

Modern Slavery Risk Assessment Review

PROGRAM GENESIS

In 1997 we established our human and labour rights program. Over the years we have learned that identifying, preventing and mitigating human rights risks across our supply chain is a complex exercise that requires a different approach depending on the supply chain tier that is being assessed.

Aligned with this and to complement our two-decade long human and labour rights program, in 2016 we launched the modern slavery outreach program. Our purpose was to focus our efforts on potential risks looking beyond our Tier 1 suppliers and drive greater transparency in the upstream supply chain.

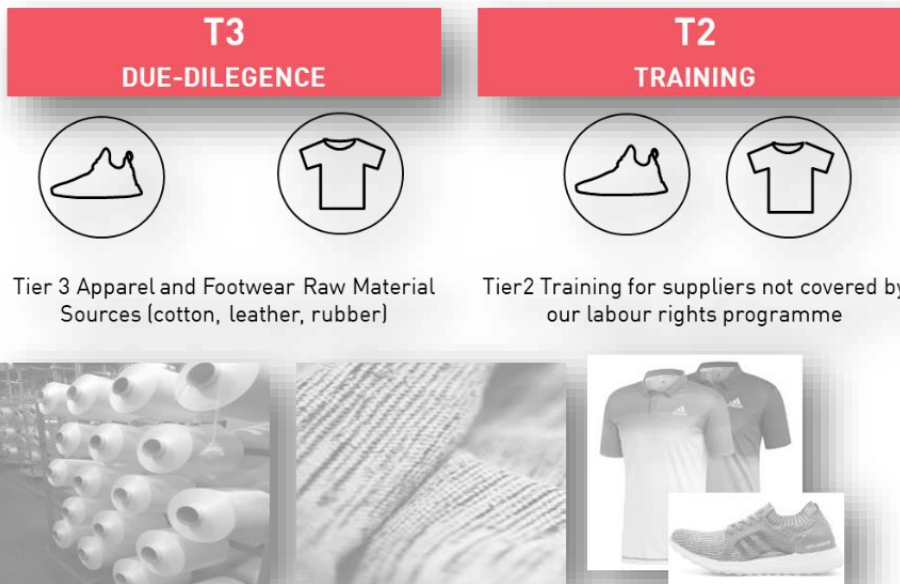
2016 RISK ASSESSEMENT

In conducting our risk assessment, we followed the methodology as outlined in the United Nations Guiding Principles on Business and Human Rights (UNGPs) to identify salient risks and priorities. We first started with a simplification of the various tiers of our supply chain. The diagram below depicts the three simplified tiers of our supply chain. This is consistent with the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment & Footwear Sector. Tier 1 does not fall under the scope of the Modern Slavery Outreach Program, as it is addressed by our pre-existing human and labor rights monitoring processes.



We then conducted a risk-based review of our upstream supply chain. The review was triggered by a simple question: “If we are to manage the risk of modern slavery in our upstream supply chain, where should we prioritize our efforts?” Drawing on our internal human and labour rights monitoring expertise, external published sources, such as the United States Department of Labor’s International Labour Affairs Bureau’s “List of goods produced by child labour or forced labour”, the 2016 Global Slavery Index, and feedback from stakeholders, such as the UN’s International Labor Organization and others, we arrived at a risk assessment process. See [here](#) for a summary overview.

Based on the risk assessment we set the following priorities for the Modern Slavery Outreach Program.



PROGRAM ACHIEVEMENTS

Between 2016 and 2019 we focused our efforts on the priority areas as outlined above. From providing specialized modern slavery trainings to 100+ Tier 2 suppliers across Asia to investigating employment practices in Turkish cotton farms we drove collaborative engagements to help assess and address risks in our upstream supply chain.

In early 2018 we published a summary progress report available [here](#).

2019 RISK ASSESSMENT REVIEW

Four years into the outreach program we have an increased understanding of the potential risks associated with modern slavery in our upstream supply chain. In this time, we have engaged extensively on human rights and forced labour industry benchmarks and have identified and filled gaps in our policies and practices.

We have also responded to regulatory and stakeholder expectations. For example, since 2018 we have prohibited the employment of North Korean workers globally, aligned with US sanctions, we have banned the sourcing of Turkmenistan Cotton, and in early 2019 we prohibited our Tier 2 material suppliers from sourcing cotton yarn from the Xinjiang region of China. For a full list of prohibitions and other actions taken to safeguard against labor exploitation in our supply chain, please see our Modern Slavery policy available [here](#).

Our 2019 risk assessment review process is in line with stakeholder demands for greater transparency and management of human and labour rights in the upstream tiers of our supply chain. It reflects our experience on having worked on these topics over the past four years and sets out the priority topics and focus countries salient to our company.

