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GROUP MANAGEMENT REPORT OUR COMPANY

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Group Management Report: This report contains the Group Management Report of the adidas Group, comprising adidas AG and its consolidated subsidiaries, and the Management Report of adidas AG.

References to external sources, such as our website, in the Group Management Report were not part of the scope of KPMG's audit.

CORPORATE STRATEGY

Everything we do is rooted in sport. With sport playing an increasingly important role in more and more people's lives, on and off the field of play, we operate in a highly attractive industry. Through our authentic sports brands, we push the boundaries of products, experiences and services to drive brand desire and capitalize on the growth opportunities in sport, as well as in sports-inspired casual wear.

OUR CORE BELIEF: THROUGH SPORT, WE HAVE THE POWER TO CHANGE LIVES

The importance of sport, however, goes far beyond that. Sport is central to every culture and society and is core to an individual's health and happiness. Therefore, we believe that, through sport, we have the power to change lives. And we work every day to inspire and enable people to harness the power of sport in their lives.

OUR MISSION: TO BE THE BEST SPORTS COMPANY IN THE WORLD

It is our mission to be the best sports company in the world. Best means that we design, build and sell the best sports products in the world, with the best service and experience, and that we do so in a sustainable way. Best is what our consumers, athletes, teams, partners, media and shareholders will say about us. We are confident that we will see improvements with regard to market share, leadership and profitability once people are saying that we are the best.

STRATEGIC BUSINESS PLAN: 'CREATING THE NEW'

'Creating the New' is our strategic business plan until the year 2020. Our ambition to further drive top- and bottom-line growth by significantly increasing brand desirability builds the core of 'Creating the New'. The strategic business plan therefore focuses on our brands as they connect and engage with our consumers. This consumer-centric approach is

driving significant improvements in the desirability of our brands and has increased our relevance with consumers around the globe. As a result, we have gained market share in those categories, markets and cities that we have identified as future growth drivers for our company. [SEE DIAGRAM 23](#)

STRATEGIC CHOICES

Our strategic business plan has a powerful foundation in our unique corporate culture and is built around three strategic choices that support us in intensifying our focus on our consumers and will drive brand desirability: Speed, Cities, and Open Source.

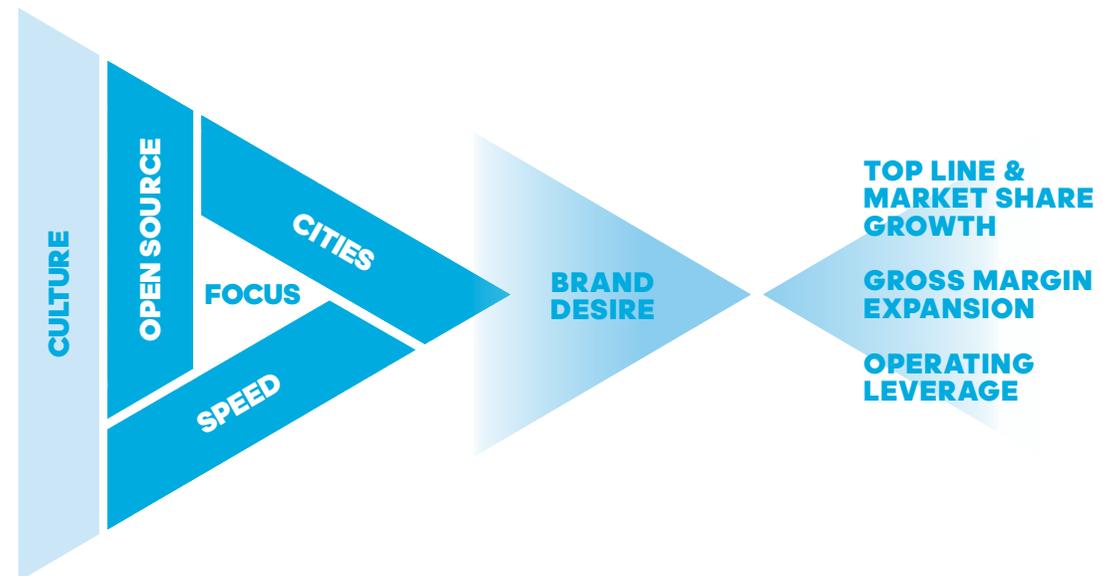
Culture

We have great talents in our organization who work with passion for sports and our brands. Our people bring our strategy to life and our culture makes the difference in achieving our long-term goals. We are convinced that a culture of Creativity, Collaboration and Confidence (the 3Cs [SEE GLOSSARY](#)) is a key enabler for us to 'Create the New'.

Our leaders role-model this behavior. To enhance our leadership structure, we established the Core Leadership Group (CLG). This group of senior leaders, selected from the most critical roles across the company, are responsible for leading the execution of our strategic business plan, with a particular focus on improving cross-functional collaboration

Our strategic business plan: 'Creating the New'

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and decision-making. We continued to sharpen our leadership structure by adding an Extended Leadership Group (ELG), which supports the Core Leadership Group in implementing our strategy. The Leadership Framework unites all leaders in our company through a clear definition of what strong leadership looks like at adidas and commitment to enhance performance and culture. In addition, the Global High Potential Group (GHIPO) was formed in 2018 to develop high potentials who have the ability to take on more complex, demanding and higher-level responsibilities at a global senior management level. In 2019, we launched a Local High Potential Group (LHIPO) who are being developed for more complex roles at a local senior management level. Each leadership group creates a succession pool to the one above it to ensure ongoing internal talent development, as well as being leadership role models across the organization.

We believe that a performance culture is essential to successfully executing our strategy. To further promote a performance culture within our company, we have finalized a new way of developing our people and evaluating their performance. In addition, we have made significant progress in recalibrating our approach to evaluating performance and have evolved the link to performance and rewards through our compensation and benefits. Long-term remuneration for our senior management, for instance, has been simplified and linked to the development of the company's bottom line and our share price in order to further align the interests of our senior leaders with the interests of our shareholders.

As a company, we value diversity and promote inclusivity. Today, our employee base is already very diverse in terms of gender, generation and global representation. We are dedicated to continuously increasing the representation of female leadership across the organization. We have made further progress in this regard and representation of women

globally in management positions across the company increased to 34% in 2019 compared to 29% in 2015. Our GHIPO and LHIPO leadership groups have an almost balanced gender split to ensure greater female representation for succession into senior roles. Furthermore, we are offering gender intelligence training globally to promote a more inclusive workplace. [SEE PEOPLE AND CULTURE, P. 70](#)

Speed

Driving brand desirability begins with putting our consumers at the heart of everything we do and serving them in the best possible way. This involves ensuring that consumers always find fresh and desirable products where and when they want them and with an unrivaled brand experience. This, in turn, means being able to anticipate what consumers want and reacting accordingly in a timely manner. Being fast will give us a decisive competitive advantage. The benefits include higher product availability, reduced inventory risk, incremental net sales and higher margins. Speed is therefore a critical and powerful lever for us.

We are using our industry-leading experience to further evolve our entire business model end-to-end, from range planning to product creation, sourcing, supply chain, go-to-market and sales. In 2019, we further developed and sharpened 'Speed'. With the revised approaches 'fast creation' and 'fast replenishment', we are able to increase the share of short lead-time ranges. Together with our customers, we define which of our product ranges qualify for these approaches. Through this, we are enabling our brands to ensure constant freshness in store for our consumers, resulting in higher-quality sales and more productive inventory.

Since the launch of the strategic priority Speed, we have steadily expanded its coverage. All categories and markets have now been fully onboarded and started to capitalize on the

benefits of the Speed programs. Over the last years, the net sales share of speed-enabled products has continuously increased to a level of 47% in 2019, which is fully in line with our overall ambition to increase the share of speed-enabled products to at least 50% by 2020.

In addition to focusing on Speed in our existing supply chain and production processes, we also explore new, disruptive business models and technologies to make us faster. Together with Oechsler AG, adidas had opened two *Speedfactories* [SEE GLOSSARY](#) in 2017 to test new processes for faster production of athletic footwear and to develop new manufacturing technologies with the ultimate goal to transfer them to the company's global supply chain. In 2019, we decided to discontinue production at the two Speedfactories in Ansbach, Germany, and Atlanta, USA, by April 2020, and to deploy the Speedfactory technology at Asian suppliers. The company will continue to develop, improve and test manufacturing processes in the 'adiLab' at the adidas production site in Scheinfeld, Germany. [SEE GLOBAL OPERATIONS, P. 63](#), [SEE INNOVATION, P. 67](#)

Cities

Urbanization continues to be a global megatrend. Most of the global population lives in cities and already today cities account for around 80% of global GDP. Cities are shaping global trends and consumers' perception, perspectives and buying decisions. To be successful in the future, we therefore need to win the consumer in the world's most influential cities. We have identified six global megacities in which we want to over-proportionally invest to grow share of mind, share of market, share of trend: London, Los Angeles, New York, Paris, Shanghai and Tokyo.

We aim to deliver extraordinary experiences to consumers in these cities across all touchpoints by engaging more deeply

with them in communities where they live, places where they work, fields, courts and streets where they play, and doors where they shop. At the same time, we strive to create high synergies between our activation and commercial efforts. This also includes aligning our initiatives with similar activities of key retail partners.

It is our goal to create an end-to-end ecosystem in these cities which connects consumers to relevant products, through bottom-up activation and holistic retail experiences:

- **Activation:** Our global key cities offer our brands a unique platform. Over the year, we conducted individual city-led activations together with some of our most important assets such as Pharrell Williams in London, and James Harden at the 'Republic of Sports' event in Shanghai. On top, we continued to deliver day-to-day brand experiences for our communities such as the adidas Runners, Tango League and Versatile Female Athlete to engage with our consumers.
- **Products:** We continue to drive a multi-pronged strategy of product introductions, focused across all six cities, including global campaign launches and exclusive collections, for example when we launched Futurecraft Loop in New York City to the world's media. In 2019, we utilized our Speedfactory concept to create shoes with and for consumers in all six key cities, e.g. with e-gaming partner Team Vitality in Paris. [SEE INNOVATION, P. 67](#)
- **Experiences:** We are committed to providing premium retail experiences to our consumers with executions that connect, engage and inspire them. 2019 saw the opening of our new four-storied adidas brand flagship store on London's Oxford Street, which was created to be our most digital store ever. With more than 100 digital touchpoints, which are powered by green energy, and immersive fitting rooms, the entire experience is curated for our consumers through innovative digital storytelling tools and interactive experiences, such as the 'bring it to me' feature in the adidas app that personalizes the shopping experience.

The 2019 results for specific KPIs (NPS and market share) signal we are well on track to achieve our target to double revenues in our global key cities by the end of 2020 compared to 2015.

Open Source

Open Source is a collaboration-based innovation model that aims to build brand advocacy by opening the brands' doors to the consumer and by inviting him or her to co-create the future of sport and sports culture with us. It is about learning and sharing, about starting conversations between the brand, external experts and consumers, and about giving them the chance to have an impact on what we do. We provide access for externals to tools and resources we use to create, thereby acquiring and nurturing creative capital, and explore new territories so as to create unprecedented brand value for the consumer beyond mere transactional businesses.

We have defined three strategic initiatives for Open Source:

- **Athlete collaborations:** Through athlete collaborations we aim to build communities of athletes that help shape the future of their sport together with us. Such collaborations include relationships with the world's best athletes and teams, but they also take place on a local level. To directly engage and interact with a broader consumer community, we have expanded our efforts in digital and physical spaces. For instance, in 2019 our investment in running communities through grassroots activations of 'adidas Runners' covered more than 60 cities in 30 countries on all continents. Our adidas Running communities drove the surge for around 2.2 million runners to step up for the Run for the Oceans campaign with many events taking place across the globe. In total, participants logged over twelve million kilometers, tracking their runs on the adidas Running by Runtastic app (and Joyrun app for those based in China). [SEE ADIDAS BRAND STRATEGY, P. 55](#)

- **Creative collaborations:** Creative collaborations increase our creative capital through new tools, new environments and new perspectives from outside creative thinkers. They are intended to give creativity a platform and provide the right tools for ideas to blossom. The most notable addition to our Creator Network roster was our landmark collaboration with Beyoncé, as a brand ambassador and co-creator. In addition, we launched a partnership with the world's most influential gamer, Ninja, to broaden our reach into the expanding e-gaming world. Furthermore in 2019, we continued our collaborations with Kanye West, Pharrell Williams, Yohji Yamamoto, Stella McCartney, Raf Simons and Alexander Wang. [SEE ADIDAS BRAND STRATEGY, P. 55](#)
- **Partner collaborations:** The strategic initiatives in this area intend to open up our knowledge of sport by working with the best in other fields. By exchanging core competencies, we will create unique value for our brands and ultimately also for our consumers. Our partnership with *Parley for the Oceans* [SEE GLOSSARY](#) serves as a prime example. As a founding member of the organization, our support goes far beyond financial aid to fund beach clean-ups. In 2019, we expanded our efforts through partnerships with start-up incubators such as Fashion for Good, who will help us to accelerate sustainable innovation in the apparel industry, and Station F to create the best digital innovations in sport. [SEE INNOVATION, P. 67](#), [SEE SUSTAINABILITY, P. 78](#)

We remain committed to embedding external creative capital in our processes to extend our possibilities in creating the future of sport. To ensure that we are at the pulse of the consumer journey at key moments and touchpoints in their lives, we want to grow the number of users in our digital ecosystem. We have made significant progress in this regard and are now connected with more than 500 million users through our different platforms and social media channels. With the insights generated through Open Source, we craft better products and services for our consumers, driving brand desire, sales, market share and profitability.

‘CREATING THE NEW’ ACCELERATION PLAN

In March 2017, we introduced a number of initiatives to foster brand momentum and accelerate top- and bottom-line growth:

Portfolio

Every entity must contribute to the success of our company, be it a brand, a channel or a market. We constantly revisit the performance and strategic fit of our portfolio. After the completion of the sale of the TaylorMade, Adams Golf and Ashworth brands as well as our CCM Hockey business in 2017, we are now operating with a narrowed focus on our core strength areas of athletic footwear and apparel. This will allow us to reduce complexity and pursue our target consumer more aggressively with both the adidas and the Reebok brand. We have continued to execute upon Reebok’s turnaround plan ‘Muscle Up’, aimed at accelerating top-line growth, particularly in North America, and improving the brand’s overall profitability. After returning to profitability in 2018, Reebok achieved currency-neutral growth of 2% in 2019.

■ [SEE REEBOK BRAND STRATEGY, P. 59](#)

adidas North America

North America represents the biggest market in the sporting goods industry with a total share of approximately 40%. At the same time, from a geographical perspective, North America represents the biggest opportunity for the adidas brand, given our relatively small market share here compared to other regions. To improve the adidas brand’s overall positioning in the region, we have made North America a strategic priority and started to significantly increase our investments into North America in order to be more relevant and always visible to the consumer. In this context, over the last years, we have increased investments into our organizational set-up, including the further expansion of our US headquarters in Portland, elevated our marketing efforts and upgraded our distribution infrastructure with the opening of a new distribution center in Pennsylvania. We are pleased with the

progress we have been making in recent years, as we have more than doubled our business in North America since the launch of ‘Creating the New’ in 2015. However, we are still not satisfied with our current position, which leaves significant upside for the years to come. Therefore, going forward, we will continue to execute our game plan for North America in order to continue to increase our market share and reach our target of € 5 billion in revenues for the adidas brand by 2020.

ONE adidas

We continuously strive for operational excellence. ONE adidas encompasses a set of initiatives that will enable our company to work smarter, more efficiently and in a more aligned way. After having successfully operationalized the initiatives under the *Brand Leadership* pillar ■ [SEE GLOSSARY](#) in 2018, we are now focusing on the remaining two pillars – Operating and Marketing Efficiency. In order to create a more scalable business model, we will therefore focus on those opportunities that enable us to standardize and harmonize current processes and procedures. In this context, 2019 saw the continuation of several initiatives which are aimed at significantly improving our operating efficiency in the years to come. Our disciplined execution has already led to initial positive results in terms of generating incremental profits. We decided to use these benefits to reinvest into the business and continue our investment efforts into our scalable business model. In 2019, we focused on the expansion of Global Business Services, where we continue to work on the standardization and harmonization of processes in areas such as Accounting and HR Services. Furthermore, in the last year we saw the *Non-Trade Procurement* initiative ■ [SEE GLOSSARY](#) deliver considerable savings as a result of successfully operationalizing the approach. These and other initiatives are designed to enable scalability and operating leverage. They are generating benefits already now and are expected to deliver further positive impact in the future.

Digital

The digital transformation is fundamentally changing the way our consumers behave and the way we work. Technology has enabled us to accelerate building direct relationships with our consumer. Improving digital capabilities along the entire value chain enables us not only to interact with the consumer, but also to become faster, better and more efficient in every part of the organization. We continue to make strong progress in multiple digital accelerators. After the initial launch in 2017, we expanded the reach of the adidas app to over 30 countries across all major markets. Our membership program *Creators Club* ■ [SEE GLOSSARY](#) introduced in 2018 as well as the relaunch of the Runtastic app as ‘adidas Running by Runtastic’ and ‘adidas Training by Runtastic’, respectively, emphasize the importance of our investments in customer relationship management to allow a deeper consumer understanding. By providing consumers with a premium, connected and personalized shopping experience, we progress toward our 2020 own e-commerce revenue target of € 4 billion. In 2019, our own e-commerce platform was our fastest-growing channel with a currency-neutral revenue increase of 34%.

FINANCIAL AMBITION UNTIL 2020

Creating long-term value for our shareholders drives our overall decision-making process. Therefore, we are focused on rigorously managing those factors under our control, making strategic choices that will drive sustainable revenue and earnings growth and, ultimately, operating cash flow. We are committed to increasing returns to shareholders with above-industry-average share price performance and dividends.

[SEE INTERNAL MANAGEMENT SYSTEM, P. 92](#)

Our unique corporate culture and the three strategic choices will continue to be step-changers with regard to brand desirability and brand advocacy. In combination with the initiatives that are part of our acceleration plan, this will enable us to:

- **achieve top-line growth significantly above industry average:** We aim to increase currency-neutral revenues annually between 2015 and 2020 at a rate between 10% and 12% on average (initially, in March 2015: high-single-digit currency-neutral increase).
- **win significant market share across key categories and markets:** We have defined key categories within the adidas and Reebok brands that will spur our growth going forward. From a market perspective, we have defined clear roles for each of our markets, depending on macroeconomic trends, the competitive environment and our brand strength in the respective markets.
- **improve our profitability sustainably:** We plan to substantially improve the company's profitability, growing our net income from continuing operations by an average of between 22% and 24% per year between 2015 and 2020 (initially, in March 2015: increase of around 15%; updated in March 2017: increase between 20% and 22%).

