workplace conditions in our major football boot and ball suppliers have been the subject of independent verification and certification exercises;
- When we wanted to apply innovative tools for measuring the environmental impact of sports shoes across their whole life cycle, we chose football boots;
- Our recent collaboration with other brands in the Fair Labor Association has involved the testing of new compliance methods with football suppliers;
- More than any other sport, football has always united our employees around the world; and
- It is often through football that we can become active in the communities where we operate.

We continue to critically examine, question and strengthen our own performance and that of our suppliers. We are constantly looking at the gaps between expectations, stated goals, targets, and achievements and are looking for ways to close those gaps.

challenges and responses

Global brands – global visibility Just as football is a global game, so is adidas a global business: we have offices in more than 80 countries and more than 40 nationalities represented among our staff at the Group's headquarters. We enjoy a 15% market share of the global sporting goods sector. We source products from 59 countries. In short, our brand is visible all over the world. Current developments that further increase our visibility are:

- The 2006 FIFA World Cup™ in Germany. This will draw even more attention to the adidas Group with millions of people watching the games and thousands of people visiting our home country. And adidas will be there at every game, in the shape of the Official Match Ball and team kits. From a social compliance perspective, managing this increased visibility is a challenge, as we know from issues raised at previous World Cups;
- The acquisition of Reebok will increase our presence and influence in the international sporting goods business; and
- As ever, the way we manage our supply chain is under scrutiny. The end of the Multi-Fibre Arrangement (MFA), the consolidation of the supply chain, and the social impact of our sourcing strategy have drawn increased attention from various stakeholders.

Being a highly visible brand that operates in a dynamic competitive environment and sources from a multi-layered supply chain poses specific challenges. We now present those challenges and our responses to them. In the progress against targets section (see page 33) we provide a more specific summary about our successes and failures in 2005.

challenge: building credibility and trust

Some stakeholders have concerns about the credibility of an internal supply chain monitoring programme. The major point of criticism is the independence and impartiality of such programmes. Adverse impacts on working conditions, such as peaks in working hours, may be caused through our own sourcing patterns. The fact that more products are sourced from countries where freedom of association is legally restricted raises further concerns for some stakeholders.

Therefore, they argue that we can make only limited progress in improving working conditions. In turn, this leads to stakeholders' requests to become transparent in our compliance programmes and to involve third parties in the investigation and verification processes. Which third parties should we engage? What Key Performance Indicator (KPI) is useful? What should we report to be more credible?

response: approach to transparency

Transparency, disclosure, and collaboration We value transparency and stakeholder feedback. We report annually on our compliance work including the location of our suppliers globally. We also submit our programme to evaluation, accreditation and public reporting by the Fair Labor Association. Moreover, we continue to practice full disclosure to researchers, trade unions and other concerned Non-Governmental Organisations (NGOs), based on their specific requests. For example, in 2005, factory names and addresses were disclosed to several local union affiliates of the International Textile, Garment and Leather Workers Federation and a workers rights group in Indonesia. The addresses of US collegiate licensed suppliers were also disclosed to the Universities of Wisconsin, Northwestern, UCLA, and the Collegiate Licensing Company. In Europe we have disclosed all of our main factories, as well as relevant sewing subcontractors, to the steering committee of the multi-stakeholder Jo-In Project in Turkey. To track factory compliance performance and to support supplier selection and retention by our sourcing organisation, we have developed a new KPI (see below).

Working with others We are involved in many multi-stakeholder initiatives because we believe that working collaboratively can create lasting change in workers' conditions. In 2005, for example, we have expanded our engagement with third parties such as NGOs and government departments both at a country level and on a factory-by-factory basis. Worker-management communications, freedom of association, and dispute resolution were a feature of this work, particularly in Asia, Central America and Eastern Europe. For more [> sustainability > our stakeholders](#)

Improving how we measure suppliers' performance In response to concerns voiced by our stakeholders, we launched a new way to measure how well our suppliers are complying with our standards. The new KPI was introduced at a global supplier forum in April 2005. We now measure how effective suppliers' activities are at delivering safe and fair workplace conditions. For more on this, see our chapter on Improving how we work with suppliers, and our website [> sustainability > suppliers and workers](#)

challenge: meeting shareholder rights

As a publicly listed company, adidas-Salomon AG is obliged to fulfil defined shareholders' rights related to business information.

Shareholders and representatives of the financial community nowadays request more detailed information about the Company and how the business is managing risk. Corporate reporting aids, such as the Global Reporting Initiative (GRI), have been developed to promote corporate transparency and disclosure. Increasingly, publicly listed companies are rated against transparency benchmarks.

response: corporate governance and risk management

To effectively and responsibly manage risks and challenges, standards of good corporate management are important. We have established a corporate governance framework that addresses rights of shareholders, the responsibilities and duties of the Executive Board (including social and environmental considerations) and the Supervisory Board and how they collaborate; information and disclosure obligations; and solutions for any conflicts of interest.

The governing principles we have established ensure good management and control of the business. A comprehensive risk management system addresses internal or external risks which may affect the Group's goals, strategies, brand image, or financial performance and health. Social and Environmental Affairs is an integral part of the risk management system and provides the Executive Board with regular updates on social and environmental risks and developments. SEA strategic business plans that have been approved by the Board supported the development of business contingency plans and staff advisories for public health issues like avian flu. For more on corporate governance and risk management > [investor relations](#)

challenge: managing an external supply chain

Our supply chain is large, multi-layered and complex. It comprises many different suppliers that can be categorised in four groups: main factories, subcontractors, material suppliers and licensees.

Outsourced production is not without its risks. We have less direct control over suppliers' operations or workplace and environmental conditions at their factories than at company-owned sites.

We have a code of conduct, our Standards of Engagement (SOE), which guide our suppliers on achieving acceptable working conditions. Our efforts are directed at addressing the root causes of problems and helping factories to improve by developing and running their own management and governance systems. To operate and maintain these, factories need capable people who are trained, competent and experienced. Within our major sourcing countries we have found that there is a very limited supply of skilled middle managers with health and safety and human resource management skills, and where there are capable people, turnover rates are high.

Another risk is in managing 2006 FIFA World Cup™ product demands and peak production loads in a limited base of suppliers, and the expansion of football stitching centres. Also, marketing and promotion campaigns for major events such as the 2006 FIFA World Cup™ often include specialty and give-away items, which are ordered through agents who operate outside of our main supply chain.

We are a successful company. And that success is measured in the demand for our products. Our business is growing, as is our supply chain. To manage this expansion we are entering into licensing arrangements with specialty firms, supporting investment and greenfield development by our existing business partners, who are building new factories, and finding new suppliers to fill orders for each local market.

response: how we work with suppliers

Our strategy is based on a long-term vision of self-governance for our suppliers and focuses on:

- supporting business partners in their efforts to establish effective human resources, health and safety and environmental management systems;
- building capacity within the workforce and the management of our supply chain to ensure fair and safe working conditions;
- raising environmental awareness and promoting best environmental practice; and
- expanding our interaction with local worker organisations and NGOs to better understand working conditions in places where our products are made.

We act as both inspectors and advisors, assessing management commitment to our SOE but also training our suppliers on the key issues. We use a new KPI to measure the effectiveness of actions taken by suppliers and we also provide training materials, such as our recently-launched Sustainable Compliance Guidelines, to help suppliers understand what is needed from them to achieve self-governance. We are extending the contractual obligations of those agents and licensees who operate outside of our main supply chain to include compliance with our SOE. For more, see page 17 and > [sustainability](#) > [suppliers and workers](#)

challenge: being competitive and customer-focused

Football players insist on using boots that perform well in all conditions. The same goes for the adidas Group: we need to be flexible and to perform at our best to thrive in the highly competitive sporting goods market, with its ambitious new players, and constant product innovations.

Shorter product cycles and the demand for more individualised products are specific challenges that not only affect marketing strategies but also our sourcing models. We are also expanding into markets that are more seasonal, for example, lifestyle and fashion.

Cost-effective product manufacturing and distribution are further imperatives. To remain competitive, we have outsourced production to countries where product costs are less. Interestingly, the emerging countries from which we source are themselves developing into major consumer markets for our products. The line between export producers and local or domestic manufacturers is becoming blurred.

External factors such as the price of oil or the end of the MFA (which set quotas for textile imports) require both our sourcing strategies and suppliers to be very adaptable. The transitional period, as the EU and the US governments negotiated new textile quotas, created a great deal of uncertainty in the industry. With the potential imposition of embargoes on certain categories of product, and concerns over safeguarding the delivery of products for the 2006 FIFA World Cup™, the Company decided to transfer the production of eight million individual items from China to other sourcing countries.

response: competing responsibly

We believe that the values and principles we share with our business partners positively impact business and the life of people making our products. We communicate these values through our SOE, the Group's code of conduct. The SOE are based on the International Labour Organization (ILO) and UN conventions relating to human rights and employment practices. They follow the model code of conduct of the World Federation of Sporting Goods Industry.