PRIORITY TOPICS

RESPONSIBLE RECRUITMENT



Modern slavery permeates all economic sectors, especially if the product or service provided involves the employment of foreign migrant workers. The most common entry point for foreign migrant worker exploitation occurs at the hands of unscrupulous recruitment agencies or labor brokers who charge workers excessive and illegal recruitment fees in exchange for securing a job. **Promoting responsible recruitment and employment practices in sourcing countries that employ foreign migrant workers has emerged as a key priority area for us.** See following page for high risk foreign migrant worker countries in our supply chain.

FORCED & CHILD LABOUR RISKS IN RAW MATERIAL SOURCING



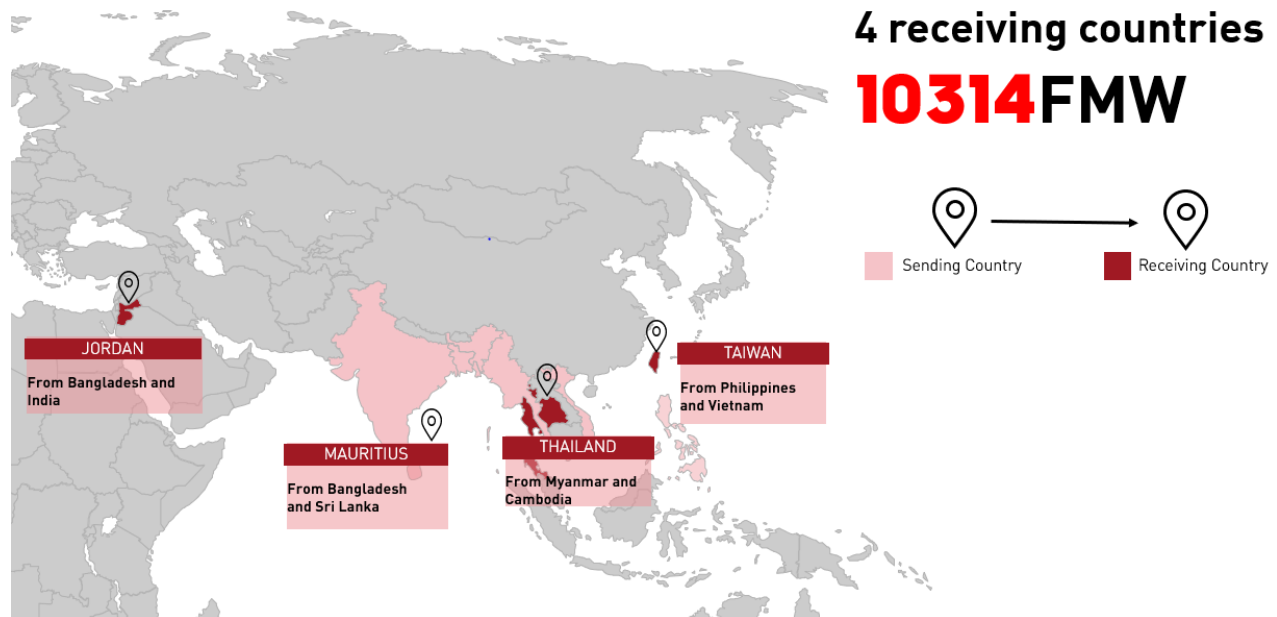
Exploitative practices while prevalent across tiers are more likely to occur at agricultural sources where visibility is opaque, company leverage is minimal, and labor is temporary, undocumented and seasonal in nature. Our sourcing footprint for the raw materials commonly used in our products, i.e. cotton, leather and natural rubber is very small. But the risks of child and forced labor are high. **Applying due-diligence efforts through collaborative change models for this tier of the supply chain continues to be a key priority area for us, with a focus on the efficacy of existing assurance models for forced labour and child labour.** See following page for high risk raw material sourcing countries in our supply chain.

REGULATORY NEEDS AND ISSUES-DRIVEN RISKS



Fulfilling stakeholder expectations with regard to a) new regulations and laws (e.g. Australia Modern Slavery Act 2018), b) more impactful human rights due diligence and disclosure practices, and c) emerging issues and situational risks (e.g. state-sponsored forced labor and ethnic minorities in China) **demands a constant due-diligence and risk assessment approach and an ability to “know and show” our responsibility towards upholding human rights in our supply chain.**

HIGH RISK FOREIGN MIGRANT WORKER (FMW) COUNTRIES



Source: adidas Supply Chain Labour mapping exercise 2018



FORCED AND CHILD LABOR HOTSPOTS IN adidas' RAW MATERIAL SOURCING COUNTRIES

REGION	COUNTRY	RAW MATERIAL
Latin America	Brazil	Cattle, Cotton
	Paraguay	Cattle
Middle East	Turkey	Cotton
Asia Pacific	China	Cotton
	India	Cotton
	Pakistan	Cotton
	Vietnam	Rubber

Source: US Department of Labour Goods Produced by Child Labour and Forced Labour, 2018

APPROACH TO ASSESSING AND ADDRESSING RISKS