- **deliver on our commitment to increase shareholder returns:** 'Creating the New' includes a strong commitment to generating increasing returns for our shareholders. Given our firm confidence in the strength of the company's financial position and future growth ambitions, we target a consistent dividend payout ratio in a range between 30% and 50% of net income from continuing operations. Our dividend policy is complemented by a multi-year share buyback program announced in March 2018. Under the current program, we plan to buy back own shares for up to € 3 billion in total until May 2021, of which € 1.8 billion was utilized by the end of 2019.

ADIDAS BRAND STRATEGY

MISSION: TO BE THE BEST SPORTS BRAND IN THE WORLD

The adidas brand has a long history and deep-rooted connection with sport. Its broad and diverse sports portfolio, from major global sports such as football and running, to regional heartbeat sports such as American football and rugby, has enabled the brand to transcend cultures and become one of the most recognized and iconic global brands, on and off the field of play. The adidas brand's mission is to be the best sports brand in the world, by designing, building and selling the best sports products in the world, with the best service and experience, in a sustainable way.

Driven by a relentless pursuit of innovation as well as decades of accumulating sports science expertise, the adidas brand has developed a truly unique and comprehensive sports offering. Spanning footwear, apparel, equipment and services, the brand caters for all, from elite professional athletes and teams to any individual who wants to make sport part of their lives. We help athletes of all levels to make a difference – in their game, in their life, in their world. This is anchored in our core belief that, through sport, we have the power to change lives.

CONSUMER OBSESSION: CREATING FOR THE CREATORS

The consumer is at the heart of everything the adidas brand does. By constantly developing desirable products and inspiring experiences, the brand strives to build a strong image, trust and loyalty with consumers. Through 'Creating the New', the adidas brand has refined its strategic direction, operational processes and incentive systems, to foster a culture of consumer obsession across its entire organization.

- **Operating model:** To ensure long-term success, it is important that we continue to challenge ourselves to learn and grow. We must constantly iterate to become faster and stronger. Therefore, the adidas brand's operating model is directed by the guiding principles of *Brand Leadership*. [SEE GLOSSARY](#) The aim of Brand Leadership is to provide an organizational structure which enables a 'consumer-obsessed' culture that can act with speed, agility and empowerment.
- **Creator archetype:** Owing to the rapid evolution of sport and sports culture, the adidas brand targets key consumer groups and influencers to create brand desirability and momentum through a well-defined consumer segmentation strategy. The consumer grid comprises six key quadrants (Male Athlete, Female Athlete, Young Creator, Streetwear Hound, Amplifier, and Value Consumer), which are not mutually exclusive. Within this grid, it is key to win the most influential consumers, defined as the creator archetype. True to the brand's values, these influential consumers define themselves as a work in progress – are all doers and makers, first to adopt, focused on what's new and what's next. A large portion of creators live, play and work in the world's most influential and aspirational cities, a key reason for the company's Cities strategic choice.
- **Consumer centricity:** Companies that put the consumer's voice as a centerpiece of their decision-making process have higher levels of success in creating brand advocacy. Therefore, we implemented a global *Net Promoter Score (NPS)* [SEE GLOSSARY](#) ecosystem in order to drive brand momentum in a measurable and objective manner. NPS has become an important part of the adidas brand's advocacy program. Through this program, we strive to understand consumers' perception (positive and negative) of the brand and the key drivers which motivate them to recommend the brand to their friends. [SEE INTERNAL MANAGEMENT SYSTEM, P. 92](#)

PRODUCT FRANCHISES: CREATE THE MOST DESIRED SYMBOLS OF SPORT IN THE WORLD

We are convinced that footwear has the highest influence on brand perception among product categories. Footwear is also the most powerful driver of NPS, which in turn translates directly into consumer purchase intent and our potential to grow market share. The adidas brand is relentlessly focused on innovation and newness in footwear, delivering cutting-edge technologies that help athletes make a difference in their game, life and world. Unparalleled access to athlete data and an archive that is unrivaled in the industry provide deep insights and ample opportunity to add chapters to the brand's rich heritage. At the same time, the brand has a clear strategy to reduce the number of footwear models, putting a stronger focus on key franchises that can really make a difference for the brand. These footwear franchises are managed carefully and long term with the aim of shaping sport and influencing culture. They are built to create trends, rather than follow. Through uncompromised function, iconic design and unique stories, they directly root from and are targeted at the athlete, and have the potential to be iterated and expanded over time. Their lifecycles are tightly managed, to ensure longevity and relevance. In addition, franchises are prioritized throughout the value chain, building on the company's strategic choices of Speed, Cities and Open Source. The adidas brand expects its top footwear franchises to represent at least 30% of the brand's footwear business by 2020. In 2019, this included, amongst others, the adidas UltraBoost 19, Continental 80, Predator, and Nite Jogger. On the apparel side, the brand continued to build out franchises on the success of the Tiro Pant, Z.N.E. Hoodie and, more recently, the MyShelter Jacket and VRCT Jacket.

WOMEN'S: A NEW DIMENSION TO DRIVE GROWTH

Winning the female consumer continues to be a key focus as it offers one of the largest business opportunities for the adidas brand, with the women's category leading the growth in the sportswear industry. In 2019, the adidas brand further invested resources in expanding a cross-functional women's organization and support infrastructure to set direction for creative, ranging, merchandising and marketing as well as to steer cross-category planning. When it comes to winning the female consumer, the brand has focused its initiatives across product, retail, and activation. Highlights from these initiatives include:

- **Product:** adidas has been investing in key product areas that are critical to winning the trust of the female consumer, including bras, tights and running footwear, as well as improving overall apparel fit for the female consumer. In 2019, the adidas brand introduced its first inclusive sizing collection that spans from sizes XXS-4X in partnership with Universal Standard. Additionally, adidas and Stella McCartney created a post-mastectomy sports bra designed to help women who have undergone surgery for breast cancer bring sport and fitness back into their lives. Two adidas by Stella McCartney proof-of-concepts were unveiled as the latest step in adidas' continued long-standing commitment to reducing the industry's environmental impact – a 100% recyclable hoodie and a tennis dress created with Microsilks and cellulose blended yarn.
- **Retail:** adidas has taken steps toward enhanced merchandising and storytelling across the brand, building off female consumer shopping insights, to enable a seamless shopping experience for her to mix and match product. The brand has also rolled out a bra fitting program in adidas own-retail stores across the globe, covering our key cities and important commercial trade zones, with continued investment planned. In this context, we are

training our retail staff to help customers to find the right product.

- **Activation:** One of the cornerstones of the adidas Women's approach continues to be the Creator Network: powered by sport, fueled by culture, and fostered by collaboration. The most notable addition to the Creator Network was the announcement of a landmark collaboration with Beyoncé as a brand ambassador and co-creator. Additionally, the brand expanded the Creator Network in 2019 by adding new athletes and influencers, including Mikaela Shiffrin, Jessamyn Stanley and Nadya Okamoto. The brand also continued the She Breaks Barriers initiative focused on removing barriers to sport for girls and elevating the conversation around equality in sport across genders.

MARKETING INVESTMENTS: MEAN MORE BY DOING LESS

adidas is focused on creating inspirational and innovative marketing concepts that drive consumer advocacy and build brand equity. While the brand historically spent almost half of its marketing investments on partnership assets, with the remainder on brand marketing activities such as digital, advertising, point-of-sale and grassroots activations, we will decrease the ratio of marketing investments spent on *promotion partnerships*. [SEE GLOSSARY](#) In addition, the brand will consolidate and focus resources to achieve a great focus and impact on the Creator and the brand's key franchises. This will be achieved by focusing on three priorities:

- **Reason to believe:** By harnessing the brand's creator positioning, the emotion of sport, and the power of sport to change lives, the adidas brand will communicate a reason to believe in the brand, letting the world know what distinguishes adidas from the competition.
- **Reason to buy:** The second priority is to harmonize and deliver globally consistent and impactful communication around the brand's key franchises that represent the best of adidas sport, style and innovation. By investing more

money against fewer items, the adidas brand will strive to elevate and maintain the iconic status of its key franchises, giving the consumer clear and compelling reasons to buy our product.

- **Sports communities:** This is where loyalty is built and earned. The adidas brand defines sports communities as those places where athletes are fully immersed in their sport with peers and friends. It's the football cage, the run base or the street court. Until 2020, the brand will therefore step up its grassroots and local activation efforts, led by initiatives in the world's most influential cities.

In terms of partnership assets, while reducing the ratio of marketing spend and the number of partnerships, the adidas brand will nonetheless continue to bring its products to the biggest stages in the world through:

- **Events with global reach:** such as the FIFA Women's World Cup, the Rugby World Cup, the UEFA Champions League, and the Boston and Berlin Marathons.
- **High-profile teams:** such as the national association football teams of Germany, Spain, Argentina, Mexico, Colombia, Belgium and Japan, as well as top clubs such as Manchester United, Real Madrid, Bayern Munich, Juventus, and Flamengo Rio de Janeiro in football, the New Zealand All Blacks in rugby, and American universities such as Miami, Arizona State and Texas A&M. In 2019, the brand celebrated its new partnership with one of the most globally recognized football clubs in the world: Arsenal Football Club.
- **High-profile individuals:** such as football stars Lionel Messi, Toni Kroos, Mohamed Salah, Paul Pogba, Paulo Dybala, Son Heung-min, Vivianne Miedema and Wendie Renard, basketball stars James Harden, Candace Parker, Damian Lillard, Liz Cambage and Donovan Mitchell, American football players Aaron Rodgers, Patrick Mahomes and JuJu Smith-Schuster, baseball athletes Aaron Judge and Carlos Correa, as well as tennis stars

Garbiñe Muguruza, Angelique Kerber, Stefanos Tsitsipas, Alexander Zverev and Dominic Thiem as well as alpine skier Mikaela Shiffrin.

In addition, the adidas brand also has a number of strategic partnerships and creative collaborations in place. The strategic partnership with Kanye West is the most significant one ever created between the adidas brand and a non-athlete, while the collaboration between adidas Originals and Pharrell Williams remains highly influential. Top designers and design studios the brand works with include Yohji Yamamoto, Stella McCartney, Raf Simons and Alexander Wang. In 2019, the adidas brand entered new partnerships with Beyoncé, Ninja, the International Space Station ISS and Prada.

SUSTAINABILITY

The adidas brand is committed to sustainability and aspires to create lasting change in our industry through eco-innovation, eco-activation, and by scaling its actions to end plastic waste.

SEE SUSTAINABILITY, P. 78

The brand's innovations aim to reduce the amount of virgin plastic added to the world and clean up the already existing plastic. As such, the adidas brand more than doubled the number of products made with recycled ocean plastic from seven million in 2018 to more than 14 million in 2019. The brand also created fully recyclable products such as the Futurecraft Loop performance footwear and the adidas by Stella McCartney Infinite Hoodie, in line with its ambition to move toward circular business models. SEE INNOVATION, P. 67

The adidas brand has a wide reach, and believes it is essential to drive eco-activation through its employees and with its consumers. The brand's global movement, Run For The Oceans, in its third year doubled in size, with around 2.2 million participants logging over twelve million kilometers for Parley Ocean Schools. In its direct-to-consumer business, the adidas brand installed dedicated spaces for sustainability, which are

best exemplified in its flagship stores and on adidas.com/ sustainability. In addition, the brand launched the Infinite Play program in the UK, to reward adidas Creators Club members for turning in their used adidas gear and helping give it a second life.

We continue to push our industry forward, both as a leader and alongside key partners who help us to become better. May it be as one of the founding signatories of the UN Fashion Industry Charter for Climate Action or through our open source partnerships with start-up incubators such as Fashion for Good and Station F. SEE INNOVATION, P. 67, SEE SUSTAINABILITY, P. 78

ROLE OF CATEGORIES

The adidas brand has assigned each category a role and ambition until 2020, allowing the brand to exploit short- and medium-term potential, while at the same time incubating long-term opportunities for the brand. There are three overarching roles: 'Lead', 'Grow', and 'Authenticate'.

Lead

To lead in the sporting goods industry, we believe it is a must to lead in the world's most popular sport, football. As such, the adidas brand aspires to be the number one football brand in every market by 2020. This will be driven by focusing on winning the football creator in key cities as well as investing in the brand's football footwear franchises. In 2019, the adidas brand implemented innovations across its football footwear business with the continued focus on the Predator, 'X', Nemeziz and Copa franchises. Endorsement by a globally renowned portfolio of player partners and further amplification via a wider portfolio of partners, such as the FIFA Women's World Cup, ensured global reach and exceptional engagement from creators, especially during key consumption periods. In addition, 2019 marked the launch of the Arsenal Football Club partnership. Reinterpreting the brand's shared history

for today's creator, the club represents a key partnership within the key city London approach.

- The adidas brand also strives for leadership in lifestyle in every market with Originals. Not only is adidas the original sports brand, it also was the first brand to bring sport to the street. Brand credibility and heritage is an important prerequisite to win the discerning streetwear hound consumer. These consumers are looking for substance and craft and are inspired by stories and design.
- The brand continued to actively manage the lifecycles of existing classic franchises such as Superstar and Stan Smith while also launching and incubating future icons like Ozweego and Supercourt to create a balanced portfolio with healthy sell-through rates and inventory levels across footwear and apparel. In 2019, the adidas brand continued to pioneer the future of fashion and streetwear culture by partnering with influential brands such as Beyoncé's Ivy Park, as well as Prada and Palace.

Grow

- The running category has been one of the adidas brand's biggest growth opportunities across all genders and price points. The brand's goal is to double sales in the category by 2020 compared to the 2015 financial year. The brand has introduced breakthrough innovations in materials such as BOOST, pioneered new manufacturing processes through Speedfactory, and significantly scaled up 3D printing together with its partner Carbon. To spur growth, amongst other things, adidas Running has significantly refined and evolved its franchise strategy for the male and female athlete across price points. The category will also continue to increase its investment in running communities and grassroots activations through the adidas Runners communities in over 100 cities around the world, as well as drive the future of sport through digital experience and the relaunch of the Runtastic app as the 'adidas Running by Runtastic' app. It will also keep playing a major part in sustainability through the Run For the Oceans activation and the commitment to recycled polyester programs together with Parley. In 2019, the brand launched Futurecraft Loop, the first fully recyclable running shoe that was made to be remade.
- The second category where the adidas brand is focused on driving significant market share gains is adidas Core. adidas Core targets a value-minded consumer, offering entry-price-point styles across all categories. To ensure success, the adidas Core formula employs a 'fast fashion' business model. This means quick reaction to emerging trends through shorter lead times and excellence in retail execution.
- The Training category is the adidas brand's largest performance category and is also the apparel engine of the brand. Led by cutting-edge innovation in fabrics and materials, the adidas brand aims to significantly increase its apparel footprint through Training, which provides products for general training purposes as well as for

specific sports, and through Athletics, which is geared to capturing the sports mindset of every athlete off the pitch. Given the high visibility of its products in all markets, this category plays a central role in amplifying the brand.

Authenticate

- In order to be the best sports brand in the world, the adidas brand also needs to be true to sports on a local level. As such, the brand will continue to cater to a wide range of sports such as golf, basketball, American football, baseball, rugby, tennis, volleyball, swimming and boxing. To maximize impact and resources, in key markets and cities, the adidas brand will prioritize those sports that are most significant in terms of local culture, participation and national pride.

REEBOK BRAND STRATEGY

MISSION: TO BE THE BEST FITNESS BRAND IN THE WORLD

Reebok is an American-inspired global brand with a deep fitness heritage and the mission to be the best fitness brand in the world. To realize this mission, Reebok has gone through a transformation from traditional sports to a focus on the sport of fitness. On this journey, Reebok continues to merge its iconic past with the new technologies that revolutionize both performance and lifestyle products. Reebok is positioned at the intersection of fitness and fashion, meeting the consumer where they are, as the consumer continues to blur boundaries. Reebok established a 'Sport' unit in 2018 that started its work in 2019. This Sport category combines product divisions focused on specialized fitness activities and functional innovation with a focus on style innovation for these products. These products are at the forefront of fitness and true to the culture and communities that Reebok consumers train, run, and live in. Reebok's second category, Classics, reinforces the brand's deep roots in fitness and pop culture across multiple iconic silhouettes and trend-right lifestyle products.

ONE VOICE, ONE BRAND TO THE CONSUMER

In the fourth quarter of 2019, Reebok unified its brand under one logo and wordmark across both Classics and Sport. The vector and drop-R wordmark each represent Reebok unmistakably, connecting Reebok's rich legacy to its exciting future. The brand exudes pride in its rich brand heritage and the vector logo, introduced nearly 30 years ago. The logo remains the most recognizable and beloved symbol of the Reebok brand and is linked to some of Reebok's most iconic products, marketing and cultural moments. This evolution allows the brand to connect fitness, fashion and pop culture in one powerful Reebok voice across all products.

CONSUMER OBSESSION: THE GAME CHANGERS

Reebok's consumer obsession focuses on being distinctive, relevant, and authentic with its focus consumers – the Game Changers. For the Game Changers, fitness is the vehicle they use to explore life's edges. The Game Changers don't shy away from the unexpected. They are constantly evolving and looking to try new things – across all facets of their world in fitness and in life. They are truly changing the game and seeking to broaden their horizons. Reebok inspires and equips them to do just that.

The female consumer is at the forefront of Reebok's consumer obsession. Rooted in Reebok's heritage, this female-centric approach is reflected in content strategy, product creation, marketing activation and distribution. In 2019 alone, Reebok introduced extended sizing in its apparel as well as its first maternity collection to connect with women.

PRODUCT FRANCHISES: LEVERAGING THE BRAND'S FITNESS DNA

Reebok recognizes the importance of building strong apparel and footwear franchises, establishing innovative but repeatable product lines that become annuities for the brand and essential items for the consumer. This is not only crucial for enhancing consumer perception and brand consideration, but for the efficiency of the Reebok brand.