The SOE form a fundamental base of our relationships with our suppliers and are a contractual obligation. Before suppliers can become authorised business partners, they must be able to show how they comply with our SOE. But this is not the end point. We want to see our suppliers integrating the standards fully in their management and decision-making process, and finally moving towards a system of self-governance.

The results of supply chain compliance performance must inform the Group's operations team and other supply chain decision makers. The SOE is an integral part of the Global Operations cumulative factory rating system and ensures that customer demands and competitive advantages are achieved in a responsible environment.

The SEA team is tasked to ensure supply chain compliance with the SOE and managing wider corporate responsibility activities of the Group. The team is led by three regional Heads and the Global Director who reports to the General Counsel and the Executive Board of the Group.

The SEA team collaborates closely with the Global Operations group, which is responsible for developing and sourcing products from suppliers. For more > [sustainability > mission and values > SEA team](#)

challenge: managing and developing our people

Being a global player in a disparate and constantly changing world creates complex challenges with regard to the management of our employees. Our HR strategy therefore has to:

- embrace diversity as a stimulus rather than a restriction;
- monitor demographic changes and respond with the appropriate recruitment and retention strategy and work-life balance initiatives;
- mirror the global marketplace with a multinational workforce and, promote mobility that complies with different local laws and incorporates cultural differences; and
- listen to our employees, understand their needs and motivations and help them to realise their full potential.

response: making adidas the place to be

The success of the Group is a direct result of the commitment and talents of people who work for us. We want to create the best and most productive workplace in the industry by:

- creating a working environment that stimulates team spirit and passion, engagement and achievement;
- instilling a performance culture, based upon strong leadership;
- fostering an understanding of social and environmental responsibility for the world in which we live – for the rights of all individuals, and for the laws and customs of the countries in which we operate; and
- providing a secure working environment.

For more see page 27 or > [sustainability > employees](#)

challenge: sustainable products

Sustainability poses a number of challenges for our innovation and development teams as well as manufacturing partners. The goal is to achieve a balance between various demands: the products must not only be competitive in function and price, but also safe (during use and after disposal) as well as environmentally friendly. Manufacturing needs to be done with the least environmental impact without compromising quality.

response: being environmentally responsible

Reducing pollution with so-called end-of-pipe solutions offers only limited environmental benefits, so we strive to design out environmental problems by rigorously applying the following principles:

- Compliance with all legal local laws and regulations;
- Apply best practices at own sites and operations;
- Product materials and components to be non-toxic and safe; and
- Promote environmental management systems and best practices in the supply chain, where major environmental impacts occur.

We constantly review and update our material policies and requirements, and so meet regularly with other companies, organisations and scientific institutes to learn about new developments. In 2005, for example, we attended a workshop arranged by a leading environmental NGO in Europe with representatives of brands from various fields. The workshop aimed to review existing interactions between business leaders and NGOs and set a course for a new, more fruitful relationship in the light of the challenges everyone faces in the global marketplace.

We also enhanced our approach to measuring the environmental impact of our operations. We did this by maturing the environmental metrics system established by our footwear suppliers in Asia and finalising the concept of Integrated Product Policy (IPP) for selected football boots, as described on page 24. This has helped us identify major environmental impacts and priorities for action. For more see page 23 or [> sustainability > environment](#)

challenge: developing a global approach to community programmes

Developing a direction and strategy for Corporate Giving and other Community Involvement activities at a Group level was one of our major ambitions last year.

Our subsidiaries and Group entities manage programmes at a country level, as they know the local communities and cultures best. However, this decentralised management meant that there were no shared criteria for choosing which organisations to support.

response: policy direction and delivery

In 2005, we established the Community Affairs function at headquarters as part of the SEA team. And by working with a network of people from adidas Group entities around the world, we have established a set of Corporate Giving Guidelines that we are applying at headquarters. During 2006, we will test the global application of these guidelines by all our Group entities.

Standards of Engagement

Authenticity: Inspiration: Passion: Commitment: Innovation: Honesty

These are the core values of the adidas Group. We measure ourselves by these values and we measure our business partners in the same way.

Consistent with these values, we expect our business partners – contractors, subcontractors, suppliers and others – to conduct themselves with the utmost fairness, honesty and responsibility in all aspects of their businesses.

The Standards of Engagement are tools that assist us in selecting and retaining business partners who follow workplace standards and business practices aligned with our policies and values. As guiding principles, they help identify potential problems so that we can work with business partners to address issues of concern as they arise. Business partners must develop and implement action plans for continuous improvement in factory working conditions. Progress against action plans will be monitored by business partners themselves, our internal monitoring team and external independent monitors.

Specifically, we expect our business partners to operate workplaces according to the following standards and practices.

General Principle Business partners must comply fully with all legal requirements relevant to the conduct of their businesses.

Employment Standards We will do business only with business partners who treat their employees fairly and legally with regard to wages, benefits and working conditions. In particular, the following standards apply:

Forced labour Business partners must not use forced labour, whether in the form of prison labour, indentured labour, bonded labour or otherwise. No employee may be compelled to work through force or intimidation of any form.

Child labour Business partners must not employ children who are less than 15 years old, or less than the age for completing compulsory education in the country of manufacture where such age is higher than 15.

Discrimination Business partners must make recruitment and post-hiring decisions based on ability to do the job, rather than on the basis of personal characteristics or beliefs. Business partners must not discriminate in hiring and employment practices on the grounds of race, national origin, gender, religion, age, disability, marital status, parental status, association membership, sexual orientation or political opinion.

Wages and benefits Wages are essential for meeting the basic needs of employees and reasonable savings and expenditure. In all cases, wages must equal or exceed the minimum wage required by law or the prevailing industry wage, whichever is higher, and legally mandated benefits must be provided.

Wages must be paid directly to the employee in cash or cheque or the equivalent. Information relating to wages must be provided to employees in a form they understand. Advances of, and deductions from, wages must be carefully monitored and comply with law.

In addition to compensation for regular working hours, employees must be compensated for overtime hours at the rate legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate exceeding the regular hourly compensation rate.

Hours of work Employees must not be required, except in extraordinary circumstances, to work more than 60 hours per week including overtime or the local legal requirement, whichever is less. Employees must be allowed at least 24 consecutive hours rest within every seven-day period, and must receive paid annual leave.

Freedom of association and collective bargaining Business partners must recognise and respect the right of employees to join and organise associations of their own choosing and to bargain collectively. Where law specifically restricts the right to freedom of association and collective bargaining, business partners must not obstruct alternative and legal means for independent and free association or collective bargaining. Additionally, business partners must implement systems to ensure effective communication with employees.

Disciplinary practices Employees must be treated with respect and dignity. No employee may be subjected to any physical, sexual, psychological or verbal harassment or abuse.

Health and Safety A safe and hygienic working environment must be provided, and occupational health and safety practices which prevent work-related accidents and injury must be promoted. This includes protection from fire, accidents and toxic substances. Lighting, heating and ventilation systems must be adequate. Employees must have access at all times to sanitary facilities, which should be adequate and clean. Business partners must have health and safety policies that are clearly communicated to employees. Where residential facilities are provided to employees, the same standards apply.

Environmental Requirements Business partners must make progressive improvement in environmental performance in their own operations and require the same of their partners, suppliers and subcontractors. This includes: integrating principles of sustainability into business decisions; responsible use of natural resources; adoption of cleaner production and pollution prevention measures; and designing and developing products, materials and technologies according to the principles of sustainability.

Community Involvement We will favour business partners who make efforts to contribute to improving conditions in the countries and communities in which they operate.

our stakeholders

For many stakeholders, the credibility of our CSR programme rests on two critical elements: our transparency as an organisation and our accountability as a transnational corporation.

We believe that clear, effective and honest communications are the hallmarks of transparency and this is best achieved through active stakeholder engagement and through a public reporting process. Accountability is about acting on the feedback of our stakeholders: using what is shared with us to make informed choices, and being accountable for the outcomes, and impacts, of our business decisions.

With the approach of the 2006 FIFA World Cup™ there has been increased scrutiny of suppliers manufacturing football products and specific disclosure on the conditions within these factories.

Efforts at Transparency In 2004, we reported on the way our relationships with several critical stakeholders are maturing. In 2005, we continued in our efforts to reach new levels of understanding and transparency, through closer engagement with key stakeholders, in particular unions, and by sharing information on our supply chain. These efforts included:

- Ongoing dialogue and meetings, facilitated by the ILO, with the Play Fair at the Olympics campaigners (OXFAM, the

Clean Clothes Campaign and international trade unions).

