Progress Report on Chemical Management – Summary May 2016

The information below provides an update on the adidas Group's progress against essential chemical management goals and targets that have been set and communicated to the public.

1) Goal/target: public's right to know – disclosure

We will deliver on full transparency of our global supply chain hazardous chemical use. We will deliver public reporting of hazardous chemical use: starting with at least 99% of all 'wet processes' for China suppliers by no later than 31 December 2014 via the IPE Detox platform (www.ipe.org.cn/en/pollution/discharge_detox.aspx), at least 50% of all wet processes across our global supply chain by no later than 31 December 2015 via the IPE Detox platform and at least 80% of all wet processes across our global supply chain by no later than 01 July 2016 via the IPE Detox platform.
We will ensure full details of our complete wet process global supply chain are always publicly available.

Progress/achievement to date

In 2015, we further expanded our work with wet process suppliers and supported them in the disclosure of their wastewater data on the IPE platform. This included uploading data to the PRTR and Detox section of the IPE platform.

All our strategic suppliers based in China have disclosed their data on the PRTR platform of IPE. From 2014 onwards, all major China-based wet process suppliers (who account for approx. 99% of the total material volume sourced in China) also disclosed their data on the Detox platform.

Since the end of 2015, 50% of our global wet processes by volume across footwear, apparel and accessories & gear are disclosed on the IPE platform. The suppliers disclosed on IPE are located in China, Vietnam, Taiwan, Thailand, Cambodia, Indonesia, India, Pakistan, Korea, Japan and Turkey.

Similar to 2014 and 2015, we have encouraged our suppliers to include information on their respective customers when disclosing their wastewater data. In order to further enhance transparency for all our stakeholders, we have expanded our publicly available supplier list with the strategic T2 wet process suppliers. It is shared on our website. (T2 wet process supplier list)

Detox protocol/findings to date: The vast majority of Detox priority chemicals have either not been used in the production processes (as part of auxiliaries and dyestuffs) or have been effectively removed in the wastewater treatment processes, as testing results are consistently ND (not detectable). Those chemicals include: phthalates, brominated and chlorinated flame retardants, azo dyes, organotin compounds, chlorinated solvents, chlorophenols, SCCPs, heavy metals (lead, mercury, chromium (VI)), cyanide and APEOs/NPEs. Some heavy metals have been detected at levels significantly lower than the applicable national standards in the treated wastewater, including cadmium, antimony, arsenic, chromium (total), cobalt, copper, nickel, zinc and manganese. Not all heavy metals have come from production materials. Some of the heavy metals, such as manganese and zinc, have probably been introduced from incoming water. Antimony is used as a catalyst in the polyester polymerisation process, and, reportedly, an economically viable alternative is not yet available.

Since 2011 already, we have screened our China-based factories on the IPE environmental violation record database. If suppliers are listed, we take action and support them in their remediation plan with the ultimate goal to get them removed from the blacklist.

Due to the ongoing technical problems with the Detox platform, our suppliers have only been able to upload wastewater data to a limited extent for over five months now. But, by fast-tracking our processes and supplier training and by allocating additional resources to this project, we will currently still be able to have 80% of the suppliers disclosed by September 2016.

In order to confirm the effectiveness of our holistic chemical management program we will pilot testing of waste water intake prior the waste water treatment process. We will support the creation of an international waste water standard with the goal to harmonize the process, sampling, test methods and TLVs.
In 2017, we will continue to support our suppliers in disclosing relevant data sets and adapt our procedures based on our findings from the pilots and the evolution of the harmonized waste water standard. Equally, we will start publishing annual reviews of waste water tests.

As part of our global stakeholder engagement strategy, we are continuously engaging different trade associations, including the China National Textile & Trade Council (CNTAC), in order to discuss current standards and future trends in chemical management.

In the latest report of IPE '[Greening the Supply Chain]' issued on 22 October 2015, the adidas Group ranked as the leader in the apparel and footwear industry. This shows the recognition of our programme on a global and local level.