In footwear, Reebok is further growing its iconic models that have authenticated their position in fitness and in their respective communities, such as the Nano in the CrossFit community and the Forever Floatride Energy in running. In 2019, the new Nano 9 was co-created with the CrossFit community. In the running category, Reebok won its fourth consecutive Runner's World award, 'Gear of the Year'. 2019 was also an exciting year for the Instapump Fury silhouette, as it celebrated its 25th anniversary with activations throughout the Asia-Pacific region and the release of the Fury

Boost, a collaboration with the adidas brand. In addition, Reebok leverages its unique fitness DNA through iconic styles such as the Classic Leather and the Club C.

In 2019, Reebok set out to integrate footwear and apparel, leveraging the brand DNA, blending fitness and lifestyle looks to create the new uniform of fitness for consumers. In addition to innovative performance products, such as the award-winning PureMove Bra and the LuxTight 2.0, Reebok expanded the offering, creating apparel to support consumers at all stages of their fitness journey.

Reebok also puts a strong emphasis on innovation. The brand is committed to maintaining a full and innovative product pipeline, bringing new technologies, styles and processes to life. In this context, 2019 saw the launch of Zig, one-of-its-kind footwear built with a distinct zig-zag-shaped midsole, which provides maximum energy return to the consumer. At the end of 2019, Reebok announced Forever Floatride Grow – the brand's first plant-based performance running shoe and latest example of sustainability innovation. The shoe is made with castor beans, algae, eucalyptus trees and natural rubber and thus builds on Reebok's Cotton + Corn lifestyle collection of footwear. [SEE INNOVATION, P. 67](#)

MARKETING INVESTMENTS: SPORT THE UNEXPECTED

In the industry, Reebok finds its strength in being a challenger brand. Reebok has always separated from the pack with bold product, personalities and moments. Through the new unified branding, Reebok can reach its consumer with a brand presence that is consistent across the products and the stories it tells. The Reebok brand is focused on connecting with the consumer in an authentic and unique way, creating inspirational marketing capabilities that build brand equity and consumer advocacy, while unleashing powerful brand messages. Reebok has always done things differently, and by combining the Digital and Marketing divisions in 2019, Reebok has been able to create award-winning breakthroughs.

- **Sport the Unexpected campaign:** Launched in 2019, Reebok's 'Sport the Unexpected' campaign is one of the most recognized marketing campaigns Reebok has executed in recent years. The campaign celebrates Reebok as a historically known challenger brand, one that has always done the unexpected. Reebok's short film 'Storm the Court' showed just how Reebok's truly unexpected and witty nature can connect to consumers by winning 15 awards from Clio, Hatch (including a 2019 Best in Show Hatch Award), and a Cannes Lion. The campaign also featured one of the most high-profile personalities in the rap industry – Cardi B. In the short film 'Nails', Reebok broke convention and put the star in an everyday-type situation that shifts in an unexpected manner, spotlighting the iconic Reebok Club C in a completely unique way.
- **Winning through digital:** In 2019, Reebok sharpened its focus on the storytelling and product experience by completely re-designing reebok.com to resonate better with consumers. The tighter integration of marketing and digital drove some unexpected consumer moments – such as being the first brand to drop a new sneaker on Amazon Alexa or launching Reebok Unlocked, a first-of-its-kind membership program on reebok.com. Reebok is focused

on continuing to optimize the digital customer experience, driving commercial results and delivering unexpected stories for the consumer.

- **Authentic and influential fitness and fashion assets:** To amplify the brand and increase its authentic connection with the Game Changer consumer, Reebok has partnered with some of the world's most influential validators in the lifestyle and fitness space: fashion partners such as fashion icon Victoria Beckham and up-and-coming designer Kerby Jean-Raymond of Pyer Moss, artists such as female rapper Cardi B., and rapper and songwriter Future, and athletes such as American football pro bowler J. J. Watt and UFC superstar Conor McGregor. Partnering with powerful women such as Gal Gadot, Gigi Hadid and Nathalie Emmanuel rounds out Reebok's strong roster of brand ambassadors. In addition, to validate its authenticity as the best fitness brand in the world, Reebok continues its partnerships with some of the fastest-growing and most innovative organizations in the fitness world, such as CrossFit, Les Mills, and Midnight Runners. Reebok continues to invest in the Boston Track Club, a professional running club with elite runners. Finally, continuing to build relationships with fitness instructors remains a crucial component of Reebok's goal of connecting with the global fitness community. With over 220,000 fitness instructors currently being part of its global network, Reebok has made major progress toward its goal to be the brand of choice for instructors around the world.

MUSCLE UP: REEBOK TRANSFORMATION STRENGTHENS BRAND FUNDAMENTALS

Reebok announced a turnaround plan called 'Muscle Up' in 2016 aimed at accelerating Reebok's top-line growth, particularly in North America, and improving the brand's overall profitability. With efficient and effective distribution being key to Reebok's future success in the all-important North American market, the company has significantly reduced its store base in the market. The company has closed nearly 50% of its own stores in the US market – both concept stores and factory outlets – since the introduction of Muscle Up. In addition, the brand has also streamlined its wholesale business, putting a clear focus on elevating brand equity and driving profitable growth.

In addition to progressing on the brand's turnaround efforts in its home market, Reebok continues to execute on several transformational Muscle Up projects to enhance the profitability of the brand. Initiatives span marketing effectiveness, organizational efficiency and measures to improve product margins. Consequently, Reebok returned to profitability in 2018. In 2019, new initiatives were launched to further accelerate the transformation. They include re-branding and driving clarity with Reebok's consumer on the brand's positioning, shortening go-to-market timelines, strengthening go-to-market readiness, and building new platforms to drive e-commerce growth. In 2020, there will be enhanced focus on reducing complexity, increasing sales efficiency, and digital creation.

Through Muscle Up, Reebok will continue to drive relentless execution and discipline, build organizational capabilities, and accelerate the pace of change in order to drive sustainable profitable growth by the end of 2020.

SALES AND DISTRIBUTION STRATEGY

TRANSFORMING THE MARKETPLACE

Our Global Sales function drives the commercial performance of the company by converting brand desire into profitable and sustainable business growth. It is our ambition to deliver the best shopping experience within the sporting goods industry across all consumer touchpoints. We strive to transform the marketplace by actively shaping and accelerating the growth of our profitable and integrated trade network. Our objective is to establish scalable business solutions in order to deliver premium experiences, thereby meeting and surpassing consumer expectations with an integrated brand offering.

DRIVING OPERATIONAL EXCELLENCE ACROSS OUR GLOBAL MARKETS

Our sales strategy is crafted by a centralized and integrated marketplace team which supports the flawless execution of our brand strategies and drives operational excellence across the globe. In this context, we continued to execute our strategic business plan, 'Creating the New', across our six global markets during 2019. In a changing global landscape, our diverse market portfolio is an important asset in maximizing the business, elevating our competitiveness and achieving our ambitions for 2020.

SEAMLESS CONSUMER JOURNEY ACROSS OUR CHANNELS

With more than 2,500 own-retail stores, more than 15,000 mono-branded franchise stores and more than 150,000 wholesale doors, we have an unrivaled network of consumer touchpoints within our industry. In addition, through our own e-commerce channel, our single biggest store available to consumers in over 40 countries, we are leveraging a consistent global framework. ▬

We are also seeing considerable success in leveraging our strong cross-functional partnerships with key wholesale partners, which is critical for ensuring a holistic consumer journey. By seamlessly integrating the channels within our market portfolio, we are uniquely positioned to pursue and succeed in strategies that deliver premium consumer experiences and increase the productivity of our distribution footprint. We replicate this model to capitalize on new consumer opportunities through own-retail destinations (own-retail stores and own e-commerce sites) as well as our wholesale partner doors (wholesale managed spaces online and brick & mortar). This is how we aim to create halo effects across all consumer touchpoints, resulting in further marketplace expansion.

In 2019, we advanced our sales strategy with several initiatives focused, amongst others, on premium consumer experiences, digital, marketplace transformation, cities and trade zones as well as productivity and efficiency of the sales platform.

Premium consumer experiences

We aim to be 'omni-present' along the consumer journey and strive to capture the full sales potential on the platforms available to our consumers. We also strive to minimize occasions when consumer demand is not met, by offering innovative solutions. Based on these objectives, we continue to focus on the following omni-channel initiatives:

- 'Inventory Check' allows online shoppers to view in-store product availability.
- 'Click & Collect' allows consumers to order online and purchase or reserve items for pick-up in a local store.
- 'Ship from Store' allows us to service consumers faster than before by turning our stores into mini distribution centers.
- 'Buy Online, Return to Store' not only provides consumers with a convenient way to return product purchases but also offers new buying opportunities.

- 'Partner Program' enables us to expand our online offering to a larger group of consumers by making it available to selected key wholesale partners.
- 'Endless Aisle' provides in-store visitors with access to our full range of products through our e-commerce platform.
- Our adidas app is an always-on connection to the adidas brand and offers premium shopping experiences.

Digital focus

In 2019, we continued our focus on and investments into digital partners. As part of our Partner Program initiative that was launched in 2016, we successfully onboarded partners across Europe, North America, Emerging Markets and Asia-Pacific, allowing us to deliver incremental sales growth and learnings that will be leveraged to evolve and further grow the program in the future.

In addition, 2019 saw a further expansion of the adidas app, currently reaching over 30 countries across all major markets, thereby becoming an important new consumer touchpoint in the adidas digital ecosystem. The app is directly linked to the adidas e-commerce store and provides consumers with personal conversations, the chance to buy our most exclusive products, a frictionless checkout, seamless order tracking as well as personalized content and access to our membership program – the *Creators Club*. ▬ [SEE GLOSSARY](#) The success of the app is significantly enhanced by continued investments in Customer Relationship Management (CRM), which will enable us to develop an even deeper consumer understanding and connection.

Furthermore, we drove forward development and roll-out of our B2B order platform Click to allow for impactful and efficient interaction with our wholesale customers. Click is now live in 41 countries. Latest feature additions include improved orderbook management, *Net Promoter Score (NPS)* ▬ [SEE GLOSSARY](#) measurement and digital customer service capabilities such as web chat to digitalize customer touchpoints.

Marketplace transformation

Our goal is to leverage and scale the success of our initiatives across our channels to better serve consumers. The key contributor to this approach is *controlled space*. [SEE GLOSSARY](#) Whenever we can actively manage the way our brands and products are presented at the point of sale, the impact on the consumer experience, and ultimately on our operational and financial performance, is significant. We have the power to do so in own retail (including e-commerce) and in wholesale (franchise stores, wholesale managed space online and brick & mortar). By 2020, we aim to generate more than 60% of our revenues through controlled space.

For us, own retail acts as a catalyst to our controlled space ambition. We amplify our success by translating key learnings from own retail to franchise stores and expanding franchising as a business model in existing as well as into new geographies. In 2019, we made significant investments in remodeling our stores and sharpening the top of the pyramid of our store fleet. By doing so, we have strengthened our own-retail presence in key cities and key trade zones. We extended our flagship fleet by opening flagship stores on Champs-Élysées in Paris and on London's Oxford Street, which is our most digital store with more than 100 digital touchpoints. We expect these flagships to set new standards in terms of product presentation, execution and service that will be replicated across all other channels. We expect e-commerce to continue to be the fastest-growing channel that we operate, with revenues targeted to grow to € 4 billion in 2020. In wholesale, we will continue to expand our footprint with a focus on prioritized key accounts, targeting important consumer hotspots and trade zones, especially those that are part of our Cities initiative. Strategic partnerships to operate controlled space remain an important thrust of this expansion. In that regard, we will continue to support our key wholesale partners, ensuring that we have premium space in their new flagship stores.

Cities and trade zones

In the last couple of years, we saw continued success in our key cities New York, Los Angeles, Paris, London, Shanghai and Tokyo. Our collective market share further improved year on year in our key cities during 2019. We are on track to achieve our target to double revenues in our key cities by 2020 compared to the 2015 level. We will continue to focus on trade zones within the cities, specifically on how we deploy product, retail and activation initiatives. Our intention is to create one holistic brand experience for our consumers within these key commercial areas across all shopping channels and platforms.

Productivity and efficiency of sales platform

We are committed to further driving productivity improvements across our sales platform through a multi-faceted approach:

- **Premium presentation:** Our physical selling spaces are an important factor in driving *Net Promoter Score (NPS)* [SEE GLOSSARY](#) and full-price sell-through. We further evolved the brand experience through the launch and expansion of premium store concepts such as *Stadium* [SEE GLOSSARY](#), *Originals the Collection* [SEE GLOSSARY](#) and *Neighbourhood* [SEE GLOSSARY](#) for the adidas brand as well as *FitHub* [SEE GLOSSARY](#) and *Vector Style* [SEE GLOSSARY](#) for the Reebok brand. Our own-retail concepts are designed for scalability. Consequently, we will continue to roll them out across our store base, which yields benefits across channels.
- **Consumer service excellence:** Our Sales Academy program continues to help us to transform the culture and effectiveness of our sales teams. As a result, consumers enjoy significantly elevated service levels which have proven commercially rewarding through higher *conversion rates* [SEE GLOSSARY](#) and net sales.
- **Personalized interaction:** Our commitment to deliver a premium shopping experience is reflected online through our digital brand flagship stores, adidas.com and reebok.com, as well as our adidas app. E-commerce and

digital communication are powerful tools for our brands to engage with consumers.

- **Insight-driven decision-making:** We continue to invest in our analytical capabilities and technical infrastructure to become faster and more insight-driven in decision-making. Leveraging data such as cross-channel product sell-through and consumer purchasing behaviors delivers actionable insights in areas such as assortment planning and product life cycle management.
- **Distribution channel mix:** Based on a thorough analysis of the profitability of our distribution channels in each of our markets, in 2019 we continued with our optimization program to shift focus and resources to our most profitable channels. By doing so, we have improved the distribution mix of our company and consequently increased our profitability.

We are confident that our sales strategy will help us realize significant improvements in brand desirability (as measured by our NPS), market share, net sales, and profitability.

[SEE INTERNAL MANAGEMENT SYSTEM, P. 92](#)

GLOBAL OPERATIONS

Global Operations manages the development, production planning, sourcing, and distribution of our company's products. The function strives to increase efficiency throughout the company's supply chain and ensures the highest standards in product quality, availability, and delivery. With the consumer in mind, we deliver competitively priced products in a sustainable manner, when and where they are wanted.

CLEARLY DEFINED PRIORITIES FOR GLOBAL OPERATIONS

Global Operations delivers upon our company's mission to be the best sports company in the world. First, the function creates the best products by establishing state-of-the-art infrastructure, processes, and systems that enable us to focus on innovative materials and manufacturing capabilities. Second, Global Operations is focused on delivering best services through innovative distribution capabilities by enabling product availability through the omni-channel approach to supply chain agility. Third, Global Operations strives to deliver the best experience to our customers and consumers in a sustainable way.

Best product: Global Operations is driving innovation in new materials, such as recycled polyester, Parley materials derived from ocean plastic, or PFC-free materials, as well as new product constructions, and new ways of manufacturing (e.g. 3D technology, or *direct-to-textile digital printing*) that deliver consumer value and enable competitive advantage. By investing in tools that more directly connect design and factory production, Global Operations is changing traditional models of development to deliver constant newness and increased speed-to-market capabilities. The function also plays a critical role in driving operational efficiency to support the company's growth ambition. To mitigate material and labor costs for the company, Global

Operations is continuously reducing complexity through process improvements and consolidation of legacy structures.

Best service: Global Operations strives to develop, produce, source, and distribute ordered articles on time and in full. Therefore, a non-financial KPI 'On-Time In-Full' (OTIF) measures on-time delivery of our products to wholesale and franchise customers as well as own-retail stores toward the desired customer date. **OTIF 2019** **79%** [SEE INTERNAL MANAGEMENT SYSTEM, P. 92](#) In 2019, adidas delivered 79% of its adidas and Reebok brand products on time and in full (2018: 78%), which is broadly in line with the overall target of 80%. In Greater China and Russia/CIS, OTIF levels reached again above 90% of our order quantities.

Best experience: Global Operations contributes to the adidas strategic business plan 'Creating the New' to accomplish our mission. The function strengthens brand desire by creating and providing the right product to consumers – in the right quality, size, color and style in the right place and at the right time, across the entire range of the company's channels and brands. Global Operations builds capabilities that further improve supply chain efficiencies, while mitigating costs, thereby ensuring a continuously sustainable and competitive supply chain.

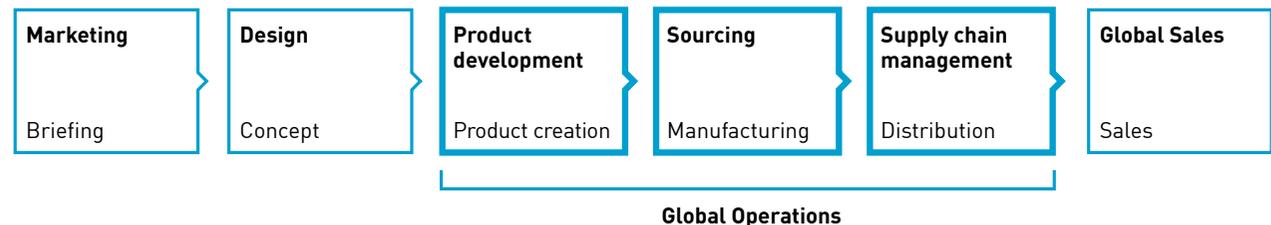
STRATEGIC COMPANY PRIORITY 'SPEED'

'Speed' is a strategic priority for the company. Our ambition is to be the first fast sports company in the sporting goods industry. We are consumer obsessed; thus, we want to respond quicker to consumer demand. We want to make our products available when and where they are wanted across our wholesale, retail, and e-commerce channels. Our aim is to always be on trend and always in stock. In 2019, we made further progress around our strategic priority with fast creation and fast replenishment, increasing the share of customer-defined short lead-time ranges, which allows fulfillment of an increasingly large share of quarterly business.

Fast creation: We are moving away from predominantly developing products in advance of seasonal merchandising calendars and are getting closer to responding quickly to consumer demands with in-season development and rapid replenishment manufacturing. We aim to ensure creation timelines of eight months or less. Bringing products to market faster allows our customers and direct-to-consumer channel to place orders closer to the actual time of sale, facilitating buying decisions that are based on better market knowledge.