- Participation in a pilot project to promote two-way communication between employees and management in Romania. Other participants included international brands, German trade unions, international and local NGOs and organisations.
- Participation in a Multi-Stakeholder Initiative involving six international NGOs or Non-profit organisations (the Fair Labor Association, Ethical Trading Initiative, Clean Clothes Campaign, Fair Wear Foundation, Workers Rights Consortium (WRC), Social Accountability International) and several brands in Turkey. The initiative evaluates workplace standards in the area of hours of work, wages and freedom of association.
- Participation in a panel discussion and conference which dealt with the topic of worker-management communication and freedom of association. The Frankfurt conference was facilitated by the Clean Clothes Campaign and hosted by the German Union IG Metall, an affiliate of the International Textile Garment and Leather Workers Federation (ITGLWF).
- The execution of an agreement with the University of Wisconsin's administration to audit and evaluate SEA monitoring records for factories that make licensed products.
- Engagements for labour rights training and clarification of local compliance issues



On our website you will find reports of all the stakeholder dialogue meetings we have held going back to 2001.

Our stakeholders include:

employees
of the adidas Group

authorisers
government, trade
associations, shareholders,
Board of Directors

business partners
unions, suppliers, workers,
service providers

opinion formers
journalists, community
members, special interest
groups

customers
professional sports people,
distributors, retailers,
consumers

with ministries of labour, government agencies, and trade associations in Guatemala, Honduras and El Salvador.

- Engagement with El Salvador NGOs, unions and government agencies to resolve issues with the non-payment of severance compensation to the former employees of Hermosa Manufacturing.
- The completion of a year long project with the local NGO GMIES to monitor water potability at the Chi Fung factory in El Salvador.
- Participation in the FLA's Central America Project, which completed training sessions in 2005 with labour inspectors, suppliers, trade associations and compliance field staff in Guatemala, Honduras, El Salvador and Mexico.
- At the invitation of the ITGLWF, we joined meetings in Hanoi and Costa Rica, to discuss CSR and freedom of association.
- Participation in an ILO training programme with trade union federations in Asia, to openly discuss the impacts of the end of the MFA on our supply chain.
- Multiple meetings and round table discussions with the head of CSC9000T, China's first indigenous social compliance standard, being piloted in the apparel sector. We have had extensive discussions with the CSC9000T staff to share practices, lessons learned, monitoring methods, guidelines and ideas for future development of compliance practices in China.

Transparency and football manufacturing activities

In the lead up to the 2006 FIFA World Cup™ we have been involved in a number of football-related initiatives.

Meeting FIFA standards As a licensee to FIFA, adidas must adhere to the FIFA code of conduct.

In fulfilment of this obligation, and as part of the run up to the 2006 FIFA World Cup™, in 2005 we provided FIFA with information on the compliance status of those suppliers where FIFA-licensed football products are being made. The data provided included confirmation that workplaces remain free of child labour and have ISO 14001 and OHSAS 18001 certificates, verifying the progress which had been made by selected suppliers in health and safety and environmental management.

Social & Environmental product testing and rating of footballs

Stiftung Warentest, a German consumer organisation, initiated a research project in 2004 to include wider CSR topics in its tests of consumer products and services. The aim of the study is to evaluate and rate products based not only on physical and environmental properties, but also in accordance with the level of corporate responsibility and the ethical conditions under which products are made. The rating framework ranges from simple quality-related issues to criteria that are linked to working conditions in a supplier

factory. From its very outset we have been involved in this project, providing first-hand information as well as comments on the project scope and its framework conditions. After several trials with other product categories the product group 'football' was chosen to apply the test criteria. Two specific adidas football styles, the Official Match Ball of the 2006 FIFA World Cup™, +Teamgeist™ and a Replica were taken as sample for the analysis and rating. The styles are manufactured in Thailand and Pakistan. All requested information will be supplied in February 2006. The rating findings will be published by Stiftung Warentest in spring 2006.

Other football initiatives include:

- We have continued to liaise with two NGOs, the WRC and Oxfam Australia, and their critical concerns over the working conditions and trade union rights of workers employed by our main football boot manufacturing partner in Indonesia, PT Panarub.
- Participation in a series of multi-stakeholder dialogues held in Thailand and China, as part of the Fair Labor Association-led Pilot 'Soccer' project.
- We also responded to enquiries and requests from the media for information and access to our suppliers producing World Cup products. Consistent with our 'open door' policy, the respective journalists were given unrestricted access to our ball suppliers in Pakistan and Thailand.



On our website you can see what steps we have taken in response to feedback we heard in stakeholder dialogue meetings.

The 2006 FIFA World Cup™ Official Match Ball, +Teamgeist™, and a Replica ball were chosen by a German consumer organisation as test products for their new CSR rating framework.



The number of enquiries related to our sustainability programme in 2005.

Accountability and Stakeholder feedback

The goal of every dialogue or engagement is to obtain feedback and to understand the views, concerns and interests of our stakeholders. For dialogue to be meaningful, stakeholders need to know that their views count and that they will be considered and acted upon.

In 2005, we ran worker dialogues in China and Honduras and obtained feedback on a worker-management communication project in Turkey. A hurricane on the day scheduled for the El Salvador dialogue and the resource constraints of our NGO partner in China meant we did not conduct as many dialogues as planned. We also canvassed the views of local and international NGOs on how best to develop worker rights training in China. Within the financial community, specific dialogues were held with Social Responsible Investment analysts in Europe.

A full record of our formal stakeholder dialogues is posted on our website, together with a summary of how we have followed up on that feedback. Our website also describes our partnership with key organisations and our response to enquiries received in 2005. For more > [sustainability](#) > [stakeholders](#)



strategy and tactics: improving the way we work with suppliers

Our suppliers' factories have to comply with our Standards of Engagement. That's the bottom line. We have developed innovative methods to help our suppliers and new ways to measure their effectiveness. Are factory conditions improving? Where do we still need to adapt and improve the way we work with suppliers?

tackling root causes of non-compliance

To drive effective solutions you first need to know the root cause of problems. In 2005, we continued to address problems suppliers had with implementing effective management systems. These included the widespread employment of untrained HR and HSE managers in the supply chain. There was a low retention rate of those who had been trained to proficiency and the subsequent high turnover diminished any performance gains. In 2005, we reduced the focus on training managers and promoted the registration of qualified management system professionals. Work was started with other brands to develop a qualified marketplace of employment candidates. One example is the rollout of the safety officer registration, a key component of the guidelines for strategic compliance. Additional occupational health training and guidelines of factory medical staff were developed in 2005.

New ways to measure performance The new SOE KPI was completed in 2005 and introduced to suppliers in April. It represents a significant improvement in our rating system.

Our previous rating system scored suppliers well on the volume of compliance activity, even if that activity made only a superficial difference. The new KPI addresses the old system's weakness by measuring the effectiveness of actions taken by our suppliers. The KPI has six units of measure, and a factory's final rating defaults to the lowest score of these six, which are:

- **Measuring management commitment** to the effective delivery of the agreed strategic compliance plan;
- **Measuring supplier management systems** for HR and HSE includes an evaluation of certifications for environment and health and safety, development of HR and HSE systems, retention of qualified professionals for those management systems, and internal audit assessments of labour and HSE;
- **Measuring worker-management communications** and industrial relations focuses on the factory's ability to resolve disputes, respect forms of worker representation, develop effective grievance procedures and promote sustainable worker-management communications;

- **Measuring the delivery and effectiveness of internal training** for factory staff focuses on the process for training needs assessment, the scheduling and execution of training programmes, and the capital investment for training. Trainers are evaluated for skill, knowledge and experience and the factory training records are also reviewed;
- **Measuring transparency in communication and reporting** focuses on proactive factory reporting of self-assessment audits and action plan progress. It also scores factories on whether workers are coached, verification of document authenticity and communication of the SOE to the workforce and subcontractors; and
- **Measurements for compliance auditing** focus on the factory management's responses to non-compliance, remediation expectations and warnings.

Additional 2005 activities for the KPI included planning for the assimilation of these ratings with the Group's cumulative factory KPIs. In 2006, we will focus audit visits to all our major suppliers so we can rate them all according to this new KPI.

Strategic monitoring Strategic monitoring and its risk-based approach were further expanded in 2005. All of the process tools



74 factories in 19 countries manufactured adidas football products in 2005. As part of its programme, the SEA team monitored 100% of these factories.

were updated and revised as a result of pilot audits in 2004 and 2005. A users' guide was drafted in December, and will be finalised early in 2006. Training for root cause identification, interviewing techniques, and change management is in various stages of development. A new template for the remediation action plan was developed along with institutional history and diagnostic tools. Strategic monitoring has been successfully linked to the new KPI factory rating, strategic compliance planning, and the Sustainable Compliance Guidelines.

To increase the consistency of different skill levels on the SEA team, strategic monitoring working group members continued to mentor SEA monitors in actual field conditions in China, Thailand, Honduras, Vietnam and the Philippines. One on one mentoring activities in 2005 gradually replaced the original approach of larger group mentoring. SEA work in 2005 continued to address implementation issues for strategic monitoring, including limited (or incorrect) understanding of the process, managing the change from the performance-based approach, and re-prioritising workloads during the implementation period.

Internally, 120 strategic monitoring visits were conducted in more than 100 factories.

increasing management commitment at Sports Gear, Vietnam



Number of factories making products for the adidas Group in Vietnam.