2) Goal/target: PFC elimination

As the adidas Group is fully implementing the precautionary principle, we publicly committed to eliminate all long-chain (i.e. C7, C8 and longer) PFCs (defined as all poly- and perfluorinated substances and their precursors and metabolites) by no later than 1 January 2015 (across all products we produce or sell globally). The elimination of all PFCs used in any of the products we sell will be supported by the following steps:

i. the adidas Group has committed to being 90% PFC-free as of 15 June 2014;
ii. the adidas Group has committed to eliminate any other PFCs in any of the products the adidas Group produces and/or sells across its global supply chain, and to be at least 99% PFC-free by no later than 31 December 2017;
iii. full public detailed disclosure on our main public website of all PFC use by no later than 31 December 2017;
iv. documentation of how PFCs have been substituted by safer alternatives and publishing these case studies via the online Subsport.org platform;
v. implementation of a rigorous system of control to ensure that no traces of PFCs find their way into our supply chain in line with the above;
vi. working in partnership with our supply chain and other global industry leaders to accelerate the move to non-PFC technologies.

Progress/achievement to date

In 2015, major progress was made on our path to phase out PFCs. By allocating additional resources to our team, we have built in-depth chemical expertise and strengthened our research capacities in finding PFC alternatives which meet our high performance and quality standards for apparel, footwear and sporting goods equipment providing water repellency. Major alternatives or substitutes existing in the market have been tested carefully. In close collaboration with leading chemical companies, we have also started to explore formulations which are still in an R&D phase.

Testing was not only performed in the lab, but also conducted in multiple wear tests in real sporting environments. In total, more than 8,400 lab tests were conducted by the adidas Group and 43 wear tests were performed in an actual sporting environment.

However the transition to PFC-free finished products causes challenges, taking into consideration our diverse product portfolio in footwear, apparel and accessories and our global supply chain.

During the initial R&D phase, we found performance differences in lab vs. wear tests. Therefore, we had to adjust our overall testing procedure. At the same time, we also

detected differences in the performance of the same PFC-free solution from one supplier to another. With the support of our in-house production specialists from the manufacturing excellence team, these initial application issues have been solved.
We also realised that, due to the newness of certain alternatives, application processes had to be adjusted significantly. With our technical team, we supported our material suppliers in adjusting key production processes and applied them across the supply chain.

Through our research and innovation efforts, we have achieved significant progress towards developing PFC-free water-repellent materials for many of our product types which meet our standards to provide consumers with water-repellent apparel, footwear and sporting goods equipment.

We have been successful in applying PFC-free solutions as water-repellent finishes to many different end uses, especially in lifestyle and entry-level performance products.

We are continuing to research PFC-free technologies for our high-performance sporting goods products where we do not yet have proven solutions for all end uses.

At the same time, extensive training and education efforts have been undertaken internally with our product development teams and with our suppliers to ensure that water-repellent chemistry and PFCs are only used as exceptions when it is absolutely necessary to achieve the highest performance level.
See: The_chemistry_must_be_right.

As there are no global standards to define 'PFC-free', we have created and implemented an adidas PFC-free policy:

- It summarises the most up-to-date findings of our research work and describes a sophisticated procedure to ensure compliance with our PFC-free programme and eliminates the intentional use of PFCs. The policy covers the full supply chain end to end: from input chemistry to production through to the final product.
- We have engaged with universities, leading testing laboratories and many other stakeholders to identify the right tests in the right place to ensure compliance
- throughout our supply chain.
- The policy provides an approved list of formulations to be used by all adidas suppliers as well as an approved list of suppliers who meet our requirements to produce PFC-free products.

In our continuous efforts to create further transparency in our supply chain, we also detected PFCs in processes which we did not expect before. One area is the manufacturing of some of our PU synthetics which are used in a wide range of our

footwear materials. By working closely with our suppliers, we have started to eliminate the use of PFCs for these applications and will phase them out fully in the immediate future.