Fast replenishment: To increase 'Speed' also on production timelines, in 2019 Global Operations continued to expand its

Global Operations in go-to-market process



efforts to enable later ordering and further reduced production lead times. The function succeeded in providing 60 days or less production lead times for the vast majority of our footwear, apparel and hardware products. In addition to shortening our overall production lead times, Global Operations has scaled its fast replenishment capabilities of best-selling articles and established 30-day production lead times for 20% of all articles across our product categories. Through this, we are enabling our brands to ensure constant freshness in store for our consumers, resulting in higher-quality sales and more productive inventory. [SEE CORPORATE STRATEGY, P. 50](#)

Speedfactory: Together with Oechsler AG, adidas had opened two *Speedfactories* [SEE GLOSSARY](#) in 2017 to test new processes for faster production of athletic footwear and to develop new manufacturing technologies with the ultimate goal to transfer them to the company's global supply chain. In the future, adidas will focus its resources and capacities even more on the modernization of its other suppliers and the use of 3D technology in footwear production. Production at the two Speedfactories in Ansbach, Germany, and Atlanta, USA, will be discontinued by April 2020. However, the Speedfactory technology will be deployed at Asian suppliers going forward. This will enable adidas to continue to respond to short-term trends in demand while using production capacities more flexibly and economically, and expanding the range of products with short production times faster. The company will continue to develop, improve and test manufacturing processes in the 'adiLab' at the adidas production site in Scheinfeld, Germany. [SEE CORPORATE STRATEGY, P. 50](#), [SEE INNOVATION, P. 67](#)

DIGITALIZING THE END-TO-END CREATION-TO-SHELF VALUE CHAIN

In recent years Global Operations has focused on digitalizing the product creation process, leveraging digital capabilities and technologies across design and development teams. In 2019, we further expanded these efforts toward digitalizing the end-to-end creation-to-shelf value chain. Within a defined scope, the first two seasons of footwear and apparel products have been digitally designed, developed, sourced and sold into key accounts. End-to-end digital creation is a key strategic initiative of the digital pillar of our 'Creating the New' Acceleration Plan.

We aim to scale up our new way of working with one of our business units by the end of 2020. With digitally created products we support a more efficient creation process internally enabling a 'right first-time' approach. Externally, digital products will become more prominent in the interaction and communication with our partners, allowing us to make faster product iterations and take better decisions earlier in the process. This new way of working will enable a faster time-to-market and create a holistic and immersive digital sell-in experience for our key customers. Our ambition is to continue building the digital infrastructure for the future, gradually rolling out the new capabilities, broadening the involved supply base and working closer with our key customers during the product creation process.

FUTURE OF MATERIAL SOURCING

Global Operations constantly looks for the next generation of materials by focusing, amongst others, on knitted footwear, direct-to-textile digital printing, and sustainable materials. Building on our partnership with *Parley for the Oceans* [SEE GLOSSARY](#), in 2019, we continued to roll out *Parley Ocean Plastic* [SEE GLOSSARY](#) across our key categories. The demand for Parley Ocean Plastic and other sustainable materials continues to increase. Therefore, our dedicated sourcing

operation working together with Parley for the Oceans ensures a steady and transparent supply chain. In 2019, we added the Philippines to the group of countries where we source ocean plastic to produce yarns. We also continued to expand sourcing from Small Island Developing States by onboarding the Dominican Republic. [SEE SUSTAINABILITY, P. 78](#)

AUTOMATION TO IMPROVE PRODUCTION EFFICIENCY

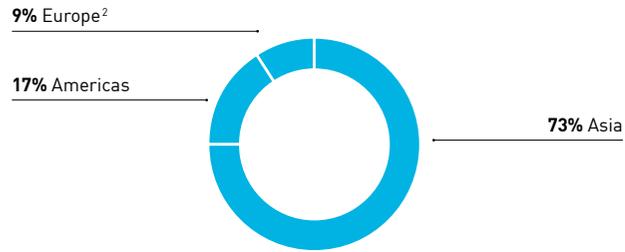
Driving the level of automation in our supply chain remains of overriding importance for Global Operations. In this context, automation technologies such as auto cutting, computerized stitching, robotic adhesive spray system, and auto-packing solutions are important focus areas, as they allow us to reduce our dependency on manual labor while ensuring consistent and highest quality standards. To further improve our production efficiency in all categories, we will continue to increase the level of automation in our supply chain in the years to come.

MAJORITY OF PRODUCTION THROUGH INDEPENDENT MANUFACTURING PARTNERS

▣ To keep our production costs competitive, we outsource almost 100% of production to *independent manufacturing partners*. [SEE GLOSSARY](#) In 2019, we worked with 138 independent manufacturing partners (2018: 130) that were producing in 336 manufacturing facilities (2018: 289).

The majority (73%) of our independent manufacturing partners are located in Asia (2018: 71%). [SEE DIAGRAM 25](#) While we provide our manufacturing partners with detailed specifications for production and delivery, they possess excellent expertise in cost-efficient, high-volume production of footwear, apparel, and *hardware*. [SEE GLOSSARY](#)

Independent manufacturing partners by region¹ 25



¹ Figures include independent manufacturing partners of the adidas and Reebok brands, but exclude local sourcing partners, sourcing agents, subcontractors, second-tier suppliers and licensee factories.

² Includes Middle East and Africa.

Key strategic partner relationships 26

	Total	Footwear	Apparel	Hardware
Number of key strategic partners	45	11	22	12
Average years as key strategic partner	17.0	16.8	16.2	18.6
Share of all production volume	90%	92%	88%	93%
Share of all production value	89%	90%	88%	93%
Strategic relationships < 10 years	16%	27%	14%	8%
Strategic relationships 10 – 20 years	49%	36%	59%	42%
Strategic relationships > 20 years	36%	36%	27%	50%

In 2019, 45 of the 138 independent manufacturing partners (2018: 26 of 130) were considered key strategic partners, producing the majority of our products in 156 manufacturing facilities worldwide (2018: 82). This increase was due to the addition of new apparel suppliers in order to create more capacity and better meet the demand for 2019. We value long-term relationships: 85% (2018: 84%) of our key strategic partners have worked with adidas for more than ten years and 36% (2018: 42%) have a tenure of more than 20 years. [SEE TABLE 26](#)

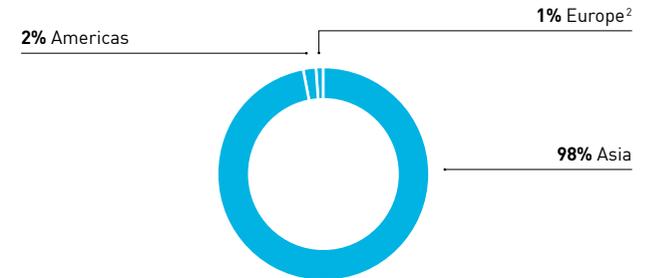
Key strategic partner relationships > 20 years
36%

All our suppliers are subject to specific performance criteria which are regularly measured and reviewed by Global Operations. To ensure the high quality that consumers expect from our products, we enforce strict control and inspection procedures of our manufacturing partners and in our own factories. Effectiveness of product-related standards is constantly measured through quality and material claim procedures. In addition, we track social and environmental performance criteria of our suppliers through the C- and E-KPI tracking system. Adherence to social and environmental standards is promoted throughout our supply chain. [SEE SUSTAINABILITY, P. 78](#) The current supplier lists can be found on our website. [ADIDAS-GROUP.COM/SUSTAINABILITY/S/SUPPLY-CHAIN-APPROACH](https://www.adidas-group.com/sustainability/s/supply-chain-approach)

VIETNAM REMAINS LARGEST FOOTWEAR SOURCING COUNTRY

98% of our total 2019 footwear volume was produced in Asia (2018: 97%). [SEE DIAGRAM 27](#) Vietnam represents our largest sourcing country with 43% of the total volume (2018: 42%), followed by Indonesia with 28% (2018: 28%) and China with 16% (2018: 18%). In 2019, our footwear manufacturing partners produced approximately 448 million pairs of shoes (2018: 409 million pairs). [SEE DIAGRAM 28](#) Our largest footwear factory located in Vietnam produced approximately 8% of the footwear sourcing volume (2018: 11%).

Footwear production by region¹ 27



¹ Figures include the adidas and Reebok brands.

² Includes Middle East and Africa.

Footwear production¹ in million pairs 28

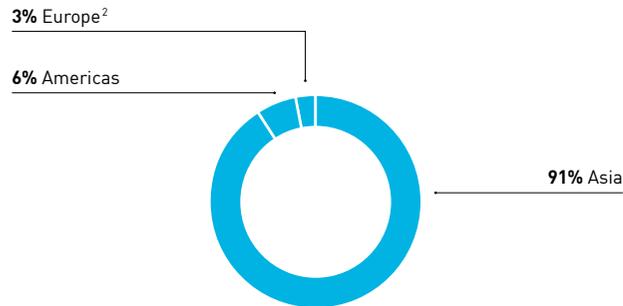


¹ Figures include the adidas and Reebok brands.

CAMBODIA REMAINS LARGEST SOURCE COUNTRY FOR APPAREL

In 2019, we sourced 91% of the total apparel volume from Asia (2018: 91%). [SEE DIAGRAM 29](#) Cambodia is the largest sourcing country, representing 23% of the produced volume (2018: 24%), followed by China with 19% (2018: 19%) and Vietnam with 19% (2018: 18%). In total, our manufacturing partners produced approximately 528 million units of apparel in 2019 (2018: 457 million units). [SEE DIAGRAM 30](#) The largest apparel factory, which is located in China, produced approximately 9% of this apparel volume (2018: 9%).

Apparel production by region¹ 29



¹ Figures include the adidas and Reebok brands.
² Includes Middle East and Africa.

Apparel production¹ in million units 30

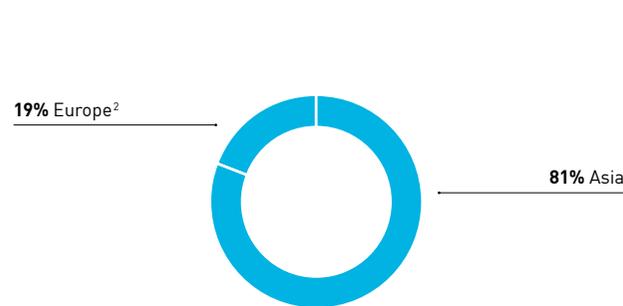


¹ Figures include the adidas and Reebok brands.

CHINA REMAINS MAIN SOURCE OF HARDWARE PRODUCTS

In 2019, 81% of our hardware products, such as balls and bags, were produced in Asia (2018: 79%). [SEE DIAGRAM 31](#) China remained our largest sourcing country, accounting for 37% of the sourced volume (2018: 38%), followed by Pakistan with 22% and Turkey with 18% (2018: 18% each). The total hardware sourcing volume was approximately 127 million units (2018: 113 million units), with the largest factory accounting for 16% of production (2018: 18%) located in Turkey. [SEE DIAGRAM 32](#)

Hardware production by region¹ 31



¹ Figures include the adidas and Reebok brands.
² Includes Middle East and Africa.

Hardware production¹ in million units 32



¹ Figures include the adidas and Reebok brands.

OPTIMIZING DISTRIBUTION CENTER NETWORK AND SUPPLY CHAIN ORGANIZATION

By creating a higher specialization of our distribution center landscape focused on the specifics of our products across the various channels, Global Operations ensures higher flexibility at each consumer touchpoint. This, in turn, enables a broader range of products to be available at the point of sale, including online orders for pick-up in our own-retail stores. [SEE SALES AND DISTRIBUTION STRATEGY, P. 61](#)

In 2019, Global Operations focused on further optimizing its distribution center network, while at the same time preparing it for future consumer demand. In this context, we mainly focused on our distribution centers in the US. We built a new distribution center in Pennsylvania, and expanded our existing West Coast third-party facility, aimed at supporting our future growth expectations for North America, in particular around the company's e-commerce and own-retail businesses. Our new distribution center in Suzhou and the extension of our distribution center in Rieste have been successfully integrated. Our newly added e-commerce facility in the UK has been created to improve our consumer experience there and prepare us for Brexit scenarios.

In addition, in our continuous effort to operate a best-in-class supply chain that is responsive to the consumer needs of today and tomorrow, we consolidated and centralized our planning and trading teams in one location to ensure the highest level of alignment and operational efficiency.

INNOVATION

Creating innovative concepts to meet the needs of athletes and consumers is a prerequisite to strengthening our market position in the sporting goods industry and a premise to being the best sports company in the world. We therefore remain highly committed to maintaining a full and innovative concept pipeline, bringing new groundbreaking technologies and processes to life, investing into sustainable enablers and exploring the possibilities of digitalization across our entire value chain. True to the vision of creative collaboration, our innovation approach is widely based on our Open Source mindset.

MEETING THE NEEDS AND EXPECTATIONS OF OUR CONSUMER

The modern innovation landscape extends beyond product and increasingly requires innovation teams to consider the development of experiences and services, as well as the provision of greater levels of transparency and direct integration of our consumer through co-creation.

In partnership with our trend and cultural insights teams, foresight and trend analysis are shared on an ongoing basis, documenting shifts in society and culture. This provides the starting point to build concepts of relevance.

The FUTURE team at adidas is tasked to develop a strong portfolio of innovation capabilities such as new materials, production processes and consumer-centric scientific research to provide a platform for meaningful concept development. Projects are incubated within the company and aligned to the broader sourcing, marketing, creative and strategic functions across the organization, ensuring a robust and impactful innovation pipeline.

INNOVATION APPROACH BASED ON OPEN SOURCE MINDSET

Our approach to innovation reflects our commitment to the Open Source mindset, where we seek to build value together with athletes and consumers, universities and innovative companies as well as national and international governments and research organizations. In addition to opening up our doors to valuable feedback, we also get inspired by the input from knowledgeable partners:

- **BASF:** Together with BASF, we manage and enhance BOOST, a cushioning technology designed to deliver maximum energy return, responsiveness and comfort to athletes.
- **Carbon:** Together with Carbon, a Silicon Valley-based tech company, we are revolutionizing product creation through hardware, software and molecular science, and have enabled mass production of additively manufactured components, coming to life with adidas 4D.
- **Fashion for Good:** Together with Fashion for Good, a global cross-brand initiative to make all fashion sustainable, we are accelerating sustainable innovation in the apparel industry through, among other things, mentorship of and collaboration with circular start-ups.
- **Oechsler:** Together with Oechsler, an expert in high-tech automated manufacturing of technical components and assemblies, we operated our Speedfactories in Ansbach, Germany, and Atlanta, USA. However, in 2019 we decided to deploy the Speedfactory technology at Asian suppliers. Our collaboration with Oechsler will continue in other manufacturing areas.
- **Parley for the Oceans:** Together with Parley for the Oceans, we are developing products partially created from upcycled plastic waste, intercepted before it reaches the ocean from beaches and coastal communities.
- **Platform A at Station F:** In January 2019, we launched our global sports accelerator program Platform A. Station F is the biggest start-up campus in the world, based in our key city Paris, France. The accelerator aims to use the

innovative power of the global start-up scene to create the best digital innovations in sport. The first generation of start-ups started the program in January and presented their digital pilots in September 2019. In the meantime, adidas onboarded a second generation that will develop new concepts and identify opportunities in the areas of women empowerment, sustainability, retail and e-commerce.

FIVE PILLARS OF INNOVATION

Within our innovation principles, we identified five strategic pillars which enable us to develop the best products and experiences for athletes and consumers, while at the same time drive game-changing innovations in the fields of manufacturing, digital and sustainability.

Athlete innovation

Our clear focus is to produce the best and most innovative products for athletes to enable them to perform at their very best. To achieve this, we work closely together with athletes and teams as well as numerous universities and innovative companies, to deliver against the needs of our target consumer.

Manufacturing innovation

To simplify manufacturing, enable product innovation and increase speed-to-market capabilities, the company's innovation activities are also focused on new manufacturing technologies. Our goal is to combine state-of-the-art information technology with new manufacturing processes and innovative products. For this reason, we commit ourselves to long-term cooperation with innovative companies and organizations to take a leading role in manufacturing innovation.

Digital and experience innovation

The adidas brand was amongst the first in the industry to comprehensively bring data analytics to the athlete. With

decades of continuous investment in sports science, sensor technology and digital communication platforms, adidas has already taken a leading role in terms of changing the sporting goods industry through technology. With the increasing speed of digitalization, this field will remain one of our core areas.

Sustainability innovation

Our commitment to manage our business in a responsible way has long been one of the company's principles. To stay at the forefront of sustainable innovation, adidas is pursuing a proactive approach to establish internationally recognized best practices and achieve scalable improvements. As part of our sustainability roadmap, we have set ourselves the target for 2020 to invest in materials, processes and innovative machinery which will allow us to upcycle materials into products and reduce waste. In 2019, we further focused on taking responsibility for the entire product life cycle and established a clear game plan for moving toward a circular business model. [SEE SUSTAINABILITY, P. 78](#)

Female athlete innovation

Our long-term commitment to the female athlete continues to be a focus for the company. To fuel the growth of our women's business, we have taken a holistic approach to understanding the female athlete's performance and non-performance needs throughout her active life. We therefore look at this target group as an integrated part of our business but from a separate and unique angle. With a focus on the female consumer, it is crucial to fully understand the specific product needs of the female athlete to help unlock her full potential. To enable this, we are working to establish a robust network of industry leaders and academic experts with our 'Path to Expert' approach, which will help to accelerate the building of insights and foresights that keep us at the forefront of product innovation.

COMMERCIALIZATION OF INNOVATIONS

We believe developing industry-leading technologies and consumer experiences is only one aspect of being an innovation leader. Equally important is the successful commercialization of those innovative concepts:

- **Parley Ocean Plastic:** Products made of *Parley Ocean Plastic* [SEE GLOSSARY](#) focus both on the needs of our athletes, by living up to their performance promise, and on the needs of the world, by helping to protect our oceans from marine plastic pollution. We have taken sustainability to the product level and continue to roll it out across our product portfolio. In 2019, we made more than eleven million pairs of shoes containing Parley Ocean Plastic, across various footwear franchises in both Sport Performance and Sport Inspired. In addition, nearly three million pieces of our 2019 apparel offering featured Parley Ocean Plastic, including jerseys for high-profile teams such as Real Madrid, Bayern Munich, Juventus Turin and Manchester United.
- **Futurecraft Loop:** Futurecraft Loop is our first 100% recyclable performance shoe made entirely from one material (TPU), using no glue or solvent. The first generation of the shoe was rolled out in April 2019 as part of a global beta program with consumers from across the world's major cities. They were asked to test and return the shoes to start the recycling process. In November 2019, we introduced the second generation of Futurecraft Loop. We will take the learnings from the recycling process to further develop the concept and to prepare for the commercial release in 2021. Futurecraft Loop was recognized by Time Magazine as one of the 'Best Inventions 2019'.
- **adidas 4D:** The high-performance footwear produced under the adidas 4D concept features midsoles crafted with light and oxygen using Digital Light Synthesis, a unique technology developed by Carbon. The midsole pioneers a digital footwear component creation process that eliminates the necessity of traditional prototyping or molding. With the new technology, adidas brings additive manufacturing

in the sports industry into a new dimension. After having produced more than 100,000 pairs of this high-performance footwear in 2018, we continued to increase volumes in 2019 and intend to further expand production in the future. In the past two years, adidas 4D has gone from a conceptual innovation to a running shoe that has been made available in larger quantities and multiple variations.