Number of factory visits in 2005 in Vietnam.

Vietnam is a key sourcing country for the adidas Group. 17 footwear, apparel and accessories & gear factories make various products for several different markets. Like many other countries in South-east Asia, the local worker population is managed mostly by Taiwanese, Korean, Malaysian and Singaporean manufacturers. In step with Vietnam's development, our suppliers are going through a period of rapid growth. In recent years, a new wave of migrant workers has moved from north and central Vietnam to the south where our suppliers' factories are located. This creates a demanding set of communication and industrial relations issues that need to be managed very carefully.



To help our suppliers in Vietnam handle the rapid changes, the SEA team has introduced a system of peer reviews. Elsewhere in the region, the SEA team has led several years of regular workshops, discussions groups and on-site training for factory SOE coordinators. In Vietnam, we've taken this to the next level. Peer reviews and the subsequent healthy competition between suppliers are starting to drive management commitment rather than top down pressure from buyers' compliance teams. Each factory 'competes' to host, design, and manage workshops, cross-auditing exercises and training programmes. Our staff act as observers and provides technical support where necessary.

This form of constructive peer pressure has contributed to a significant improvement in the attitudes and management commitment to the SOE programme at Sports Gear, a factory producing footwear for the 2006 FIFA World Cup™. Although a sophisticated facility, Sports Gear had not previously been a top SOE performer so the change is particularly encouraging.

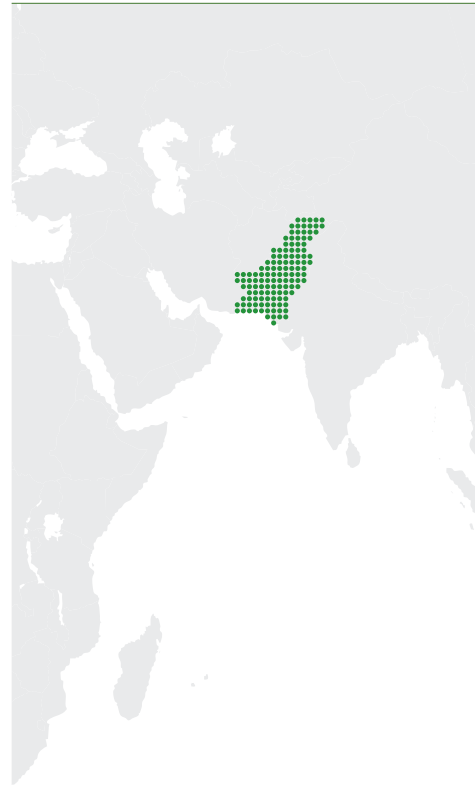
The factory has hired a full-time compliance professional to manage ongoing labour and HSE issues in the factory. At the same time, reluctance to participate in compliance activities has been replaced with an enthusiasm for being an industry leader in Vietnam. Management has fully supported:

- the SOS occupational health training project > [sustainability > suppliers and workers](#);
- the MSI reproductive health and HIV/AIDS initiative > [sustainability > community affairs > case studies](#);
- a worker satisfaction survey and communications needs assessment; and
- SEA training to pilot the new strategic monitoring process > [sustainability > suppliers and workers](#)

Given the increasing levels of industrial disputes and other labour actions by workers in Vietnam, Sports Gear management has repositioned itself over a relatively short period and is now better able to manage and protect its 8,700 (and growing) strong workforce.

independent review of compliance practices in football production, Pakistan

For the past 70 years, Pakistan has been a major supplier of hand-stitched footballs. The town of Sialkot, in the Punjab region, is the main centre for production. The presence of child labour came to light in the mid-1990s and was addressed through an industry-wide initiative supported by the ILO and UNICEF. As a result, an independent child labour monitoring body which is now self-governing, was established in 1997. The underlying issues of poverty, employment and access to schooling were addressed through a combination of educational and social development programmes. See [Sudhaar case study](#), page 30.



32

Number of years adidas has sourced footballs from Pakistan.

2,226

Number of workers employed on-site by football factories in Pakistan.

adidas places orders for hand-stitched footballs with three main suppliers who produce the ball components and inspect, pack, and ship the balls. The stitching of the balls is contracted to dedicated stitching centres in the rural community surrounding Sialkot.

The stitching centres workforces vary in size from 20 to 450 workers. The larger centres are generally located close to or within the grounds of the main suppliers. These suppliers operate a total of 70 stitching centres but due to the volume of orders for 2006 FIFA World Cup™ products the number of stitching locations increased to a peak of 121 in October 2005. Of these, 18 are women-only stitching centres.

A significant challenge for us in 2005 has been maintaining the integrity and security of the supply chain through the 2006 FIFA World Cup™ peak production period. We commissioned an independent review of the monitoring programme after SEA monitoring visits in 2004. We identified the need to improve the payment of social benefits to stitchers in regular employment, and to strengthen monitoring practices and stitching centre coverage during the anticipated peak production periods.

The review highlighted the weaknesses of the current compliance monitoring, with insufficient coordination and cross-checking. A new monitoring model was developed using the combined resources of all three factories monitoring staff, and random verification by SEA and an independent third-party. Monitoring activities for checking infrastructure, safety, stock registers, attendance records, wage payments and proof of age were all significantly improved.

The review resulted in an increased frequency of monitoring visits, improved timeliness of reporting, and the identification and resolution of product tracking and labour issues. Some of the substandard stitching centres were closed.

health and safety improvements at Trikotek Tekstil knitwear factory, Turkey

The adidas Group has buying relationships with 17 main suppliers in Turkey. adidas has been buying football team scarves from Trikotek Tekstil, a company with 140 workers located in Istanbul since 2003. As with other Turkish factories, there were a number of health and safety (H&S) non-compliances, including poor H&S management systems, the absence of an H&S policy or coordinator, insufficient emergency preparedness, no fire evacuation drills, and poor knowledge of personal protective equipment (PPE) and chemical handling.



2003



2005



Trikotek's rating for HSE has improved in the last two years.

Our audit process not only identifies the root cause of each non-compliance but also incorporates the SEA Health and Safety Guidelines to illustrate the benefits and methods of remediating specific issues. For example, the factory management was not only told to conduct fire evacuation drills, but also why and how to do so efficiently. Together with Trikotek's management, SEA developed a detailed action plan that was monitored regularly.

Three months after the initial audit in 2003, a second audit was conducted at Trikotek which revealed some improvements in the factory's H&S conditions. The verification included documentation of their remediation efforts. These promising results emphasised that an effective H&S policy and a coordinator with clear responsibilities and authority were crucial for sustainable improvements.

Trikotek continued to improve their H&S performance. The new H&S policy and a competent coordinator helped to resolve many other H&S issues quickly and sustainably. Encouraged by the consistency of the improvements, Trikotek applied for OHSAS 18001 in February 2004, and received

certification in September 2004. The factory's internal audit team now conducts self-assessment audits on a monthly basis, and has developed systems for emergency preparedness and fire fighting. They have also introduced training to improve the usage of PPE, machinery guarding and chemical handling. A December 2004 SEA audit of Trikotek revealed the increased compliance with HSE workplace standards and the effective delivery of a management system. The subsequent factory performance rating for HSE was increased from 3 star to 4 star.

As a conclusion, the improvements at Trikotek resulted from not merely auditing, but follow-on activities for policy development, staff competency training, policy and process implementation, and verification and reporting. This holistic cycle of H&S management is now guided by the OHSAS 18001 process.

Trikotek was the first of our Turkish suppliers to successfully achieve OHSAS 18001 certification. Their example has raised the bar and we are now seeing a general improvement of HSE conditions throughout the local supply chain.



performing responsibly: environment, employees and community

Helping athletes perform is what we do. What we have always done. Performance first, then, now, always. And as a business, performance is about achieving our ambitions. Responsibly. Reducing our impact on the environment, enhancing our employees' quality of life and supporting the communities where we operate.

environment

Looking after the environment is essential if we are to preserve living conditions today and for future generations. Managing environmental issues has also become a critical success factor for business. Environmental awareness drives innovations and resource savings, leading to efficient production and reduced costs.

How we manage environmental issues

There are environmental impacts associated with our products at all stages of their life cycle, from product design to distribution. Our greatest environmental impacts occur at our suppliers' sites, where more than 95% of the Group's products are manufactured. We help suppliers establish environmental management systems as the best way for them to reduce their environmental impacts. Using the environmental performance of our own production sites as examples of best practice, we have developed appropriate guidelines and training programmes for our suppliers.

For an example of how our suppliers are implementing management systems, see the case study on page 25.

The area where we have control is in determining what goes into our products.

Our approach is to seek to design out polluting materials and processes and increasingly to adopt sustainable materials instead. We have a number of initiatives in place:

- Material selection policy;
- Sustainable cotton research;
- Recycled rubber;
- Eliminating PVC; and
- Control and monitoring of restricted substances.