We are currently working to create a case on the Subsport platform which will describe PFC elimination from the manufacturing of PU synthetics.

All these steps and achievements have put us in a strong position to further replace our key water-repellent materials with non-PFC alternatives. By the end of 2016, approximately 93% of our products sold will be PFC-free.

3) Communication to suppliers and capacity building

Progress/achievement to date

In 2015, we continued to further strengthen our global environmental supplier programme. One of the key elements of this programme is a tailored audit conducted at T1 and T2 suppliers. The audit programme is designed to measure the performance of the suppliers and to support their improvements. The applied method for our T2 audits is the ZDHC audit protocol 2.0, which was developed with a specific focus on chemical management. Overall, we conducted over 130 environmental audits.

Alongside our audit programme, we developed a new, innovative capacity-building programme for suppliers, called the Chemical Management Guideline (CMG). The guideline was developed in close collaboration with the chemical company Huntsman Textile Effects, who contributed their extensive expertise in chemical management at textile mills. Workshops were conducted by Huntsman across all strategic apparel material suppliers in order to train them on this new tool and approach.

Over 450 people at 30 of our strategic apparel suppliers in five countries have undergone the CMG training. Firstly, to strengthen their overall knowledge on how to record, understand and monitor the chemical inventory as well as on the safe handling of chemical products from storage to use and, ultimately, disposal. And secondly, they have cascaded this knowledge to their internal colleagues. This has led to an important and efficient multiplier effect. The training will also help suppliers to avoid contamination on a mill level and is applied for all their production lines.

In 2016, as a follow-up to the CMG training and to assist suppliers in continuously enhancing the effectiveness of chemical management, the training has been refined to address the findings identified in the previous audits and to enhance MRSL conformity so as to enable chemical management improvement in terms of input chemistry and facility environmental, health and safety management.

Additionally, we have re-iterated our commitment to phase out PFCs and to further improve our global chemical footprint and transparency together with our suppliers at several public-facing conferences and supplier events around the world. As a major player in the sporting goods industry, we truly believe that our commitments and holistic chemical management programme will lead to changes in the entire footwear and apparel industry. See:

- 2015_Sustainability_Progress_Report
- ECHA_Guest_Column.

In May 2015, we hosted a chemical management event in Taiwan, to which we invited our key local chemical suppliers in order to present to them our chemical management programme and respective targets. In addition, more advanced suppliers shared their best practice approach on chemical management with their peers. It was an important milestone to expand the outreach of our chemical management programme and drive awareness and innovation in the region.

4) Chemical input management – bluesign and MRSL

Progress/achievement to date

In 2015, we further strengthened our focus on chemical input management. As part of our partnership with bluesign, we continued to record the chemical inventory of our strategic apparel material suppliers and started to set targets for the use of bluesign approved chemicals. They are actively using the bluesign® bluefinder positive chemistry database in their day-to-day chemical selection. The ease of use of this simple tool accelerates the use of more sustainable chemistry significantly. The bluesign® bluefinder is based on the strict BSSL, the bluesign systems substances list. Link to BSSL

Suppliers actually exceeded this target: 25% of auxiliaries and 65% of dyestuffs are now bluesign approved. We are on a very good track to meet our 2016 targets: 30% of auxiliaries and 70% of dyestuffs to be bluesign approved. Going forward, we will continuously set incremental targets.

The chemical inventory of those suppliers who produce more than 90% of our apparel material volume was recorded twice in 2015 in order to monitor their progress. The chemical inventory is recorded and monitored for the full production of the suppliers.