- **Creators Club:** This new digitally enabled membership program rewards loyal consumers with invitations to exclusive events and access to limited-edition products. In addition, it enhances the e-commerce shopping experience for members through an even faster checkout process and new order-tracking options. The program allows us to deepen the relationship with our consumers and to gain valuable insights into their expectations and needs. *Creators Club* [SEE GLOSSARY](#) launched in the US toward the end of 2018, and is now live in France, Germany, Japan, the UK and Singapore.
- **adidas by Stella McCartney Infinite Hoodie and Biofabric Tennis Dress:** With the adidas by Stella McCartney Infinite Hoodie, we presented the first commercially produced 100% recyclable performance garment made of 60% NuCycl lyocell and 40% organic cotton, which are completely recyclable fabrics. We have also already taken the first steps toward exploring solutions to create products that are made with nature, and can, at some point, also return to nature. The adidas by Stella McCartney Biofabric Tennis Dress is a prototype concept made with a cellulose blended yarn and certified Microsilks, a protein-based yarn that is made of completely renewable inputs, which has the ability to fully biodegrade at the end of its life. [SEE SUSTAINABILITY, P. 78](#), [SEE ADIDAS BRAND STRATEGY, P. 55](#)
- **Forever Floatride Grow:** At the end of 2019, Reebok announced Forever Floatride Grow – the brand's first plant-based performance running shoe and latest example of sustainability innovation. The shoe is made with castor beans, algae, eucalyptus trees and natural rubber and

thus builds on Reebok's successful Cotton + Corn lifestyle collection of footwear.

- **Infinite Play:** Building on learnings from take-back pilots in Brazil, Canada, and some of our key cities in Europe and the US, adidas is exploring infrastructure for product bring-back and recycling, with partners, governments and regulatory bodies. 2019 saw the launch of 'Infinite Play' in the UK to extend the useful life of products by passing them on to new users, thus avoiding waste. The initiative engages consumers in returning used items by rewarding them with gift cards and Creators Club points.
- **AM4 Series:** The 'adidas made for' (AM4) products were created at the adidas Speedfactory facilities in Ansbach and Atlanta. In 2019, we continued to deliver launches jointly with creators supporting moments that matter for our consumers, e.g. limited editions around the Marvel universe and for Bayern Munich. The concept was included into the adidas offerings to Footlocker and exclusive launches with our Creators Club. Going forward, Speedfactory technologies will be used at two of our suppliers in Asia that will allow for more variations of Speedfactory footwear models in the future.

NEW PRODUCT LAUNCHES GENERATE THE MAJORITY OF SALES

As in prior years, the majority of sales were generated with products newly introduced in the course of 2019. New products tend to have a higher gross margin compared to products which have been in the market for more than one season.

In 2019, brand adidas and Reebok sales were again driven by the latest product offerings. At brand adidas, products launched during the course of the year accounted for 77% of brand sales (2018: 74%), while only 3% of sales were generated with products introduced three or more years ago (2018: 3%). At Reebok, 67% of footwear sales were generated by products launched in 2019 (2018: 67%), while 11% of footwear product sales relate to products introduced three or more years ago (2018: 11%).

R&D EXPENSES DECREASE 1%

Expenses for research and development (R&D) include expenses for personnel and administration, but exclude other costs, for example costs associated with the design aspect of the product creation process or the majority of costs related to company-wide Open Source initiatives. In 2019, as in prior years, all R&D costs were expensed as incurred. The company's R&D expenses decreased 1% to € 152 million from € 153 million in the prior year.

R&D expenses
€ **152**_m

In 2019, R&D expenses as a percentage of sales equated to 0.6% (2018: 0.7%). The number of people employed in R&D activities at December 31, 2019, was 1,007 (2018: 1,041). [SEE TABLE 33](#)

Key R&D metrics^{1,2}

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	2019	2018	2017	2016	2015
R&D expenses (€ in millions)	152	153	187	149	139
R&D expenses (in % of net sales)	0.6	0.7	0.9	0.8	0.8
R&D employees	1,007	1,041	1,062	1,021	993

¹ 2019, 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.

² 2015 figures reflect continuing operations as a result of the divestiture of the Rockport business.

PEOPLE AND CULTURE

At adidas, we believe that our people are the key to the company’s success. Their performance, well-being and knowledge have a significant impact on brand desire, consumer satisfaction and, ultimately, our financial performance. Through the delivery of our People Strategy, we focus our efforts on four fundamentals: the attraction and retention of the right talents, role model leadership, diversity and inclusion, as well as the creation of a unique corporate culture.

PEOPLE STRATEGY ENABLES A CULTURE FOR DELIVERING ‘CREATING THE NEW’

As an integral part of our corporate strategy ‘Creating the New’, the People Strategy is a testament to thinking that our strategic business plan can only be executed if we speak to our people on all levels and win both their hearts and minds. The People Strategy consists of four pillars that serve as a

basis for creating the culture and environment for our people in order to successfully support ‘Creating the New’. **DIAGRAM 34** These four pillars also serve as a tool for prioritization, sense-checking and measuring our HR actions and initiatives. The People Strategy is implemented through a portfolio of projects which will directly deliver into each of the four pillars. In 2019, we made good progress in all of these pillars.

ATTRACTION AND RETENTION OF TALENTS

Our ‘employer of choice’ status continues to garner worldwide recognition and helps us to attract, retain and engage industry-leading talent to sustain the company’s success and growth. In 2019, adidas locations around the world leveraged our employer value proposition for attraction, retention and engagement strategies. Amongst professionals, this work contributed to several top rankings worldwide, including the Glassdoor ‘Best places to work’ awarded for 2019, the LinkedIn ‘Top companies to work for’ as well as

various Universum ‘World’s most attractive employers’ rankings among business and IT students worldwide. adidas offices across Europe, Asia and the Emerging Markets qualified for the certification by Top Employer Institute for their efforts to provide an exceptional work environment for our people. Among others, the certification recognized the company’s Learning and Development framework, which encourages different kinds of learning and the career management model.

We offer a range of programs at entry level to ensure future employees can have the best possible start, choose between a wide variety of learning opportunities, build on their strengths and improve their professional skills:

- **Apprenticeship and Dual Study Program:** The adidas Apprenticeship Program offers young pupils who want to join our company directly out of school the opportunity to gain business experience in a two- to three-year rotation program. It includes vocational training in retail, shoe technology, IT or other areas. In cooperation with various universities, the Dual Study Program for young school graduates offers theoretical and practical experience at adidas in fields such as digital commerce, finance or IT including at least one three- to six-month international rotation. At the end of 2019, we employed 50 apprentices in Germany (2018: 55) and 49 Dual Study Program students (2018: 45).
- **Global Trainee Program:** The Functional, Digital and Design Trainee Program is an 18- to 24-month program providing graduates with an international background and excellent educational credentials the opportunity to start a functional career within adidas. The program comprises assignments in various functional and cross-functional departments. At least one of these assignments takes place abroad. At year-end 2019, we employed 67 participants in our Global Trainee Program (2018: 61).

The four pillars of our People Strategy



- **Internships:** Our global internship program offers students three to six months of work experience within adidas. In line with our ambition to optimize the experience for interns, we enhanced the overall recruiting process and added interactive collaborative exercises such as hackathons to the program in order to further enrich the cross-company experience. Consequently, we offered fewer but more focused internships in 2019, employing 216 interns in Germany (2018: 447). ▽

ROLE MODEL LEADERSHIP

▣ The quality of current and future talent and leadership is key to our success. We want to inspire and nurture role model leadership. With specifically designed talent management tools, we identify talents at all levels of our company who have the potential to become future leaders or key players within the organization. In order to prepare them for more complex future roles, they have tailored individual development plans and participate in targeted development programs. In 2019, we made further progress with this People Strategy pillar.

Leadership and development groups

We now have four active groups of selected leaders and talents within the company:

- The **Core Leadership Group** (CLG) is the most senior group, made up of around 20 members from our senior leadership population. Members of this group jointly represent critical positions and roles across our company worldwide. This group partners with the Executive Board in leading the execution of the 'Creating the New' strategy, accelerating its delivery across functions, as well as developing and inspiring the next generation of leaders. The CLG also serves as the succession pool for the Executive Board.
- The **Extended Leadership Group** (ELG) has around 120 members. The ELG collaborates across markets and functions to lead the execution of the strategic initiatives that form the 'Creating the New' portfolio and drives

continuous improvement and consistency across the organization. The ELG also mentors and sponsors the Global High Potential Group and serves as a succession pool for the CLG.

- The **Global High Potential Group** (GHIPO) is composed of around 50 members and was formed in 2018 with a balanced gender split. It enables us to identify and develop high potentials who have the ability to take on more complex, demanding and higher-level responsibilities at a global senior management level. In 2019, the first GHIPO generation finished their 18-month development experience, with nearly three quarters having made positive career movements through either a promotion to the next level (more than 50%) or through lateral, cross-cultural or cross-functional moves. In 2019, we also launched the second generation of GHIPO with around 40 members and a balanced gender split, and have seen more than 40% already moving into new roles at the end of the year.
- The **Local High Potential Group** (LHIPO) was formed in 2019 and enables us to identify and develop high potentials who have the ability to take on more complex, demanding and higher-level responsibilities at a local senior management level in our regions. The program is designed to build peer relationships and to give participants cross-functional and cross-cultural exposure, amongst others through immersion in a different country and function. The diverse group consists of around 130 leaders of 32 different nationalities with an almost balanced gender split.

Together with the Executive Board, we hold two physical-presence CLG and ELG events per year to ensure these groups interact and align on the execution of 'Creating the New' as well as our People Strategy. The GHIPO group meets up to three times per year for an on-site learning experience in our key markets and the LHIPO group meets regionally once per year. Throughout the year, all groups remain in touch via

virtual experiences, meetings, calls and cross-cultural immersions. ▣ [SEE CORPORATE STRATEGY, P. 50](#)

Leadership Framework and leadership development experiences

To drive clarity and accountability, leaders at adidas were engaged to further activate our global *Leadership Framework* ▣ [SEE GLOSSARY](#) in 2019. The Leadership Framework is based on the three company behaviors creativity, collaboration and confidence (the '3Cs' ▣ [SEE GLOSSARY](#)) and articulates the particular behaviors that are expected of leaders at adidas. The framework was developed jointly with employees worldwide who provided feedback on what great leadership within adidas looks like to them. It provides a global and universal language that is inclusive, reduces the need for local interpretations, and outlines concrete behaviors that serve as a measure of leadership effectiveness. It is built into the way we hire and promote as well as rate performance. The framework was first activated and cascaded to employees globally through the CLG and ELG groups.

We offer a portfolio of leadership development programs for corporate office employees for various grades and levels:

- **Executive Development Experience:** We are partnering with Harvard Business School in delivering a tailored learning experience for our most senior population. In 2019, the CLG and ELG attended the in-residence Executive Development Experience at Harvard Business School.
- **Director Development Experience (DDE):** In 2019, we introduced the Director Development Experience which is based on the Leadership Framework at its core and allows a customizable learning experience for our middle management level employees. DDE is currently offered in 16 of our locations and we will continue to expand the offer. Since its launch, almost all places offered were taken up.
- **Manager Development Experience (MDE):** The Manager Development Experience supports the leadership skills and abilities of our lower management level employees. Just

like the DDE, MDE is designed to provide a customizable learning experience that uses the Leadership Framework as its foundation and drives the development of personal and team mastery. We currently offer MDE at almost 40 locations worldwide and also recorded for this program that almost all offered places were taken up.

- **Talent Carousel:** Our internal career development program Talent Carousel has entered its fifth and final year, with the third generation graduating in 2019. The program encouraged employees from all over the world to apply to take a cross-functional and international career step by starting a new role in a new location. The learnings from Talent Carousel helped design and launch LHIPO and now enable us to scale the experience toward a larger audience.

Succession management

Our succession management approach aims to ensure stability and certainty in business continuity through the development of strong internal pipelines for our critical leadership positions. We achieve this through a globally consistent succession process that identifies these important leadership positions within the organization, and matches identified top talent as successors for these roles. Furthermore, we ensure that succession planning translates into realizable development plans to prepare successors for their next steps. The leadership groups we have established serve as succession pools for the highest levels of our organization. ▀

DIVERSITY AND INCLUSION

▣ We believe it is crucial for the success of our company to have a diverse workforce comprised of individuals with different ideas, strengths, interests and backgrounds. We see a great benefit in the diversity of our employees, as this helps us to better fulfill the wishes and multi-faceted demands of our consumers around the world and provides a higher-performing workplace. We strive to create an environment where all our employees are heard and appreciated – regardless of gender, nationality, ethnic origin, religion, world view, different abilities, age, sexual orientation or identity.

As part of our global diversity approach, we proactively pursue a portfolio of internal and external activities that welcome diversity and champion inclusion. Throughout the company we continue to support and grow our Employee Resource Groups (ERG) – these are specific networks that give employees from various walks of life a voice, including networks for women, LGBTQ+, experienced generations, and North American people of color. Our global women's network in Germany counts almost 900 active participants, supported by 14 mentoring circles to foster the professional development of junior colleagues. In North America, we doubled the number of ERGs to ensure they represent the diversity of our employees and our consumer base. In 2019, we focused on education about different cultures and heritages by, among others, celebrating Black History Month, Lunar New Year, International Women's Day, Pride, Hispanic Heritage Month and Diwali internally across North America. In Europe, we activated on key moments in our main offices to raise awareness on the topics of female leadership, the LGBTQ+ community, and mental health. Globally, we aimed to ensure that our leadership development programs are a fair representation of employees in terms of gender, race, and nations.

To inspire action outside of our company, we are active members in both 'Charta der Vielfalt' ('Diversity Charter') and the Diversity and Inclusion in Asia Network (DIAN), that allow us to promote communication and the sharing of best practices and insights.

Diversity and inclusion training

Our gender intelligence training follows a holistic concept for the topic of diversity and inclusion. It upskills our employees on the importance of diversity and on the value of inclusion. By the end of 2019, a total of more than 4,300 employees across all markets participated in this training and were challenged to re-visit and think critically about their thoughts and beliefs around diversity, stereotyping, bias in the workplace, inclusion and belonging. In Europe, senior leadership teams started to participate in 2019 and will seek to further roll out the training within their areas of expertise. The extended roll-out of the gender intelligence training is a result of both the commitment of our leadership teams to creating an inclusive and diverse workplace as well as our effort to increase the number of internal trainers. In addition, we created a virtual version of the training to also reach employees in retail, distribution centers and remote locations, that was piloted in North America in 2019 and will be extended to all other regions in 2020.

Mixed leadership teams

We believe in mixed leadership teams as a competitive advantage and driver of success. A prerequisite for increasing the number of women at the highest levels of management is the general promotion of women within the company worldwide at all levels of management. We have various initiatives in place, e.g. with members of the Executive Board agreeing to mentor female talents as well as an equal gender split in our Global and Local High Potential programs to guarantee that our succession pipeline is balanced.

Already in 2011, adidas proactively set itself the goal of increasing the number of women in management positions globally. By the end of 2019, the company had recorded a total of 34% of women globally in management positions (2018: 33%), exceeding the 2020 target of 32%. [➔ ADIDAS-GROUP.COM/S/EMPLOYEES](#)

Women in management positions

34%

Pursuant to the German Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector, the adidas AG Supervisory Board determined

target figures for the percentage of female representation on the Executive Board, including corresponding deadlines for their achievement, and the Executive Board determined such target figures for the first two management levels below the Executive Board, including deadlines for their achievement, for adidas AG. [➔ SEE DECLARATION ON CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE REPORT, P. 24](#)

CULTURE

It is our goal to develop a culture that cherishes creativity, collaboration and confidence as well as high performance, the behaviors we deem crucial to the successful delivery of our corporate strategy. In fact, our culture and people serve as the foundation and a key enabler of the 'Creating the New' strategy.

Activating our Core Belief

Responding to an increasing desire of employees, consumers and partners to become directly involved in activating our core belief 'through sport, we have the power to change lives', and their asking for ways they can make a difference, we focus our activation efforts on three pillars: 'She Breaks Barriers', which is aimed at getting girls to join and stay in sport, 'One Starting Line', which is aimed at increasing inclusivity for all in sport and sports culture, and 'End Plastic Waste, which is aimed at protecting the world's oceans for future generations.

[➔ SEE ADIDAS BRAND STRATEGY, P. 55](#) To maximize impact, we leverage

brand moments to raise awareness for these topics and create opportunities for engagement. In 2019, these included opportunities for our employees to volunteer their time and expertise, and we collaborated with our athlete ambassadors at moments such as the Women's World Cup, the Super Bowl, as well as key cultural moments such as Earth Day, International Day of the Girl, Black History Month and Pride.

For the Women's World Cup, partnering with the NGO Equal Playing Field, adidas organized multiple football camps around the world and brought together over 3,500 women and girls from all across the globe to play football, share skills and make connections at the Festival of Football in Lyon, France. In partnership with Amazon, we sponsored Girls on the Run races with a distance of five kilometers and enabled 600 girls to have access who would otherwise not have been able to participate. Additional money raised will equip coaches to make program adaptations to better serve and include girls with disabilities. We also launched @3stripelive, which was the first-ever livestreamed high school girls' soccer and volleyball games on Twitter with over 14.5 million livestream views. This was done in partnership with the US Soccer Foundation and United for Girls, with the objective to double the number of girls who have access to soccer. Working with Up2Us Sports, we developed the digital coaching curriculum 'Keep Girls in Sport' to educate coaches on the specific training needs of young girls, aiming at removing the potential barriers they face. In Germany, adidas partnered with the network Impact Hub to host a series of initiatives to enable the next generation of female athletes, creators and leaders. Twelve venture teams were given access to peer networking, adidas mentors and business clinics on business strategy, finance and digital marketing with adidas experts over a period of three months. Three selected ventures can earn a monetary grant to scale their ideas further.