Material selection policy We do not source raw materials from any endangered or threatened species as defined by the International Union for Conservation of Nature and Natural Resources (IUCN) in their red list. We also do not use leathers from animals that have been inhumanely treated, whether these animals are wild or farmed.

Sustainable cotton We have investigated using certified organic cotton, which is expensive and more difficult to find. It also does not sufficiently address the biggest environmental issue with growing cotton, which is excessive water use.

We are now party to a five-year multi-stakeholder initiative called 'Better Cotton' that seeks to train cotton farmers to adopt a more sustainable approach to farming. For more > [sustainability > environment](#)

Recycled materials A pilot project in Vietnam experimented with recycling waste rubber soles to make new shoes and soles. To meet quality standards, different mixes of new and recycled material were tried and feedback from the customer was considered. But even

www

For more information on the environmental impacts of our own facilities and product transportation please see our website > [environment](#)

14001

15 footwear factories, 10 apparel factories and four accessories & gear factories have environmental management systems certified to ISO 14001 international standard.

95%

Percentage of adidas footwear produced in factories now using environmental indicators.

though no major quality problems occurred, this concept was not applied as a global policy for all rubber applications. Reasons for this are significant colour and design limitations in applying this technology. The approach will be continued for certain rubber designs depending on the model of shoe.

Eliminating PVC In 2000, we decided to eliminate PVC from our products. Alternatives have been found and introduced for most uses. However, in a few countries, alternatives are not available so some local production of athletic footwear products still use PVC sporadically.

In 2005, we continued to engage with material scientists to understand the environmental impact of chlorine-based materials. These materials are widely used in the industry as PVC-replacements. The consultations are important so we can anticipate environmental developments at an early stage. We have started to review the materials used in footwear products to determine a potential substitution wherever technically and practically possible.

Restricted substances Restricted substances are those that cause harm or are suspected to cause harm to human health or the environment. Our policy is that suppliers must avoid using restricted substances. In 2005, we have further updated and extended our existing policies and internal procedures for control and monitoring of restricted

substances to ensure that products are environmentally safe.

Materials supplied to the adidas Group must meet the strictest local standards globally. We inform our material suppliers regularly about new scientific findings and developments. They must prove that materials comply with our standards by providing test reports from independent external test institutes on a regular basis. Development and production samples are checked randomly. For more [> sustainability > environment](#)

Specific environmental topics in 2005 We conducted specific needs assessments among our suppliers to understand their environmental priorities, which differ significantly depending on product complexity and production processes. Many reported that energy consumption was one of their main concerns. The drastic increase in oil prices has affected energy costs and the high demand for energy has resulted in power shortages in factories in China, where several of our suppliers' factories are located. In 2006, our support will continue to focus on building capacity around energy and resource management.

- Other key initiatives in 2005 included:
- developing environmental indicators with our suppliers;
 - Integrated Product Policy on the life cycle impact of football boots; and
 - reducing VOC emissions.

Environmental metrics Our environmental activities continued to focus on the collection of suppliers' environmental data, and the reporting of this data to SEA under parameters that are defined in the Sustainable Compliance Guidelines. A detailed set of environmental indicators has been developed with our key footwear suppliers in Asia. This covers more than 95% of adidas footwear production, including football boots for the 2006 tournament teams. This set of indicators measures, tracks and analyses the environmental impact of footwear manufacturing operations.

The indicator system has become a reliable management tool for our footwear suppliers helping them to not only measure consumption of resources but also identify potential savings.

Figures we collected show the following average environmental impact per pair of footwear in 2005:

- Energy consumption in KWh: 2.93/pair;
- Amount of wastewater in m³: 0.057/pair;
- Waste ratio per product in %:
 - 10% of the raw leather and 12% of the synthetic upper material (these figures are calculated at a stage in the process before waste material is fed into a waste management programme); and
- Average VOC consumption in g: 20.5/pair.

Integrated Product Policy (IPP) Working with the Environmental Ministry of Bavaria, the

Average environmental impact per pair of footwear in 2005:

2.93

Energy consumption in KWh

0.057

Amount of wastewater in m³

20.5

Average VOC consumption in g

10%

Waste ratio of raw leather

12%

Waste ratio of synthetic upper material

adidas Group has applied the concept of IPP to a football boot. This approach identifies environmental impacts throughout the life cycle of products and, with stakeholder cooperation, explores solutions to these impacts that benefit both the environment and business. By working with the environmental consultancy INTECHNICA, we have developed a scheme to calculate the cumulative environmental impact of one model of football boot.

The results were used to identify the stages of the life cycle that cause the largest impact and how we might reduce those impacts. A new football boot model that will be launched in 2006 was screened against IPP principles during its development in 2005 to field-test the applicability of this evaluation tool.

Reducing VOC emissions VOCs – volatile organic compounds – can be found in primers, adhesives and cements that are used in the manufacturing process of sports shoes and equipment. They can cause breathing difficulties and other health complaints for workers. Since 2000, we have been committed to reducing VOC emissions in footwear factories. Our target has been 20 grams per pair of shoes in each factory. We have extended the reach of our efforts to other suppliers who use auxiliary materials that can emit VOCs. For more [> sustainability > environment](#)

implementing environmental management systems in a Chinese football factory

Besides the high volumes of apparel and footwear products, China has become an important production country for sports equipment, and in particular for footballs. Saving resources is crucial to meeting business targets. Kuan Ho Sporting Goods Co, Ltd., one of our major manufacturing partners for machine-stitched footballs is located in Guangdong, China. The factory employs more than 6,500 workers and administration staff. The supplier has invested in Lean manufacturing and has made significant improvements to its workplace conditions and general H&S. After some initial challenges the management committed to the SOE programme and Kuan Ho is now established as a long-term partner. They have developed a comprehensive HSE management system within the factory.



20%

Energy reduction achieved in 2005 by implementing environmental best practices in this factory.

The supplier tackled their specific environmental challenges by working towards certification to ISO 14000 and OHSAS 18001, which they achieved in January 2005. There have been a number of specific measures taken.

Environmental improvements Following our Best Environmental Practice Guidelines helped Kuan Ho to reduce average energy consumption by nearly 20% from 2004 to 2005 (from 1.70 KWh/Unit to 1.36 KWh/Unit) on single production units. These savings enabled the factory to reduce the amount of additional diesel needed by 53% on average.

The chemical storage room was completely rebuilt. Anti-leakage systems on the floors, an improved air circulation and exhaust system, and better management of the chemicals in the production rooms all minimised exposure for the workers. A new surface ionisation system, instead of using solvents for cleaning, reduced the VOC (volatile organic compounds) emissions by about 80 Kg per day.

These measures not only reduced the site's environmental impact, they also led to a 5% decrease in the product defect rate.

Training and health surveillance

Comprehensive HSE worker training sessions were conducted during the year, with 4,932 workers participating. A specific health check with 746 workers by an external medical service provider took place in April 2005. By implementing the HSE System, occupational injuries reduced from 95 in 2004 to 50 in 2005.

For more information about further specific environmental initiatives we manage with our suppliers, for example, waste management > [sustainability](#) > [environment](#)

tackling air pollution in football production, Thailand

While the national legislation on H&S and labour issues is clear, Thailand struggles to implement it. Government agencies tend to focus on the regulation of heavy industries. As many of the light industrial factories producing apparel and accessories are in zones dominated by heavy industry, they remain relatively low priorities for local safety inspectors.

Molten Thailand Ltd has been a key ball supplier to adidas over the last four years. Molten and adidas have developed technology for new ball products including the Roteiro ball for the Euro 2004 Football Championship and adidas selected Molten as the main ball supplier for the 2006 FIFA World Cup™.

Molten has 960 workers making branded and unbranded balls in two production buildings. The building producing branded balls for adidas is new and has good safety measures in place. The other older building, where non-branded products are manufactured, had major non-compliances with our standards, putting workers' health at risk. It did not matter that this was not the building where our products were made. We wanted to see our H&S standards met across the whole site.



In 2004, SEA and a local consulting firm, SERV Consulting, worked with Molten's management to curb critical problems with ventilation and chemical safety. Using strategic monitoring's approach to identifying root causes, the SEA team uncovered gaps in engineering control and worker awareness. SERV was subsequently invited to assess the company's HR Management system and complete the training needs assessment.

Our standards focus on restricting the use of harmful substances. As a result we banned the use of toluene, a key ingredient in glue used for patching ball panels. This presented Molten with the challenge of meeting the same quality standards but with less toxic chemicals.

In July 2004, Molten's senior management committed to eliminating toluene and introduced other less harmful solvents. SEA monitoring findings showed consistent efforts to improve ventilation systems and the factory management engaged a local chemical safety consultant and committed to ISO14001 certification. In 2005, we provided training to Molten management and supervisors and Molten's safety team were trained in measuring against chemical thresholds. In September 2005, Molten had completely eliminated toluene from the production process at this site and was certified to ISO 14001.

400,000

Number of adidas balls produced in 2005 in this factory.

There is certainly more joint effort required to further improve the H&S situation in Molten. However, the initiative of the past two years has clearly been a success.