In addition, we further collaborated with the ZDHC organisation and have contributed to the first industry-wide Manufacturing Restricted Substances List (MRSL), an important breakthrough in the industry. In 2015, the MRSL was further extended, now covering leather processes, and will be continuously updated by an expert group. The MRSL is a

strong base for the industry to start managing the chemical input in a harmonised manner. We have started to implement the ZDHC MRSL and have set it as a basic expectation for our suppliers. ZDHC MRSL

You will find more information about our comprehensive chemical management programme under the links below:

http://www.adidas-group.com/en/sustainability/planet/chemical-footprint/

http://www.adidas-group.com/en/magazine/stories/commitment/a-partnership-with-good-chemistry/

5) Closing the loop

Supply chain relationship
The adidas Group strongly believes that long-term partnerships with its suppliers are of utmost importance. While the company spreads its sourcing over multiple countries, 80% of its global production comes from so-called 'strategic' suppliers. The terms of business with suppliers are not based on a purely order/purchase relationship. Over time, the adidas Group has, for example, developed specific programmes to address productivity, efficiency and quality at the supplier level.
More interestingly, substantial investment on both sides is made. This is why the adidas Group also places its own personnel in the strategic factories, where they work closely with the local personnel on developing the next innovations.
http://www.adidas-group.com/en/group/stories-copy/commitment/the-dilemma-of-sourcing-globally/

Supply chain monitoring
Over the past fifteen years, we have continually refined our methods, tools and techniques to monitor and promote our suppliers' compliance with our Workplace Standards. A detailed description is provided in a designated section on our corporate website; please see: http://www.adidas-group.com/en/sustainability/supply-chain/monitoring/#/verifizierung-der-standardeinhaltung/.

With regard to monitoring environmental compliance, we adopt a risk-based approach to identify those suppliers that need to be enrolled into the adidas Group's environmental programme. Instead of covering 100% of the supply chain, we focus our efforts on those suppliers with potentially high environmental risks and those that represent a significant production volume for the Group. For many years, major attention has been given to chemical management practices of those suppliers.
A chronological overview of achievements can be found here:
http://www.adidas-group.com/media/filer_public/2014/06/10/adidas_group_chemical_management_2014_en.pdf

Quality
As a sporting goods company our consumers expect high-quality products in order to meet the extreme conditions of different sports activities. Therefore, over the years, we have developed our high quality standards and test methods working with leading

universities and testing institutes. These high quality standards ensure the longevity of our products and support our sustainability goals.

In order to ensure the high quality that consumers expect from our products, we enforce strict control and inspection procedures at our suppliers and in our own factories.

Product and material solutions

As a brand, our ultimate goal when it comes to sustainability is to have a product that delivers high performance, but which is also made in a sustainable way. A few efforts that we can mention are the increased use of recycled polyester (rPes) and Better Cotton (organic) in our garments, the reduction of our range by 25%, the elimination of over two million product samples through virtual samples as well as the elimination of plastic bags in our stores and plastic beads in our shower gels. This is not an exhaustive list, but it gives a few good examples of the efforts we are undertaking in order to be a sustainably led brand.

Recycled polyester

When it comes to materials, adidas is taking a multi-tiered approach regarding the integration of recycled and recyclable materials into its product portfolio. First and foremost, we are incorporating recycled polyester en masse into our apparel inline materials collections and are systematically growing this percentage season over season, with the ultimate goal of full transition. As polyester comprises the vast majority of our apparel materials, we chose to focus the transition programme here first on football and training programmes, which are two of our largest users of polyester in the brand.

One powerful innovation back in 2013 was the large-scale introduction of the Framaprene® ECO heel counter solution in adidas footwear products. Heel counters are used in more or less every shoe to stabilise the heel. This material innovation leads to a significant reduction of waste as well as of virgin materials. Simultaneously, it reduces material costs. A real win-win example for our business and the planet.

Conventional heel counters used in products consist of 100% virgin material which is based on thermoplastic rubber (TPR), for which crude oil is needed. As part of their continuous innovation efforts and to satisfy the demands with regard to saving environmental resources, FRAMAS developed new formulations with the help of recycled ‘end-of-life’ materials. And polystyrene materials from used food packaging have been the solution. The food packages are widely used in Asia as well as in the United States. The new Framaprene® ECO heel counter contains up to 50% of these recycled materials. The new heel counter passed the strict adidas quality, fit and wear

tests and the roll-out kicked off for the entire shoe production for the spring/summer 2014 ranges. A total of 110 million Framaprene® ECO heel counters per year will be used in adidas products. This leads to a reduction of polystyrene waste by around 3,000 tons per year. This roughly equals the entire amount of polystyrene waste which is collected in Australia every year.