Work-life integration

We aim to harmonize the commercial interests of the company with the professional, private and family needs of our employees. Our Work-Life Integration initiatives and programs include the provision of flexible working times and place, people development and leadership competence related to work-life integration, as well as family-oriented services:

- **Childcare:** In addition to providing flexible working opportunities such as teleworking and sabbaticals, we cater for a family-friendly environment and infrastructure. At our headquarters in Herzogenaurach, Germany, we extended the number of parent-child offices from two to four, and expanded our childcare facility 'World of Kids'. It now provides space for 270 children in two buildings. In 2019, we also introduced an ad-hoc childcare service to support parents in emergency situations or during transition phases and short-term assignments. At various locations across the globe, adidas offers a variety of holiday camps for children, with more than 450 participants benefiting in 2019. Other global locations also offer various forms of benefits and support services to ensure that our employees are able to access and secure quality childcare. With the ongoing expansion of our infrastructure and childcare offering, we as a company emphasize our commitment to a family-friendly environment to integrate work and private life – and enable balanced careers.
- **Parental leave:** For parental leave and re-entry, programs are in place to provide employees with advice early on and options for their return to work, also taking into consideration flexible working hours and work locations. In Germany, we guarantee our employees on parental leave their positions, which are only filled temporarily. In the US, in addition to regular parental leave for new parents (up to 10 weeks at home, 70% of their salary), adidas offers an extra two weeks' paid parental leave for parents. Furthermore, adidas' special parental bonding leave provides parents with the possibility to stay home

for up to six months within the first twelve months after the child's birth or placement. While unpaid, it offers parents the opportunity to stay home longer and take care of their new arrival and new life together. Latin America has made significant amendments to improve work-life integration across the market. This includes an extended parental leave approach where mothers will be provided 24 paid weeks in total to spend with their children, and fathers/partners will be provided 20 paid days in total. On top, mothers are allowed to work fewer hours one month before and after their maternity leave period.

- **Flexible work:** Continuing in Germany in 2019, every employee with an adidas AG contract whose working tasks can be carried out independently of campus facilities, campus equipment or personal interaction on-site is eligible to work 20% of their total working time off-campus. This policy and agreement is based on our belief that results can be achieved in the same quality and quantity, regardless of people's location. Positive feedback motivated us to roll out the approach globally. Our North America market implemented the concept in 2018, Latin America and partly Europe followed in 2019, to be continued in 2020.
- **Expansion of workplaces:** In line with the efforts to centralize all local employees at the headquarters campus 'World of Sports' in Herzogenaurach, in 2019 we opened a new main office building called 'Arena'. It has capacity for around 2,000 employees and applies an activity-based working concept in which employees no longer have assigned desks and instead choose from a variety of rooms and spaces, dependent on their needs. To make work-life balance as easy as possible for our employees on campus, we offer, in addition to two childcare facilities, other services such as dry-cleaning, grocery delivery and the possibility to receive private deliveries. In Asia, we moved our new Asia-Pacific and Greater China Head Office to the IFC tower in downtown Shanghai offering easy access to commercial facilities. It combines a comfortable and

green working environment with an agile and convenient working experience, including a staff canteen, gym, showrooms as well as collaborative open areas. Lastly, we are also centralizing most of our workforce in Portland in one location. The ongoing expansion of adidas enables capacity for 2,800 employees with the build-out of two office buildings that include parking garages, an expansion of the on-site employee restaurant, and further extended employee services. With this expansion, we are also rolling out the activity-based working concept already in place at most of our local headquarter locations worldwide.

Health management

We support our employees by aiming to provide the best possible conditions to ensure that they feel good and stay healthy. Our holistic approach includes people's physical, mental and social well-being, and focuses on four pillars: mindset, nutrition, movement and medical services. In 2019, for example, we pursued global activations around World Mental Health Day in October, including information campaigns, prominent speakers who shared their personal story, an open dialogue with senior leaders as well as exercises for stress relief. We also saw great progress in providing employees access to sports facilities. Employees in Herzogenaurach, Portland, Boston, Moscow, Gurgaon and Manchester, and at other locations across the globe, have access to a corporate gym. In 2019, construction work started to extend the gym at our German headquarters, and with its completion in 2020 it will offer significantly more space and training opportunities for more than 3,000 members as well as integrate physiotherapy with extended offerings. Lockers and showers in office buildings allow people to run or cycle to work. In 2019, adidas UK received Britain's Healthiest Company Award in the category medium-sized company.

Learning

We believe a continuous focus on learning and development of our employees is a key enabler of driving a high-performance culture. To support this, we offer employees access to a wide range of in-person and digital opportunities. Our Learning Management System is now globally available to almost half of all employees, 75% of whom have accessed available training and development offers to support their current performance and future career development. In 2019, compared to 2018, we saw a more than 20% increase in the number of employees who participated in in-person learning activities. Within our online platform, we provide two digital offerings to all corporate employees: LinkedIn Learning and Leadership Library, a service which curates and summarizes industry articles, media and university courses based on company or learner needs. These offerings continue to provide employees access to content across subjects in business, creative and technology areas. In 2019, an average of more than 1,900 content pieces were consumed monthly within the Leadership Library, while the number of employees registering for LinkedIn Learning accounts more than doubled.

In 2019, we expanded our global core learning programs to ensure we continue to support strategic business initiatives, build capabilities connected to our 3Cs and support development of future cross-functional organizational capabilities. Input into the program offer is managed through a business needs assessment supported by our HR organization.

Performance management

#MYBEST is the global performance development approach in adidas and is a key enabler of a high-performance culture. The four elements encourage regular high-quality conversations between the employee and the line manager, provide a framework for regular upward and peer feedback exchange, and ensure goals are set and reviewed quarterly. Formal performance evaluation takes place twice a year¹,

¹ Employees in Germany continue to have four evaluations based on the current company agreement.

development being in the focus of every monthly 'Touch Base' conversation. The voice of employees is critical in the evolution of #MYBEST. The global #MYBEST survey is run on an annual basis and is a key source of information when making decisions regarding improvements. In 2019, we made several improvements, including the simplification of quality and actionable peer and upward feedback, the reduction of performance evaluations from 4 to 2¹ to bring more simplicity and efficiency into the process as well as the clarification of various levels of performances, providing further clarity to all employees to identify their area of strength and development. The definitions also ensure that employee performance is evaluated consistently across the organization.

Wages, benefits and incentives

We are committed to rewarding our employees with compensation, benefit and incentive programs that are competitive in the marketplace and are aligned with our performance culture. Remuneration throughout the company comprises fixed and variable monetary compensation, non-monetary rewards as well as other intangible benefits. The cornerstone of our rewards program is our Global Salary Management System which is used as a basis for establishing and evaluating the value of employees' positions and salaries in a market-driven and performance-oriented way.

The various variable compensation and benefits components we offer our employees include:

- Bonus program – Short Term Incentive (STI) program
- Profit participation program – 'Champions Bonus' (Germany)
- Long-Term Incentive (LTI) Plan for senior management
- 401-K Retirement Plan (USA) and adidas Pension Plan (Germany)
- adidas Stock Purchase Plan

We are continuously improving our remuneration approach and are therefore investing in a number of projects and initiatives to increase the significance of our remuneration programs, as well as to ensure we are investing in the right people at the right level. One of the improvements we made was an overhaul of our benefits offer in Germany and the US throughout the last three years, which is designed to minimize salary differences and, more importantly, inequity of employees on the same positions and grades. It is based on a higher level of detail for external market data and addresses internal pay gaps – also helping to ensure that we pay fairly at the same level for female and male employees. Furthermore, we developed a monitoring approach to identify potential pay gaps and work continuously to improve and close these gaps on a country-by-country basis. To further enhance our efforts and transparency on this topic we support initiatives such as 'Lean In' and will also in 2020 put a strong emphasis on continuously closing potential gaps. The latest internal report regarding the Equal Pay Gap shows an overall balanced picture on pay between female and male employees, based on a weighted average calculation between the salary grade levels.

In addition, we further improved transparency and governance for senior management remuneration, and created higher transparency about remuneration as well as internal and external positioning of compensation and benefits packages. The aim was to ensure objective decision-making for management remuneration, and to continue standardizing our pay structures. We rolled out a global Long-Term Incentive Plan for senior management. This program provides Restricted Stock Units (RSUs), linked to our earnings per share (EPS) targets and to our share price performance. It closely links the goals of our senior management with those of our shareholders – sustainable success and long-term growth – and fosters a company ownership mentality. In 2019, we were able to complete the roll-out of the LTI Plan to the director level globally. [SEE NOTE 28, P. 176](#)

Our subsidiaries also grant a variety of benefits to employees, depending upon locally defined practices and country-specific regulations and norms.

Stock Purchase Plan

Participation in the Stock Purchase Plan is provided to employees in Germany, the US, the Netherlands and Greater China (China mainland, Taiwan and Hong Kong), offering almost half of our employees globally (excluding retail) the possibility to participate. On average, around 5,000 employees participated in the program in 2019 (2018: 4,800). [J](#)

MEASURING THE SUCCESS OF OUR PEOPLE STRATEGY

Our HR function measures the success and the effectiveness of the company's efforts with regard to its people initiatives through a set of chosen KPIs. We use two people KPIs: employee experience as an internal measure and employer rankings as an external measure.

Employee engagement

We have set ourselves the goal of becoming the best sports company in the world by becoming a truly consumer-centric organization and putting our people at the heart of everything we do. When it comes to measuring whether we are living up to these ambitions, our consumers and people are the best data sources. We are convinced that our employees' feedback will play a crucial role in our pursuit of creating a desirable employee experience and continuing to attract and retain top talent. We can only tell if we are successful by asking our people and hence empower them to share their feedback on a regular basis. In support of this thinking, we launched 'People Pulse' – our approach and system platform for measuring the level of employee satisfaction with the experience adidas provides as an employer – for all office employees with an email account.

People Pulse allows for the measurement of employee Net Promoter Score (eNPS). [SEE INTERNAL MANAGEMENT SYSTEM, P. 92](#) The calculation logic of the eNPS score is identical with brand NPS: Based on the main question ‘On a scale of 0–10, how likely are you to recommend adidas as a place to work?’, the total share of detractors (responses below 7) is deducted from the total share of promoters (responses scoring 9 and 10), producing the eNPS score. This approach as well as a focus on collecting open-comment feedback from employees on a regular basis allowed the reduction of the questionnaire to a short pulse check of seven questions maximum, with the eNPS question at the center.

The People Pulse cadence is made up of two components:

- The eNPS question, which is asked in every survey to allow for tracking of the results over time.
- Changing focus topics which are directly derived from the company’s strategic agenda as well as the Leadership Framework and the 3Cs.

In 2019, we saw the quarterly People Pulse continue to be leveraged as an important feedback channel from corporate employees to the company. In March, we reached similar levels to the all-time high response rate of the previous year, with 67% of employees responding. On average, our eNPS remained stable in 2019 compared to the previous year. Reports with detailed results and scores were provided to the Executive Board and leaders down to Board –4 level. Employees have access to the overall company results via our global intranet. Result recipients continued to review, cascade and openly discuss the results and drive action on identified areas of improvement.

We not only leverage People Pulse for general feedback on the employee experience at adidas, but also as a tool to gather employee insights regarding important elements of our strategy, such as consumer obsession. [J](#)

HR FOUNDATIONS FOR OUR PEOPLE STRATEGY

[F](#) In 2019, we continued to roll out a new HR cloud-based system platform that aims to further enhance the HR system landscape by driving standardization, digitization and automation of currently potentially time-consuming processes across all HR areas. We are convinced that this will allow the HR function to pro-actively manage the workforce, improve the employee experience, and enable the entire organization to make more data-driven decisions.

After successful consolidation of our HR Shared Services in 2019 into a cross-functional global business service, Global Business Services (GBS), operation centers are currently set up in Porto, Dalian and Portland. All employee queries related to topics of an administrative nature, such as compensation, benefits, time management and HR systems, are centrally channeled and managed through GBS. As a result, our HR Partners are enabled to fully focus on their core business, supporting line managers and employees on strategic topics such as career counseling, people management and coaching. [J](#)

GLOBAL EMPLOYEE POPULATION

On December 31, 2019, the company had 59,533 employees (2018: 57,016). [SEE TABLE 35](#), [SEE TEN-YEAR OVERVIEW, P. 222](#)

Thereof, 7,703 were employed at adidas AG. On a full-time equivalent basis, our company had 53,218 employees (thereof 7,033 adidas AG) on December 31,

2019 (2018: 49,563). [SEE TABLE 36](#) Personnel expenses increased to € 2.720 billion in 2019 (2018: € 2.481 billion), representing 12% of sales (2018: 11%). [SEE NOTE 33, P. 196](#)

Number of employees
59,533

Employee statistics¹ 35

	2019	2018
Total number of employees ²	59,533	57,016
Total employees		
Male	48%	51%
Female	52%	49%
Management positions		
Male	66%	67%
Female	34%	33%
Average age of employees (in years)	31	31
Average length of service (in years)	4	4

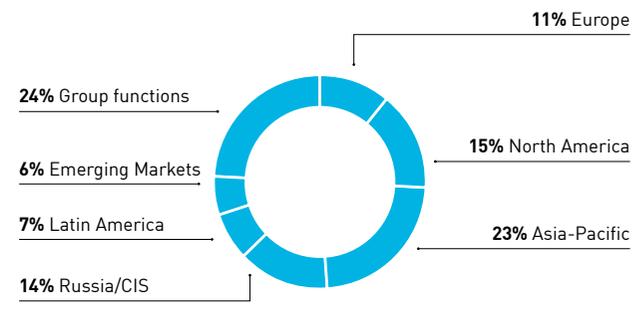
¹ At year-end.
² Number of employees on a headcount basis.

Number of employees by function¹ 36

	Employees ²		Full-time equivalents	
	2019	2018	2019	2018
Own retail	32,948	32,297	27,654	25,880
Sales	3,680	3,857	3,586	3,742
Logistics	8,170	6,175	7,874	5,976
Marketing	5,945	5,764	5,737	5,565
Central administration	5,624	5,574	5,323	5,251
Production	621	888	608	803
Research and development	1,007	1,041	940	971
IT	1,538	1,420	1,496	1,377
Total	59,533	57,016	53,218	49,563

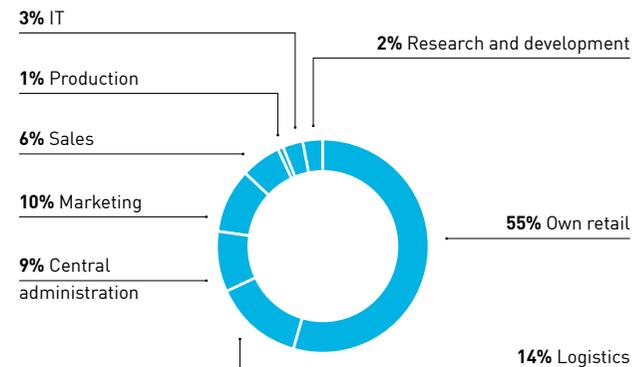
¹ At year-end.
² Number of employees on a headcount basis.

Employee split¹ 37



¹ At year-end.

Employees by function¹ 38



¹ At year-end.

SUSTAINABILITY

Being a sustainable business is about striking the balance between shareholder expectations and the needs and concerns of our employees and consumers, the workers in our supply chain and the environment. We believe that acting as a responsible company will contribute to lasting economic success.

OUR APPROACH

Our commitment to sustainable practices rests on the company's mission: To be the best sports company in the world. Best means that we design, build and sell the best sports products in the world, with the best service and experience and in a sustainable way. We have a clear roadmap for 2020 and beyond, which is a direct outcome of our strategic business plan 'Creating the New'. We believe that, through sport, we have the power to change lives. But sport needs a space to exist. These spaces are increasingly endangered due to man-made issues, including human rights violations, pollution, growing energy consumption and waste. Our holistic approach to sustainability responds to the challenges that endanger the spaces of sport and simultaneously our planet and people. Building on existing programs, it tackles these subjects that are most material to our business and our stakeholders, and translates our overall sustainability efforts into tangible goals for 2020 and beyond that have a direct impact on the world of sport we operate in. [ADIDAS-GROUP.COM/SUSTAINABILITY](https://www.adidas-group.com/sustainability)

MATERIAL TOPICS

We seek to ensure that we address the topics that are most salient to our business, our stakeholders as well as the challenges ahead. To identify these topics, we openly engage with our stakeholders and consider their views and opinions

in decisions that shape our day-to-day-operations. In addition, we regularly conduct formal materiality exercises to confirm the selection of our material topics. We use insights gained from past assessments, categorize potential new topics and seek to validate these through in-depth discussions with experts across the entire business. Ultimately, we want to better understand the importance a topic has for our business performance and stakeholders but also gain more visibility about the impact we have on these topics. As a result of this ongoing exercise, employee diversity has emerged as an addition to this list of topics. [SEE NON-FINANCIAL STATEMENT, P. 90](#) We also make use of external frameworks to help support the selection of material topics. One of these frameworks is the UN Sustainable Development Goals (SDGs) which represent a global call for action to promote prosperity for all while protecting the planet. Although our current roadmap and underlying targets were implemented prior to the adoption of the SDGs, we see a clear correlation between the SDGs and our own commitment to sustainable development. Consequently, we have been able to link prioritized SDGs with both the environmental priorities related to the selection of materials, manufacturing, use and disposal of our products, and the needs and concerns of people in the adidas value chain. [SEE NON-FINANCIAL STATEMENT, P. 90](#)

CORRELATION BETWEEN UN SDGS AND OUR SUSTAINABILITY ROADMAP



STAKEHOLDER DIALOGUE AND TRANSPARENCY

Engaging openly with stakeholders and establishing ways to increase transparency and disclosure has long been central to our approach. Our stakeholders are those people or organizations who affect or are affected by our operations, including our employees, consumers, suppliers and their workers, customers, investors, media, governments and NGOs. The adidas Stakeholder Relations Guideline specifies key principles for the development of stakeholder relations and details the different forms of stakeholder engagement. Through active participation in, for example, the Better Cotton Initiative (BCI), the Zero Discharge of Hazardous Chemicals (ZDHC) working group, the Sustainable Apparel Coalition (SAC), the Leather Working Group (LWG) and the Apparel and Footwear International RSL Management (AFIRM) Working Group, we work closely with leading companies from a variety of sectors to develop sustainable business approaches and to debate social and environmental topics on a global level. This is also supported by our active membership in organizations such as the World Federation of the Sporting Goods Industry (WFSGI), the Fair Factories Clearinghouse (FFC), the Fair Labor Association (FLA), the Bangladesh Accord on Fire and Building Safety and the German government-led Partnership on Sustainable Textiles ('Textilbündnis') as well as our assistance for the newly established RMG Sustainable Council (RSC). In addition, we build awareness, capacity and knowledge of laws and rights among factory management and workers by partnering with leading providers such as the International Labour Organization's (ILO) Better Factories program in Cambodia. As an active participant in the Bali Process Government and Business Forum we have formally endorsed our commitment to the 'Acknowledge, Act, Advance' recommendations, that outline actions to advance long-term efforts to improve supply chain transparency, the treatment of workers, and ethical recruitment. [ADIDAS-GROUP.COM/S/PARTNERSHIPS](https://www.adidas-group.com/s/partnerships)

In this spirit of collaboration, we also established a Hackathon series together with our partner Zalando back in 2018. Motivated by the ambition to better understand stakeholders' expectations about supply chain transparency and find solutions using digital technologies, we support start-ups with our expertise so they can develop ideas and test their potential for scalability. In 2019 alone, we held three events supporting more than 30 ventures.