.....
One worker said: 'In the past, I felt that adidas production plant was safer than my plant because of poor ventilation system. Now I feel that my production building has an improved working environment. Chemical usage is limited to only one-day supply, which relates to better ventilation.'

On the 2006 FIFA World Cup™, another worker stated that: 'I am so proud of my country that we produce World Cup product. I think making World Cup Ball is more difficult than the Roteiro Ball but I take it as a challenge. I am proud to see them on the television and newspaper and I keep telling everyone that I am part of this special ball.'

.....
For more information on our selection of safe and environmentally friendly materials, including progress in 2005 through our involvement in the 'Better Cotton' project, the protection of wildlife and the avoidance and monitoring of hazardous substances, see our website > [sustainability](#) > [environment](#)

employees

People are crucial to the success of our business and need to be supported and developed. Our aim is to ensure their health and wellbeing, and hone their skills and abilities. Here we set out how we organise Human Resources (HR) globally and identify the key elements of our HR programme.

We never lose sight of the importance of teamwork: people in an organisation – or a football team – succeed or fail with their colleagues. We have emphasised the importance of teamwork in an initiative for 2006 FIFA World Cup™ year that we call Team 2006, also described here.

Managing HR Human Resource Management as a core function within the Group's global organisation is managed by Global HR, with the global Head reporting to the CEO. The HR organisation manages the following key functions:

- HR support to key business functions – Global Operations, Global Marketing, Corporate Services, Regions and Brands;
- Global Services, including reward management and mobility management;
- Talent Management, including training and development and Emerging Employees' management;

- Company sports programme and work-life balance initiatives in Germany; and
- HR information systems, managing together with IT the global HR system and information platforms.

Global HR focuses on the following goals:

- to create a working environment that stimulates team spirit, passion, engagement and achievement;
- to instil a performance culture based upon strong leadership; and
- to elevate the adidas Group to become the employer of choice.

HR Practice Our people and their talents are critical to our continuing commercial success. With more than 15,900 employees working in more than 80 countries we need to develop HR strategies that can be implemented globally. The first step is to identify the common challenges we face wherever we operate:

- **talent management** – to identify, recruit and retain the most talented people and develop career opportunities for them tailored to the specific needs of our company;
- **employee-oriented leadership** – to strengthen the alignment of management

www

There are further parts of our HR programme detailed on our website including relevant employee statistics.

15,935

Number of adidas employees.

12%

Increase of employees compared to 2004.

- and employees by improving communication and enhancing employee feedback systems;
- **performance management** – to instil a result-driven management culture that supports up and downward performance feedback for continuous learning and improvement;
 - **motivation** – to provide reward and incentive schemes as well as a working environment that promotes employees' commitment, engagement and wellbeing; and
 - **communication** – to improve transparency and efficiency in communication at all levels of the Group and wherever we operate.

To rise to these challenges, our programme focuses on five core processes of HR management: attracting, recruiting, developing, rewarding, and retaining staff.

In this football report we are focusing on our Team 2006 programme – the first time the Company has created an employee concept around a FIFA World Cup. This programme was launched mid-2005 and is being rolled out in 2006.

team 2006 employee concept

Team 2006: Together... I am strong

The concept: 'Individuals are strongest within a group' Team 2006 is the whole adidas Group across brands and borders connecting and celebrating football. It exemplifies the driving thought of adidas for the 2006 FIFA World Cup™: individuals are strongest within the Group. In our case the Group is the global adidas Group family.

Footballers experience their most profound sense of individual validation, satisfaction, purpose, and fun interacting with others. It is no different for football fans or for human beings in general.

Team 2006 aims to:

- excite every employee within the Group and create a sense of belonging to something greater than ourselves;
- reward, inspire and engage the employee so they raise their game for the year leading up to the 2006 FIFA World Cup™;
- build and/or strengthen the individual relationships and the team spirit between our employees worldwide; and
- make adidas the employer of choice.

With this in mind we have created a programme of events and activities exclusively for our employees.

Team 2006 World Cup What's it like to play in a 2006 FIFA World Cup™? We'll never know! That's why we're having our own international Team 2006 World Cup starting in February 2006. Every employee will get the chance to take part in the Team 2006 World Cup. Similar to the 2006 FIFA World Cup™, local tournaments will be played at each office with the winning teams qualifying to the regional finals, from where the regional winners proceed to the international finals in Herzogenaurach, Germany.

Team 2006 Table Football Cup For those employees that can't kick a ball, we are having our own international Team 2006 Table Football Cup in February 2006.

Team 2006 Youth Camp adidas is a family business and we intend to keep that heritage alive. Team 2006 will give the opportunity to all employees who are parents, to register their child for the international Team 2006 Youth Camp held in Herzogenaurach in May 2006. Team 2006 will recruit 28 youths from four regions to take part in this once-in-a-lifetime, action packed, football inspired, week-long Youth Camp.

Parties There's nothing that says 'together... I am strong' better than an employee party. Team 2006 showcases four main parties in the year leading up to and including the 2006 FIFA World Cup™.

The first was the kick-off to Team 2006 in July 2005, which welcomed employees and their families and was celebrated simultaneously around the globe. The 2005 Year End party was World Cup-themed to get everybody excited about the 2006 FIFA World Cup™ to come. The two remaining parties are the opening and closing parties for the World Cup tournament being held on 9 June and 9 July respectively across the world.

Host Family With hotels so busy during the event, Host Family offers the opportunity for our employees to interact on a global scale by offering accommodation to colleagues from overseas.

Exclusive employee range To give employees a sense of togetherness and make them feel part of a team, Team 2006 has created a limited edition casual wear product range that is exclusive to our employees. Only 2,006 pieces are made of each of the 12 items available, which include an exclusively designed leather jacket.

Tickets Tickets are hard to come by, but Team 2006 offers about 4,000 tickets for employees. Some will be won in raffles and competitions and the rest will be sold through the Team 2006 employee ticket-purchasing programme.

GloBall Team 2006 presents 'GloBall', the six-month journey of the Official Match Ball (OMB), passing through 28 football fanatic adidas offices one week at a time. The OMB starts in Portland on 9 December and returns to the home of adidas football on 9 June 2006, in Herzogenaurach.

Team 2006: Together... I am strong.

community

Our Community Affairs Programme is built on three pillars: Community Involvement, Employee Involvement and Corporate Giving. All initiatives under these three pillars are determined by local cultural, economic and social factors. We are selective and support projects that show sustainable benefits to the communities where we live and work.

Community Involvement Community Involvement for us ranges from conventional community projects and cause-related marketing initiatives to immediate relief efforts for people in need.

Cause-related marketing initiatives The Group joins with charities or good causes to market products that make a positive impact on key social issues and achieve business objectives. This kind of initiative takes place everywhere around the world.

Our support for the Terry Fox Foundation through contributing a certain percentage of shoe sales is an example of this type of engagement. The Terry Fox foundation raises money for cancer research through the annual Terry Fox Run, donations and planned gifts.

Relief efforts In 2005, we responded to several natural disasters around the globe. The adidas Group supported sufferers of the

Tsunami in South-east Asia, the Hurricane Katrina in the US and the earthquake victims in Pakistan. Our mature relationships with international aid organisations helped us effectively direct relief funds to those most affected by these disasters.

Partnerships To increase our leverage and to be more effective in Community Involvement programmes we seek to build partnerships with capable and reliable organisations that provide us with competent advice.

These partners are chosen based on their expertise, experience and local presence in relevant countries. Examples include our ongoing relationship with Marie Stopes International in tackling reproductive health and HIV-AIDS issues in Vietnam and China and, since 2005, our support for SOS Children Villages in South Africa as described in the case study on page 30.

Employee involvement Employee Involvement supports the Company's Community Affairs goals and objectives by providing meaningful opportunities for our employees to engage with the communities where they work, and may also live.

Well-managed corporate Volunteering Programmes already exist in Australia and the UK and in 2005 a further programme, called 'aCT!' (adidas Community Team)

www

Visit our website to learn more about specific projects and programmes.

13,153

Number of donation requests received globally in 2005.

2,370

Number of hours adidas America staff spent volunteering in 2005.

was developed by adidas America. These programmes give employees time away from work to help in the community by volunteering with non-profit community partners. In 2005, adidas America supported nine non-profit organisations with 2,370 volunteering hours.

Corporate giving Donations given by the adidas Group can take the form of financial contributions, product contributions and in-kind goods and services. Globally, in 2005, the Group received 13,153 donation requests and supported 40 requests with a cash grant and 1,243 with product donations.

Corporate Giving Guidelines In 2005, we developed Guidelines on Corporate Giving so we could better manage the high number of donation requests and remain true to our values in the approval process. These guidelines were developed at headquarters; in 2006, we will test if they can be applied globally.