Parley for the Oceans
As part of our ambition to create responsibly, we are continuously searching for new ways to make better products and to innovate manufacturing techniques. In April 2015, we announced a partnership with Parley for the Oceans, a thought leader in ocean conservation and eco innovation that raises awareness about the beauty and fragility of the oceans with the aim to end their destruction, thus taking our ambition to a new level. See our press release for further information.

The long-term partnership focuses on communication and education, research and innovation as well as direct actions against ocean plastic pollution. Our efforts are directed towards Parley's comprehensive AIR strategy. AVOID: We have replaced plastic bags at retail with more sustainable solutions in all our stores globally, we have eliminated the use of plastic water bottles at our headquarters and we will continue to expand the use of recycled polyester and nylon. INTERCEPT: We establish supply chains and create products with intercepted ocean plastic before it can become pollution. REDESIGN: We collaborate with industry partners to redesign products for a circular economy.

With this collaboration, we have committed to co-create credible green product innovation on a global stage (e.g. at the United Nations, see press release), to look into R&D state-of-the-art chemical engineering for advanced materials and polymers, to elevate key products through the use of ocean material (e.g. the ocean plastic UltraBOOST) and to lead the industry as a thought leader in innovation (e.g. at the NYT luxury conference, see video).

Sport Infinity
We are leading an innovative research project called 'Sport Infinity' in order to develop a material that can be endlessly recycled using a waste-free, adhesive-free process. In close cooperation with nine other industry-leading companies and funded by the European Commission, the project aims to identify and develop innovative recyclable composites that can be broken down into 3D-shapeable materials and then remoulded in a waste-free process into a brand-new product, closing the sustainability loop.
More information: http://www.adidas-group.com/en/magazine/stories/specialty/farewell-recycling-infinity-cycling/

End of life

Years ago already, we began building the first steps in the chain towards closed-loop products by recycling excess pre-market products and handling large volumes of goods for further distribution or recycling that failed to meet our quality standards, which we redirect from our distribution centres in Germany. We are now extending this to post-consumer in-store product take-back.

As we pilot these consumer-facing take-back programmes, our goal is to bring this approach to markets where established recycling collection facilities do not exist.

In 2012, adidas Brazil launched Sustainable Footprint, a voluntary 'take-back and recycle' programme – the first of its kind in Brazil. As there were no outlets to recycle local footwear, the programme aimed to turn footwear waste into a resource to generate energy for local industry. Consumers who leave old sports shoes of any brand in designated containers in adidas stores receive a discount on the purchase of a new pair of adidas shoes. Donated shoes are processed, before being utilised in the cement industry to produce local energy.

Sustainable Footprint is now offered at more than 60 adidas stores in Brazil. In the coming year, the programme will expand to include apparel, in partnership with a company that offers the infrastructure to recycle and reuse textiles and shoes.

Donated items collected during seasonal take-back activities are distributed to individuals or organisations that support microenterprises in developing countries.

In 2014, adidas America, adidas Originals Iberia and Reebok all piloted seasonal product take-back campaigns in partnership with not-for-profit organisations. Customer feedback was positive, with people reporting that it felt good to donate their products and treat them as a resource instead of waste. The donated items were either distributed to individuals or organisations that support microenterprises in developing countries, or recycled.

Going forward, we will roll out global product take-back programmes to all our key cities and markets.

http://www.adidas-group.com/media/filer_public/9c/f3/9cf3db44-b703-4cd0-98c5-28413f272aac/2015_sustainability_progress_report.pdf

http://www.adidas-group.com/media/filer_public/e8/32/e832823b-8585-4e26-8990-07b80e3ae71c/2014_sustainability_report_make_a_difference.pdf