We believe transparent communication to our stakeholders is critical. For that reason, we regularly disclose important sustainability updates about our work throughout the year on our corporate channels including our corporate website. A key element is the publication of our global supplier factory lists. The lists are updated twice a year and complemented by lists of the factories that manufacture products for major sports events such as the FIFA World Cup or Olympic Games. In addition, we disclose the names of factories of suppliers who process materials for our primary suppliers or subcontractors, where the majority of *wet processes* [SEE GLOSSARY](#) are carried out. [ADIDAS-GROUP.COM/S/SUPPLY-CHAIN-STRUCTURE](#)

GOVERNANCE STRUCTURE

A robust governance structure ensures timely and direct execution of programs that drive achievement of our voluntarily set goals for 2020 and beyond. The Head of Sustainability is responsible for the development, coordination and execution of our sustainability strategy and reports to the member of the Executive Board responsible for Global Operations. He will also lead the sustainability Sponsor Board that is composed of senior representatives from Global Operations (GOPS), Social and Environmental Affairs (SEA), Global Brands, and other relevant functions across the company. The Sponsor Board ensures cross-functional alignment, transparent end-to-end management and execution

of agreed sustainability goals within their functions. This includes the review and sign-off of policies as required. [ADIDAS-GROUP.COM/S/RECOGNITION](#)

EXTERNAL RECOGNITION

adidas continuously receives positive recognition from international institutions, rating agencies, NGOs and socially responsible investment analysts for its sustainability initiatives. In 2019, the company was again represented in a variety of high-profile sustainability indices and subject to comprehensive corporate sustainability assessments. [SEE OUR SHARE, P. 46](#)

For the 20th consecutive time, adidas was selected to join the Dow Jones Sustainability Indices (DJSI) in 2019, and was assessed to be among the global top 10% best-performing companies in its industry in economic, environmental and social criteria. In the annual assessment of the Carbon Disclosure Project, adidas was again awarded with a B score for its Climate Change approach (2018: B), and improved to a B score for its approach to water management (2018: B-). The company managed to improve its rating considerably in the annual Green Supply Chain Corporate Information Transparency Index (CITI), advancing from tenth to second place in 2019 in the textile industry. adidas further maintained its leadership position in the Corporate Human Rights Benchmark (CHRB) evaluation in 2019, coming in first overall across all industries assessed, and was placed in the Leader category in the first Children's Rights Benchmark conducted by the Global Child Forum in collaboration with the Boston Consulting Group. [ADIDAS-GROUP.COM/S/RECOGNITION](#)

OUR PROGRESS

Following its ambition to be transparent toward stakeholders, for years, adidas has regularly reported about its sustainability performance by measuring and disclosing the progress made toward its targets. The following presents the list of material topics within our programs and details the progress made and challenges faced in 2019.

PRODUCT SAFETY AND TRANSPARENCY

Product safety is an imperative. As a company we have to manage the risk of selling defective products that may result in injury to consumers or impair our image. To mitigate this risk, we have company-wide product safety policies in place that ensure we consistently apply physical and chemical product safety and conformity standards. [ADIDAS-GROUP.COM/S/PRODUCT-SAFETY](#)

One of these policies is the Restricted Substances Policy ('A-01' Policy) that we pioneered in 1998. It covers the strictest applicable local requirements and includes best-practice standards as recommended by consumer organizations. The policy is updated and published internally and externally at least once a year based on findings in our ongoing dialogue with scientific organizations, and it is mandatory for all business partners. To ensure successful application of the policy across the business, we have established a Product Safety and Compliance workspace that serves as a platform for all employees involved in product creation by providing them with the necessary information and guidance to develop, produce and distribute products according to international regulations and best-practice standards. Both our own quality laboratories and external institutes are used to constantly monitor material samples for compliance with our requirements. Materials that do not meet our standards and specifications are rejected. As a result of our ongoing efforts, we did not record any product recalls in 2019.

Over the last years, we have substantially contributed to the AFIRM Restricted Substances List that harmonizes Restricted Substances Lists across the industry. In 2019, the list was further developed to include a corresponding test matrix that will help to establish the list as the globally accepted standard in our industry. We also continued our participation in several major public stakeholder consultation processes initiated by the European Commission (e.g. European Chemicals Agency) and US state legislative initiatives to inform governmental entities on implications and opportunities of drafted legislation. 

ENVIRONMENTAL IMPACTS

Managing the environmental impacts at our own sites and along the value chain is a key focus of our work. We have developed an approach to address water efficiency and quality and are committed to steadily increasing the use of more sustainable materials in our production, products and stores while driving toward circular business solutions. We are committed to reducing our absolute energy consumption and CO₂ emissions, transitioning to clean energy and looking into energy-harvesting opportunities.

Based on results from a pilot assessment of our environmental impacts along our value chain, we recently focused our attention on creating an internal tool to calculate our organizational footprint along the entire value chain and simulate reduction options on a more regular basis, using as much primary data as possible and breaking down results. We aim to use the results of this impact valuation tool for steering business decisions, tracking performance over the years and further driving integration of sustainability into the business.

Measuring and optimally managing our environmental footprint in our own operations and across our supply chain is only one way to respond to climate change. In addition, we are proactively addressing the impacts of climate change by

Mitigating climate change: Impactful targets for 2020 and beyond

39

2020	Own operations	3% absolute annual CO ₂ reduction	(baseline 2015)
	Strategic supplier facilities	20% reduction in energy use	(baseline 2014)
2030	Value chain (from raw material production to own operations)	30% reduction of CO ₂ emissions	(baseline 2017)
2050		Climate neutral	

supporting global initiatives that aim to drive change for our industry. adidas reiterated its commitment to mitigating climate change by signing the Fashion Pact presented at the G7 Summit in 2019. In the prior year, the company signed the UN Fashion Industry Charter for Climate Action and committed to reducing emissions in its supply chain by 30% by 2030 (baseline 2017), thus paving the way for climate neutrality by 2050.  SEE TABLE 39 Back in 2015, adidas joined the UN Climate Neutral Now initiative and committed to the continued estimation and reduction of its emissions.

Own operations

Back in 2008, adidas introduced a program called 'Green Company' to drive continuous improvement and savings in water, waste and energy at its own sites globally. The program covers administrative offices, production facilities and distribution centers, equaling more than 90% of our global

employee base (excluding own retail) in 2019. In 2015, we presented targets to be achieved by 2020, including targets for carbon emissions reduction that were calculated considering a science-based methodology and context-based targets for water reduction.

One essential driver to achieve these targets is the implementation of environmental standards at our highest-consuming locations. adidas has successfully applied an Integrated Management System (IMS) which helps us to gain certification for key locations for their environmental management (ISO 14001), energy management (ISO 50001), as well as health and safety management (ISO 45001). Building on a group-wide IMS policy, adidas aims to further expand these certifications to key sites every year, through both external and internal audits. By the end of 2019, 37 sites globally held ISO 14001 certification, and 30 locations were recognized with ISO 45001 certification. After implementing IMS across key corporate locations in Europe, North America,

Own operations: Progress toward 2020 targets

40

2020 Targets	2019	2018	2017	2016	
Emissions	3% absolute annual reduction in CO ₂ Scope 1 and Scope 2 net emissions ¹ (baseline 2015)	(52%)	(24%)	(29%)	(11%)
Water	35% reduction in water consumption per employee (baseline 2008)	(37%)	(31%)	(27%)	(23%)

¹ Scope 1: Emissions that arise directly from sources that are owned or controlled by adidas entities, such as fuels used in our boilers; Scope 2: Emissions generated by purchased electricity consumed by adidas entities.

Asia-Pacific and Latin America, we will focus on Russia/CIS and the Emerging Markets in 2020.

In 2019, we achieved an accumulated reduction of more than half of all emissions (52%) compared to 2015 in combined carbon net emissions. ■ SEE TABLE 40 Alongside energy efficiency initiatives, carbon offsetting for key locations and the implementation of a company-wide energy monitoring system, we equipped facilities with photovoltaic panels, including our biggest distribution center in Rieste and the new corporate office building at our German headquarters. This resulted in the production of green electricity that accounts for around 5% of the electricity usage of the distribution center, and for around 13% of the electricity usage of our German headquarters. Overall, we will continue to drive renewable energy projects at key sites over the next years. It is our ambition to continuously add more of our own retail stores to the scope of Green Company. We closely collaborated with our facilities to continue to drive water efficiency initiatives and raise employee awareness for the importance of their contribution. As a result, we achieved accumulated water savings of 37% per employee between 2008 and 2019.

■ SEE TABLE 40

The progress toward all Green Company targets is tracked through an environmental data reporting system and is disclosed in detail in our annual Green Company Report that will be available on our corporate website as of April 2020.

➔ [ADIDAS-GROUP.COM/S/ENVIRONMENTAL-APPROACH](https://www.adidas-group.com/s/environmental-approach)

Supply chain

As almost all of our production is outsourced, a significant part of our environmental impact occurs, at different intensities, throughout the supply chain. Therefore, for adidas, sourcing is not only about ensuring high product quality and timely delivery, it also means working with our suppliers to ensure they are able to continuously reduce their

environmental footprint. We do so by providing them with policies and best-practice guidance for environmental management, by offering training sessions tailored to their needs, and by measuring their progress toward clear reduction targets for energy, water and waste that we expect them to achieve by 2020.

In 2019, adidas strengthened its environmental supply chain program through ongoing efforts to advance suppliers' capacity for managing resource efficiency. After the release of the Environmental Good Practice Guideline and Toolkit in 2018, we updated and issued our Environmental Guidelines in 2019 for all strategic suppliers, along with an efficiency calculator so they can better understand their environmental impacts. We continued to support the Energy and Water Investment Plan and, by the end of 2019, we had mobilized more than 40 strategic suppliers located in five of our main sourcing locations (Cambodia, China, Indonesia, Vietnam and Taiwan) who successfully identified more than 400 saving opportunities that will be implemented with projected annual savings estimated at 350 million MJ of energy and four million m³ of water.

We also support our suppliers to gradually increase the generation and use of renewable energy in our supply chain

and help connect our suppliers with experienced solar companies so they can jointly work toward the development and implementation of projects. As of 2019, more than 20% of our strategic suppliers are already also adopting renewable energy, including rooftop solar photovoltaic and biomass. As an example, two of our major suppliers in Vietnam initiated rooftop solar projects with the potential for huge estimated savings of almost one million kg CO₂e annually.

We co-hosted a supplier training event with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and VITAS (Vietnam Textile and Apparel Association) for more than 180 participants, among them suppliers, in Vietnam. The aim was to upskill suppliers on the commitment to reduce our carbon footprint by 30% by 2030 in accordance with the United Nations Framework Convention on Climate Change (UNFCCC), how it relates to supplier production facilities, clean energy opportunities in Vietnam, incentives and financing options. As a result of our collective efforts, suppliers have already met most of the efficiency targets across all categories (footwear, apparel, and accessories and gear) ahead of time. ■ SEE TABLE 41 A tool called 'E-KPI' helps us to measure suppliers' environmental compliance overall and assess their performance and progress toward the 2020 targets. We will

Supply chain: Progress toward 2020 targets

41

2020 Targets ¹		2019	2018	2017	2016
Water	20% reduction in water consumption at strategic Tier 1 supplier facilities	(29%)	(24%)	(15%)	(11%)
	35% reduction in water consumption at strategic Tier 2 apparel material supplier facilities	(34%)	(27%)	(24%)	(7%)
Energy	20% reduction in energy consumption at strategic Tier 1 supplier facilities and strategic Tier 2 apparel material supplier facilities	(22%)	(15%)	(7%)	(9%)
Waste	20% reduction in waste volume at strategic Tier 1 supplier facilities and strategic Tier 2 apparel material supplier facilities	(30%)	(22%)	(10%)	(4%)

¹ Table shows aggregated reduction results for all categories (apparel, footwear and accessories and gear). Baseline year 2014. Results show externally verified data for the previous year.

continue to support suppliers to identify resource efficiency measures and roll-out in our supply chain.

An additional way we try to minimize our suppliers' environmental impacts at their manufacturing plants is by helping them establish sound environmental management systems. The majority of our footwear sourcing volume, 98% (2018: 98%), is produced in factories which are certified in accordance with the International Environmental Standards ISO 14001 and/or the Workplace Health and Safety Management Standards OHSAS 18001.

Volatile Organic Compounds (VOCs), which are typically found in solvents used in our manufacturing process, can – in high concentration – cause breathing difficulties and other health problems for production workers. By applying innovative as well as environmentally sound bonding and priming technologies while following the adidas guidelines on the use of chemicals, our athletic footwear suppliers have been able to significantly reduce the use of VOCs, from above 100 grams per pair in 1999 to around 11 grams in 2019. The share of VOC emissions has now remained stable at a very low level for the past three years.

Chemical management

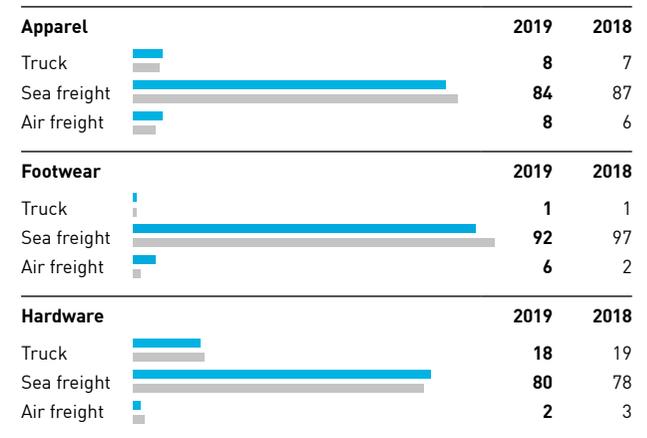
The management of chemicals in multi-tiered supply chains is a complex challenge and requires many actors contributing to the achievement of effective and sustainable solutions. For years, adidas has been running leadership programs in chemical management within its area of direct influence. In consultation with external stakeholders including chemical experts, environmental organizations and industry federations, adidas has defined an end-to-end-approach spanning the management of chemical input, monitoring supplier progress and reporting supplier data publicly to controlling the finished end product. [ADIDAS-GROUP.COM/S/CHEMICAL-FOOTPRINT](https://www.adidas-group.com/s/chemical-footprint)

We further improved our chemical input management, recording 81% of auxiliaries and 91% of dyestuffs from our strategic apparel suppliers as bluesign-approved in 2019. We also continued to be 99% free of poly- and perfluorinated substances (PFCs) in our products for the fall/winter 2020 season. We contributed to the latest update of the ZDHC Manufacturing Restricted Substances List (MRSL) and made it part of the welcome kits with guidelines for our suppliers. As we believe that strengthening the monitoring approach in our supply chain will further contribute to the elimination of hazardous chemicals from the production process, we also contributed to the latest update of the ZDHC Wastewater Guidelines, an international wastewater standard for our industry. Using these guidelines, our strategic suppliers accounting for more than 80% of the wet processes have tested and publicly reported their wastewater test results twice a year since 2018. According to the latest results, the majority of our facilities meet the local legislation or the requirements of the wastewater treatment plant.

Transportation

We regularly track the environmental impact related to the transport of our goods. Compared to the previous year, performance remained relatively stable. The vast majority takes place via sea freight. In 2019, we recorded a slight increase in air freight due to the mitigation of the supply chain shortages. [SEE DIAGRAM 42](#)

Freight types used to ship adidas and Reebok products¹ in % of products shipped 42



¹ Figures are expressed as a percentage of the total number of products transported. Data covers products sourced through Global Operations, excluding local sourcing.

SUSTAINABLE MATERIALS AND PROCESSES

■ We are committed to steadily increasing the use of more sustainable materials in our production, products and stores. We push toward sustainable innovation and continue to drive toward closed-loop recycling systems.

Synthetic fibers are widely used in our industry due to their unique performance properties such as elasticity, light weight, and high durability. We are aware that products made out of synthetic fibers can cause negative environmental impact during their use phase and acknowledge microfiber pollution as a complex challenge for our industry – one we are proactively addressing. We have established a cross-functional working group and closely collaborate with our suppliers and research institutes to raise awareness for the issue and drive joint solutions toward a global testing

standard. adidas is co-founder of the Microfibre Consortium (TMC), which is operational as of 2019, and among others develops tools to minimize shedding and release of microfibers into the environment, for example via a testing method that enables us to obtain results about the shedding potential of our materials. [ADIDAS-GROUP.COM/S/PRODUCT-MATERIALS](https://www.adidas-group.com/s/product-materials)

Sustainable cotton

adidas has steadily increased the sourcing of cotton according to the Better Cotton Initiative (BCI) throughout the last years and already managed to source 100% *sustainable cotton* [SEE GLOSSARY](#) by the end of 2018. Also in 2019, we continued to source all cotton globally as sustainable cotton. The BCI aims to reduce the use of pesticides, promotes efficient water use, crop rotation and fair working conditions, and strives to transform cotton production worldwide by developing Better Cotton as a sustainable mainstream commodity.