In the guidelines we defined areas of engagement, areas of restrictions, an application procedure and grant requirements to make it easier for the requesting organisation. The complete Corporate Giving Guidelines are published on our website [> sustainability > community affairs](#)

Sudhaar education and school infrastructure programme, Pakistan

'I am working in this school as head teacher since 1988. I have got training regarding leadership role and school management, and pedagogical skills in Science, Mathematics, Urdu and English under Sudhaar-adidas quality education programme; with the extensive motivation Sudhaar developed and polished our attitudes towards education planning, resources mobilisation and our teaching style as well. I have provided basic facilities to my school kid through the Sudhaar programme.'
Ms. Zubaida Kousar, Head Teacher Govt. Girls Primary School, Mandair Kothay.

Sialkot is the centre of the football stitching industry in Pakistan, which has in the past employed underage workers. To discourage this, standards of education and access to schooling have had to be improved, which is what the local NGO Sudhaar has done with its Education and School Infrastructure programme. Originally supported by FIFA, the adidas Group has fully funded the programme since 2002. Sudhaar has successfully motivated parents to keep their children in school, developed model schools, provided teacher training, and carried out educational planning for the District Government. Over 17,000 children in 104 government schools have directly benefited from improved school facilities and access to better education. This includes the children of football stitchers, who make up 20% of the rural population in the areas where these schools are situated. The programme also has a strong capacity building component: strengthening the education provided by local government and fostering the involvement of parents and rural communities.

adidas America and football (soccer)

adidas America works with football-affiliated organisations and athlete partners to promote access to football for disadvantaged, at-risk youth and kids. For example, our long-time athlete partner Eddie Pope created his Foundation with the idea of using football to develop the mind, body and spirit of disadvantaged youth. The adidas Group makes financial and product contributions to help the foundation achieve its mission.

America Scores is a community-based, education organisation that uses football to teach urban children to apply the teamwork and responsibility they learn on the field to their work in the classroom. The adidas Group donates products in order to outfit all the children. Additionally, as part of a long-standing partnership with the US Youth Soccer Association, our financial and product contributions support TOPSoccer, a training and team placement programme designed to bring the opportunity of learning and playing football to youth with disabilities. These initiatives not only help to promote the game football itself, but help young people to develop their character and temperament. Eddie Pope has been an adidas athlete partner since 1996, while the relationship with America Scores started in 1998 and with TOPSoccer in 1997.

SOS Children's Villages

'6 villages for 2006' was officially launched by SOS Children's Villages and FIFA in 2004, with the aim of raising funds to construct six new SOS Children's Villages. They will be built in Brazil, Mexico, Nigeria, South Africa, Ukraine and Vietnam. The campaign will run until the end of the final match of the 2006 FIFA World Cup™ in Germany. The adidas Group finances the construction of one family house of the SOS Children's Village in Rustenburg, South Africa.

HIV/AIDS presents a serious threat for the entire social and economic development in South Africa: 40% of all deaths between the ages of 15 and 49 can be traced back to AIDS. The number of orphans has risen astronomically in the past years due to AIDS and all local health authorities, relief organisations and politicians need to make a joint effort to get the catastrophic living situation of thousands of children under control. SOS focuses on supporting children affected by HIV/AIDS through its Social Centres and Children's Villages. The adidas Group is helping to build the new SOS Children's Village in Rustenburg in the northwest of the country. The city has 53,000 inhabitants and is located in one of the quickest growing regions of South Africa. However, speedy growth has its negative side: the number of people in need of help, and especially of children in need of help, is rising quickly. In the SOS Children's Village in Rustenburg, children who are on their own and in need will receive family-oriented, long-term care. This will give them the chance of a positive future and the opportunity to grow up with a sense of security.



are we improving? progress against targets and targets for 2006

Are we on track? Are we meeting our goals or falling short? Performance demands measurement. Athletes measure their progress constantly, so they can peak at the right time, for the main event. Here we assess our progress this year and what we want to achieve in the year ahead.

progress against targets 2005

Management

- Define standards, guidelines, programmes
- Establish review systems
- Increase transparency through reporting, interaction and verification
- Integrate social, environmental and economic aspects

To conduct a global staff survey, identifying the internal perceptions of the SOE programme and performance: A survey was drafted and will be issued to employees of the adidas Group in January 2006; summaries of survey findings will be reported on our website. **25%**

To use the results of the HIV/AIDS pilot project (adidas Thailand) in the development of a globally applicable policy: A Group-level policy was drafted that contains general guidance, an employee guide for those who are HIV-positive and guidelines for managers on workplace care and support. The policy draft is under review as to its global applicability. **50%**

To incorporate the new five-star factory rating into the Group's factory performance reporting system: The rating was completed and integrated in the new KPI. A desktop KPI rating was completed for all suppliers by the end of 2005 and used in risk profiling and SEA work planning for 2006. KPI rating based on actual audit visits will be completed in 2006 for all main suppliers. **75%**

To achieve a consistent rollout of key programmes (Fit for Gold, Global Salary Management System) globally for the adidas Group: We implemented the Global Salary Management System (GSMS) as well as Fit for Gold in Europe, USA and all global functions; Asia Pacific has implemented Fit for Gold but GSMS will follow in 2006. America will be covered in 2006. **75%**

To involve at least four out of our seven key HQ locations worldwide in our work-life balance initiatives and further promote active diversity management: We involved all main group locations in our global Diversity Statement rollout and have achieved active involvement, especially in adidas America and TaylorMade-adidas Golf. **100%**

To increase the percentage of the global workforce covered by our HR Information System and add intelligent functionality: The Human Resources Information System (HR-IS) was rolled out in adidas America. This included the online function for the Personal Evaluation and Planning process (PEP), the Long-Term Incentive Programme with intelligent applications and the HR Inventory system. **100%**

To implement a corporate protocol for company giving: Corporate Giving Guidelines were developed and issued. A reporting mechanism was developed to capture community involvement activities at a local level and to enhance transparency. **100%**

Suppliers

- SOE awareness
- System development to implement SOE
- Supplier self-monitoring and regulation
- Self-governance

To distribute and communicate sustainable compliance guidelines to suppliers: The general intent of the guidelines was communicated to all international suppliers in April 2005 and launched at a country level through a series of formal briefings sessions. Feedback from these sessions was incorporated into the final version of the guidelines distributed to key suppliers in December 2005. **75%**

To participate in the development and execution of at least four pilot projects to improve worker-management communication and conflict resolution. We participated in: **100%**

- the FLA Strategic Project in China developing grievance and disciplinary procedures;
- the FLA Central America Project that trains administrators from factories, free trade zones and regulatory agencies in practices for hiring, firing, grievance and discipline;
- the Jo-In project, a multi-Stakeholder initiative in Turkey; and
- a process to improve worker-management dialogue in the Romanian apparel industry.

To distribute worker-management communication guidelines and associated training to suppliers: A number of workshops and meetings were conducted in Asia including large-scale management training sessions on industrial relations and dispute resolution. We have also developed training materials and inserted basic guidance about worker-management communications and functions of committees in the Sustainable Compliance Guidelines. However, we still do not have a comprehensive strategy or Guideline for addressing this issue. **25%**

To continue the SEA-Lean Project by identifying Lean benchmarks that can measure working conditions and to increase SOE transparency through joint SEA-Lean monitoring: The academics' project looking at working hours, wages, stress, ergonomics and fatigue was completed. Lean data points for measuring working conditions are identified and a data collection worksheet has been completed. **50%**

To meet the targets set out in our obligations as a participating company in the FLA and to participate in the FLA strategic monitoring project in China: SEA programme was accredited by the FLA in May 2005. Active participant in the Strategic Monitoring Project in China. This was subsequently folded into the FLA 'Soccer' project, with five adidas suppliers in China and Thailand participating. Independent External Monitoring (IEM) obligations were met in full. **100%**

To develop HSE Management System Guidelines for small and medium-sized suppliers and to finalise and introduce to strategic business partners HR management systems and training modules: The structure of the HSE Management System Guidelines has been developed. Content will be finalised in 2006. Both participating suppliers in the SME HSE management system pilot project have passed the certification audit. In relation to the HR management system, the foundation for the project is established. The rollout in China commenced December 2005. Rollout in other key countries will commence in Q3 and Q4 2006.

50%

To implement the use of recycled rubber as policy for all our suppliers if test products using recycled rubber waste do not show any quality problems: Footwear styles containing recycled rubber components caused no quality problems, but currently recycled rubber cannot be used with certain colours and shoe designs. The technical process is being enhanced.

75%

To provide training based on the work ergonomics guide developed in 2004: The Ergonomics Guideline was completed, but on review it was decided that it needed simplifying further before being issued to suppliers. No training was therefore delivered.

25%

To provide training sessions to 15 footwear suppliers on the Guide to Best Environmental Practice focusing on energy saving and waste management: Training to footwear factories focused on further improving the accuracy of environmental indicator systems. In-depth studies on waste management systems were conducted. Supported by an environmental consultancy, we assessed what is needed in the energy management training.

75%

To report on the progress of occupational health doctors' training: The occupational health doctors' training for three sourcing countries – China, Indonesia and Vietnam – has been completed. A follow-up audit found a general improvement in clinical services.

100%

To report back about our involvement in the Better Cotton Practices initiative: The preparation phase of this five-year initiative was finalised. Targets achieved in 2005 included the establishment of a steering committee and technical working groups and securing stable funding for the project's duration.

100%

To conduct at least six worker dialogues, and other engagements for social programmes: Asia: one worker dialogue held in China, two worker dialogues postponed to 2006. Americas: one worker dialogue in Honduras, one in El Salvador postponed until 2006. Two engagements for social programmes (MSI in Honduras, Center for Corporate Citizenship, Boston College) completed.

50%

Finance

- Reacting to business risks
- Positively managing business risks
- Increased value

To transfer the experiences from the MSI project in Vietnam to other regions: A needs assessment was conducted in China for a parallel MSI project; a meeting is scheduled for 2006 with MSI, Oxfam and other potential project partners to discuss the project framework and next steps. Preliminary discussions with MSI UK regarding HIV-AIDS projects in Honduras.

25%

To deliver mid- to high-single digit currency-neutral sales growth: Currency-neutral sales grew 12% (continuing operations).

100%

Environment

- Negative screening of environmentally unfriendly materials and processes
- Positive selection of environmentally friendly options
- Life cycle assessment of product materials and processes

To report on progress in applying the IPP system and tools for selected football boot developments: The IPP pilot project was finalised and a calculation scheme was developed for gathering, processing and comparing life cycle environmental data of products; tools and process were field-tested on a new football model to review their applicability as decision-making instruments.

100%

To grow currency-neutral revenues at all brands and in all regions: Currency-neutral revenues increased at all brands and in all regions (continuing operations).

100%

To exceed medium-term gross margin range of 45-46%: Group gross margin reached a record level of 48.2% (continuing operations).

100%

To achieve our highest operating margin ever: Operating margin improved by 0.7 percentage points to an all-time high of 10.7% (continuing operations).

100%

To drive earnings growth of 10-15%: Group earnings grew 22% to €383 million, the highest earnings ever (figures reflect continuing and discontinued operations).

100%

To further increase shareholder value: adidas-Salomon AG share price grew 35%.

100%

targets 2006

Management

- To ensure an effective and people minded integration of the adidas and Reebok companies by managing the appointment process and the alignment of the remuneration practices.
- To unify the existing brand compliance programmes into one Group-wide function
- To distribute the CSR survey among adidas Group employees; to analyse and report back on survey findings.
- To finalise the review of the Group's internal code of ethics and to plan the rollout of a Group-wide compliance programme.
- To develop a regular review mechanism of supplier SOE KPI with the Sourcing organisation.
- HR Talent Management/Performance management: To implement the Group's Talent Performance Management and Career development concepts (team line up, Champions league, PEP) in all Regions and HQ functions.

Suppliers

- To roll out the first two modules of HR management system and to provide training to a selective group of key suppliers in China.
- To fully apply the new SOE KPI for all key suppliers per region, update their compliance performance rating, and link the KPI to supplier strategic compliance planning and expectations for the Sustainable Compliance Guidelines.
- To fulfil our obligations towards the FLA in view of an increased number of applicable factories.
- To apply the safety officer registration and training programme with selected suppliers in one key sourcing country in Asia.
- To commit at least 5 worker dialogues in the Americas, Asia and Europe with focus on worker-management communications and verification of the country risk assessments.
- Increase our strategic monitoring practice to 75% of SEA factory monitoring exercises.
- Ensure that all key suppliers develop and start implementation of strategic compliance plans informed by KPI ratings.

Environment

- To finalise the development of an HSE Guideline for SMEs and to identify external service providers for rollout and training.
- To run energy-saving workshops for key footwear suppliers in Asia facilitated by environmental consultants.
- To extend the use of the environmental indicator system to one selected footwear and vertically integrated supplier in Latin America.
- To provide a progress report on the Better Cotton project.
- To develop an environmental accounting framework for all major sites of the adidas Group.

glossary

Capacity building Helping our business partners and others understand how to manage and improve workplace conditions, for example, through training, producing guidance manuals, and sharing best practice.

Corporate social responsibility (CSR) Managing a company's business processes in a way that creates economic value while also respecting people and communities and minimising environmental impact.

Fair Labor Association (FLA) Non-profit organisation working cooperatively with companies, NGOs and universities to promote a workplace code of conduct based on International Labour Organization standards.

Flock transfer printing Technology that allows structural and solid print designs.

Global Operations Board function responsible for the development and sourcing of adidas Group products such as footwear, apparel, accessories & gear.

Global Reporting Initiative (GRI) Independent institution developing a generally accepted framework for sustainability reporting.

ISO 14000/1 Environmental management standard.

Key Performance Indicator (KPI) Measures the effectiveness of actions taken by our suppliers to ensure compliance with the SOE.

Lean Manufacturing efficiency programme promoted by the adidas Group to improve overall factory performance in terms of delivery, quality and cost.

Lean/6 Sigma A more sophisticated methodology aimed at eliminating defects.

Multi-Fibre Arrangement (MFA) Introduced in 1974, establishing the rules for international trade in textiles and garments. Through the MFA, quotas were set limiting the amount of imports of textiles and clothing to the developed world. The MFA expired at the end of 2004.

Non-governmental organisations (NGOs) Special interest groups, often not-for-profit, raising awareness of sustainable development issues in business.

Occupational Health and Safety Assessment Series 18001 (OHSAS) Occupational health and safety standard.

Polyvinyl chloride (PVC) Synthetic material used in the manufacture of sports apparel and hardware that we are striving to phase out because of its adverse health and environmental impacts.

Social and Environmental Affairs (SEA) adidas Group department responsible for producing and developing sustainability policies and initiatives, and promoting social and environmental awareness throughout the company and its supply chain.

Socially Responsible Investment (SRI) Investment that is made on the basis of the financial, environmental and social performance of a company.

Stakeholder Person, community or organisation that affects, or is affected by, the operations of a company.

Standards of Engagement (SOE) The Group's code of conduct – a set of labour, health and safety, and environmental principles designed as tools to help us choose supply chain partners, monitor their performance and identify problems.

Sustainability The ability to create economic, social and environmental value in the long term.

Volatile Organic Compounds (VOCs) Solvents that can cause breathing and health problems. VOCs are by-products of the shoe manufacturing process.

feedback

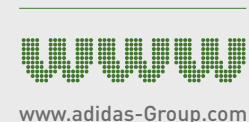
Please let us know what you think of this report using the contact details below. You can tell us whatever you like, but you may like to consider the following questions in your feedback:

- Did you find this report interesting?
- What do you think of there being a shorter report in print and additional information online?
- How do you suggest we use print and web-based reporting in the future?
- Is the information in the report useful?
- How did each chapter rate in terms of clarity and quality of information? Good/fair/poor?
- How would you rate the report overall? Good/fair/poor?
- What would you have liked to have seen that you did not?

To give us feedback, or for further information, please contact:

adidas-Salomon AG
Social and Environmental Affairs
World of Sports, Adi-Dassler-Str. 1
91074 Herzogenaurach, Germany
Telephone: +49 9132 84 0
Facsimile: + 49 9132 84 3242
E-mail: sustainability@adidas.de

index: this report and online reporting



We remain committed to presenting a complete picture of our sustainability performance. This year we have produced a focused report in print and we have published comprehensive information online at www.adidas-Group.com/en/sustainability/welcome.asp. The table on this page lists the content of this report, and for each section shows readers where on our website you can find related information.

our report	our website
Group profile	> about us > investors > our brands > sustainability
CEO statement	
One team, one vision: managing our business	
Mission and values	> sustainability > mission and values
Challenges and responses	> sustainability > overview
Standards of Engagement	> sustainability > overview
Our stakeholders	> sustainability > stakeholders
Strategy and tactics: improving the way we work with suppliers	
Tackling root causes of non-compliance	> sustainability > suppliers and workers
Performing responsibly: environment, employees and community	
Environment	> sustainability > environment
Employees	> sustainability > employees
Community	> sustainability > community affairs
Are we improving? Progress against targets and targets for 2006	> sustainability > overview
Glossary and feedback	> sustainability > overview



Printed on Take 2 Silk which is produced from 75% recycled fibre. The balance of the wood fibre comes from well managed forests, independently certified in accordance with the rules of the Forest Stewardship Council. Take 2 Silk is manufactured to precise environmental and quality control standards in line with ISO 9002 and ISO 14001. SGS-COC-2101 • FSC TRADEMARK © 1996 FOREST STEWARDSHIP COUNCIL A.C.

Credits: This report has been prepared by the adidas Group SEA team and Global Marketing Communications.

Consultancy, editing and design: Adam Garfunkel
adamgarfunkel@yahoo.co.uk
Corporate Edge
www.corporateedge.com
Print: Cousin

© adidas-Salomon AG. adidas and the adidas logo are registered trademarks of the adidas Group.