Sustainable cotton sourced
100%

Recycled polyester

Using more recycled polyester is yet another way we seek to improve our environmental footprint while still making high-performance products for the athlete. Polyester is the most single-used material in adidas products and, by 2024, we aim to replace all virgin polyester with recycled polyester in all products where a solution exists. We set clear internal milestones for product creation teams and have seen great progress throughout the last seasons. In 2019, 50% of all polyester used for our apparel and footwear ranges was already recycled polyester. Moreover, almost two thirds of the polyester used for our apparel range for the spring/summer season 2020 was recycled polyester.

Share of recycled
polyester
50%

Parley Ocean Plastic

Since 2015, adidas has partnered up with *Parley for the Oceans* [SEE GLOSSARY](#), and uses *Parley Ocean Plastic* [SEE GLOSSARY](#) as an eco-innovative replacement for virgin plastic. We continued to roll out Parley Ocean Plastic across key categories and were able to exceed our target for 2019, with more than eleven million pairs of shoes and almost three million pieces of apparel made containing Parley Ocean Plastic. To facilitate the growing demand for Parley Ocean Plastic and other sustainable materials, we have built a dedicated sourcing operation with the aim to ensure a steady and transparent supply chain. We expanded our sourcing countries for ocean plastic and developed a code of conduct specific to the collection and processing of plastic that is now applied by our partners. In 2019, our focus was to further expand the audit scope to lower tiers of the plastic supply chain. In addition, we used our expertise to upskill Parley for the Oceans to optimize their own policies and procedures. [SEE ADIDAS BRAND STRATEGY, P. 55](#), [SEE GLOBAL OPERATIONS, P. 63](#), [SEE INNOVATION, P. 67](#), [ADIDAS-GROUP.COM/S/SUSTAINABILITY-INNOVATION](https://www.adidas-group.com/s/sustainability-innovation)

Shoes containing
Parley Ocean Plastic

> **11m**

Waste and packaging

We are committed to reducing our plastic footprint globally and are proud of the success we have seen in recent years, such as the phase-out of plastic bags in our own retail stores globally in 2016 and the elimination of single-use plastics across the majority of adidas locations worldwide as of 2018. Where the use of plastics – for example in transport packaging – is still unavoidable, adidas is relying on counterbalancing measures and promoting sustainable alternatives. For example, in 2018, the company supported the global innovation platform Fashion for Good with a donation of € 1.5 million which also enables us to explore innovative recycling processes for polybags as well as the development of infrastructure for used polybags. In addition, the company aims to reduce virgin

plastic, with the goal to transition to the use of 100% *recycled LDPE polybags* [SEE GLOSSARY](#) by 2021.

Circular business solutions

adidas takes responsibility for the entire life cycle of a product and follows a clear game plan for moving toward a circular business model. Throughout 2019, we successfully showcased proof-of-concept products against circular and regenerative loops by presenting our first fully recyclable and biodegradable products. Futurecraft Loop is our first 100% recyclable performance shoe made entirely from one material (TPU), using no glue or solvent. Other prototype concepts include the adidas by Stella McCartney Infinite Hoodie and the adidas by Stella McCartney Biofabric Tennis Dress. In addition, adidas is exploring infrastructure for product bring-back and recycling, with partners and governmental bodies. [SEE ADIDAS BRAND STRATEGY, P. 55](#), [SEE INNOVATION, P. 67](#), [ADIDAS-GROUP.COM/S/PRODUCT-END-OF-LIFE](https://www.adidas-group.com/s/product-end-of-life)

APPROACH TO HUMAN RIGHTS

adidas recognizes its responsibility to respect human rights and the importance of managing the appropriate due diligence to fulfill this obligation as a business. We do this by striving to operate responsibly along the entire value chain, by safeguarding the rights of our own employees and those of the workers who manufacture our products through our Workplace Standards, and by applying our influence to affect change wherever human rights issues are linked to our business activities. Since its inception in 1997, our human and labor rights program for our supply chain has been built on the back of intense stakeholder outreach and engagement, seeking to understand and define the most salient issues to address as a company.

Throughout 2019, we engaged with a broad spectrum of human and labor rights advocacy groups, working collaboratively with the FLA and calling on the Cambodian

government to address ongoing human rights topics, which ultimately triggered a review of the EU's trade preferences for the country. Together with other stakeholders, we have maintained a seat on FIFA's Independent Advisor Board on Human Rights, providing input and recommendations to FIFA on the hosting of the 2022 Qatar World Cup. We undertook investigations to address allegations of forced labor in the cotton supply chain in Xinjiang in Northwest China and have been working diligently, in partnership with other brands and the Better Cotton Initiative (BCI), to strengthen BCI's performance standard for forced labor. Finally, we have continued to support UNICEF in its effort to develop a practical tool for integrating child rights into a responsible sourcing framework and published our own approach to incorporating children's rights across our business operations.

[ADIDAS-GROUP.COM/S/HUMAN-RIGHTS](https://www.adidas-group.com/s/human-rights)

As part of its human rights efforts, back in 2016, adidas developed a modern slavery outreach program that particularly looks beyond strategic suppliers at a Tier 1 level to gain greater transparency in its supply chain. A set of policies, including a Modern Slavery Policy, a Responsible Recruitment Policy and a Responsible Sourcing and Purchasing Policy, drive our practices in this area. In 2019, we continued to address modern slavery risks at those suppliers that fall outside of our mainstream auditing activities and added Tier 2 suppliers in the United Kingdom, a country previously deemed low risk, to our audit coverage. We further supported multi-stakeholder initiatives aimed at uncovering potential threats in raw material sourcing, e.g. in cotton sourcing in Turkey or rubber sourcing in Vietnam. adidas has become a signatory to the American Apparel Footwear Association and FLA pledge on responsible recruitment and is testing current practices in high-risk migrant corridors, working closely with suppliers in receiving countries and

recruitment agencies in sending countries. In 2019, adidas communicated its zero recruitment fee directive to all business partners globally. Lastly, our due-diligence efforts have expanded to include risk assessment training programs for our licensees. 

WORKING CONDITIONS IN OUR SUPPLY CHAIN

 Core to the human rights approach of adidas is its commitment to ensuring fair labor practices, fair compensation and safe working conditions in factories throughout its global supply chain. Our active efforts are guided by the adidas Workplace Standards, our supply chain code of conduct. The standards form a contractual obligation under the manufacturing agreements adidas signs with its main business partners to ensure workers' health and safety and environmentally sound factory operations by following International Labour Organization (ILO) and United Nations (UN) conventions relating to human rights and employment practices, as well as the model code of conduct of the World Federation of the Sporting Goods Industry (WFSGI). Specific reference to the code provisions of the ILO conventions is provided in the adidas Guidelines on Employment Standards. The Sourcing and Social & Environmental Affairs (SEA) senior management reviews and approves all policies and implementation processes of the labor rights program.

adidas regularly rates factories on their ability to provide fair, healthy and environmentally sound workplace conditions by means of conducting announced and unannounced audits through adidas personnel or an approved external auditor. We use a KPI rating system for social compliance (C-KPI) and attach scores between 1 and 5, with one being the worst and five being the best. According to the results, our sourcing and SEA teams jointly decide the course of action, ranging from the definition of training needs or other improvements at the

factories to enforcement mechanisms such as sending warning letters or even termination of contracts.

Any cases of non-compliance identified during audits are given a certain time frame for remediation. Potential new factories are assessed in a similar way and orders can only be placed if approval by the SEA team has been granted. adidas operates several grievance channels allowing workers or third parties to submit complaints about violations of the Workplace Standards or human rights generally. All complaints are reviewed and investigated, and the outcome is reported on our corporate website. Factory conditions are also inspected by independent auditors through our participation in the Fair Labor Association, which we joined as a founding member in 1999, demonstrating our commitment to independent and unannounced factory inspections and external verification of our programs.

At the end of 2019, adidas worked with 631 independent factories¹ (2018: 684) that manufacture products for our company in 52 countries (2018: 51). The decrease is due to our overall ambition to further consolidate our supply chain (mostly in Japan in 2019). Our intention is to work with fewer factories and provide them with more orders. 69% of our suppliers' factories are located in the Asia-Pacific region. The number of licensees we worked with remained relatively stable compared to 2018, with 62 licensees that manufactured products in 372 factories across 38 countries.

Onboarding

In 2019, we conducted initial assessments (IA), the first approval stage for new entry into our supply chain, in 189 factories (2018: 221), a decrease of 14% compared to 2018, mainly due to our decision to grow in existing factories rather than onboarding new ones. 49 factories (2018: 55 factories)

¹ Independent supplier facilities refer to individual Tier 1 facilities (factories) of our manufacturing partners (suppliers) that adidas has a manufacturing agreement with, and their Tier 1 subcontractor facilities, excluding own factories and licensee facilities. Facilities that work with our licensees are reported separately. Some of these facilities may produce both for adidas directly and for licensees.

were either rejected directly after the initial assessment identified zero-tolerance issues, or were 'rejected with a second visit' due to identification of one or more threshold issues, which means they were rejected but given the chance to remediate the non-compliance issues within a specific timeframe. [■ SEE TABLE 43](#) The vast majority (84%) of all initial assessments were undertaken in Asia (2018: 90%), with China accounting for 38% of these assessments (2018: 41%).

Worldwide rejections after initial assessment due to compliance problems **43**

	2019	2018
Total number of first-time rejections ¹	49	55
First-time rejection rate	34%	30%
Total number of final rejections ²	6	5
Final rejection rate	4%	3%

¹ Factories that were directly rejected after first visit, i.e. with no chance of being visited a second time, and factories that were rejected after initial assessments but which were given a chance for a second visit.

² Factories that were directly rejected after first visit, i.e. with no chance of being visited a second time, and factories that were rejected after being visited a second time.

Overall, at the end of 2019, the 'first-time rejection rate' of 34% of all new factories visited was slightly higher than in the previous year (2018: 30%), as was the 'final rejection rate', which increased to 4% in 2019. The latter was due to the rigor applied to the initial assessments. The remediation of factory issues is beneficial for workers as it raises the bar in terms of better and timelier pay, improved benefits, reduced hours, and the legal protection of formal employment contracts, and it results in significant improvements in basic health and safety within the workplace. Suppliers who have threshold issues are normally given three months to remediate those issues before being re-audited for final acceptance.

Factory visits and training sessions

During 2019, 426 factory visits (2018: 546) were undertaken. This represents a decrease of 22%, due in part to a reduction in the intake of new factories into the supply chain, which led to a decline in the number of fundamental or introductory training sessions. There was also a reduction in the number of advisory visits to individual factories, with a preference given to group learning through adidas hosted workshops. In total, we conducted 123 training sessions and workshops for suppliers, licensees, workers and adidas employees (2018: 143), reaching a total of 1,697 people (2018: 1,282). [■ SEE TABLE 44](#)

Number of training sessions by region and type¹ **44**

Region	Type and number of training sessions							
	Fundamental ²		Performance ³		Sustainability ⁴		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Asia	33	31	16	13	17	15	66	59
Americas	37	55	3	2	7	10	47	67
EMEA	9	12	0	4	1	1	10	17
Total	79	98	19	19	25	26	123	143
In %	64	69	15	13	20	18	100	100

¹ Training sessions conducted for factory management, workers, licensees, agents and adidas employees.

² Fundamental training covers Workplace Standards and SEA introduction, FFC training as well as SEA policies and standard operating procedures.

³ Performance training covers specific labor, health, safety and environmental issues.

⁴ Sustainability training covers management systems and KPI improvements as well as factories' internal monitoring programs.

Worker empowerment

In parallel to our existing grievance systems such as anonymous local language-based worker hotlines, we implemented additional digital tools that enable workers to ask questions and raise concerns directly with their employers. Following the successful piloting of an 'SMS Worker Hotline' back in 2012, we have progressively improved the operational grievance mechanisms at our factories into an application-based 'Workers Voice' platform that was available and used at 98% of our strategic factories across eleven countries by the end of 2019. [SEE TABLE 45](#) The top three types of complaints in 2019 were related to the categories of benefits, general facilities and communication. Responses received through this platform are carefully tracked and help us understand the main challenges and worker rights issues in the factories, ultimately allowing us to monitor how the factory management teams find solutions and communicate back to their workers.

Grievance application 45

2020 Target	2019	2018	2017
Implementation of 'Workers Voice' grievance platform at strategic suppliers: 100%	98%	97%	63%

Complementing the various grievance channels, we measure the level of worker satisfaction through annual in-factory surveys. The survey results are shared with auditors and the factory management and offer insights into worker concerns, as well as potential areas for workplace improvement. Throughout 2019, we expanded this exercise, completing follow-up surveys but also adding newly onboarded factories

to the scope. Upon completing the survey, factories are required to develop improvement plans for the top three issues and then track progress regularly. Since the start of these surveys in 2016, we have engaged and secured feedback from around 35,000 workers. In 2019, more than 8,500 workers in more than 50 factories across twelve countries participated in these surveys.

Alongside factory-led training, adidas has also offered tailored training for supervisors since 2016. Up until the end of 2019, more than 2,200 supervisors completed such training. In 2019 alone, more than 1,300 supervisors in almost 70 factories across six countries participated. Throughout 2019, we expanded the activities to also strengthen the ability of female supervisors to pass on their knowledge to their peers in dedicated sessions. We initiated a Women Supervisor Forum, a platform for female supervisors to upgrade their knowledge, learn best practices, get exposure to inspiring guest speakers and also gain support, information and guidance on a range of topics to improve their ability as a female supervisor. This forum has been established in Indonesia and Vietnam and will be rolled out to the remainder of countries in scope from 2020 onward. As part of our wider efforts to empower female workers in our supply chain, we initiated a Women's Empowerment Program in Pakistan to train women on how to secure better career opportunities in the workplace. Since its start in 2015, the program has benefited more than 420 on-job women and women workers who were laid off from jobs in the football manufacturing sector. Results were very positive, showing that the program helped redundant women to succeed in getting new jobs, and it supported women on the job to secure on-job promotions by improving their professional performance.

Monitoring

We audit our suppliers regularly against our Workplace Standards. In 2019, a total of 1,191 social compliance audits and environmental assessments (2018: 1,207) were conducted. This included 234 test assessments according to the ZDHC Wastewater Guidelines (2018: 233) as part of our environmental assessments. [SEE TABLE 46](#) As in 2018, 102 self-governance audits and collaboration audits were conducted in 2019. When a factory reaches a compliance maturity level of 4C and above, we empower the supplier to conduct their own self-governance audits and develop appropriate remediation plans, which we periodically review. Collaboration audits are conducted in partnership with other brands, or as part of joint remediation exercises. The number of audits in factories manufacturing goods for licensees decreased slightly from 323 in 2018 to 317 in 2019, in line with the overall reduction in the number of licensee factories.

The number of audits using in-house technical staff decreased to 299 (2018: 354), while audits conducted by third-party monitors commissioned by suppliers and adidas business entities increased to 658 at the end of 2019 (2018: 620). The decline in internal audits shows the increased focus on additional advisory consultancy and empowerment projects that go beyond our regular audit routine.

— **Audit coverage:** A total of 49% (2018: 47%) of all direct and licensee facilities were audited in 2019. 'High-risk' locations² in Asia, which is the major sourcing region of adidas, again received extensive monitoring in 2019 with an audit coverage that was close to 75% (2018: 65%). As a general principle, factories located in high-risk countries are 100% covered in our auditing scope, which means they receive audits annually or every two years while low-risk countries (i.e. with strong government enforcement and

² High-risk locations in Asia include China, Hong Kong, Macao, Vietnam, Bangladesh, Cambodia, India, Indonesia, Laos, Malaysia, Myanmar, Pakistan, Philippines, Singapore, Sri Lanka and Thailand.

inspectorate systems) are considered out of scope for our audit coverage.

— **Audit results:** In 2019, 68% of our strategic factories achieved a rating of 4C or better, compared to 37% in all direct factories, indicating that strategic factories have achieved much more advanced compliance levels. While this is yet again significant progress compared to 2018, it still falls short of our 2020 target to reach 4C or above in 80% of our strategic suppliers. For the first time, 12% of our strategic factories achieved a 5C rating, indicating that they have mature social compliance systems and practices in place. [SEE DIAGRAM 47](#) Of our strategic licensee factories, 86% successfully embedded governance systems, supply chain management, purchasing practices and product safety compliance requirements into their business practices. 14% achieved a ‘Sustainability Leadership’ level, signaling that, in addition to achieving high scores in other sections, they also scored above 80% in the sustainability section of the Report Card, which measures the existence of policies and implementation, stakeholder engagement, public reporting and communication. [SEE TABLE 48](#)

Our audits help us rate our suppliers according to their social and environmental compliance performance with a C-KPI and E-KPI rating tool, respectively. An evaluation of E-KPI is contained in the description of the environmental performance of our supply chain.

Number of audits by region and type

46

Region	Initial assessment ¹		Performance audit ²		Environmental assessment ³		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Asia	159	198	511	479	384	379	1,054	1,056
Americas	20	14	38	64	19	16	77	94
EMEA	10	9	35	43	15	5	60	57
Total⁴	189	221	584	586	418	400	1,191	1,207

¹ Every new factory has to pass an initial assessment to prove compliance with the Workplace Standards before an order is placed. The data includes both initial assessments and initial assessment follow-ups.
² Audits conducted in approved factories that have passed the initial assessment.
³ Includes environmental assessments, SAC HIGG data verification and wastewater test assessments according to the ZDHC Wastewater Guidelines.
⁴ Includes audits done in licensee factories.

Supply chain: Progress toward 2020 targets

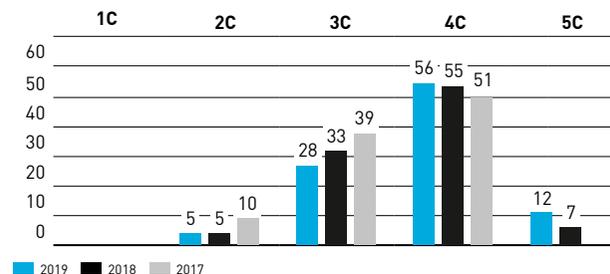
47

2020 Targets	2019	2018	2017
Strategic Tier 1 suppliers¹			
80% to reach at least 4C rating	68%	62%	50%
10% to reach 5C rating	12%	7%	0%
Strategic licensees			
80% to achieve 80% or above in Score Card reports	86%	80%	55%
10% to achieve Sustainability Leadership	14%	20%	0%

¹ Strategic factories are responsible for around 90% of our global production volume.

Social compliance performance rating of strategic supplier factories by C-KPI rating

48



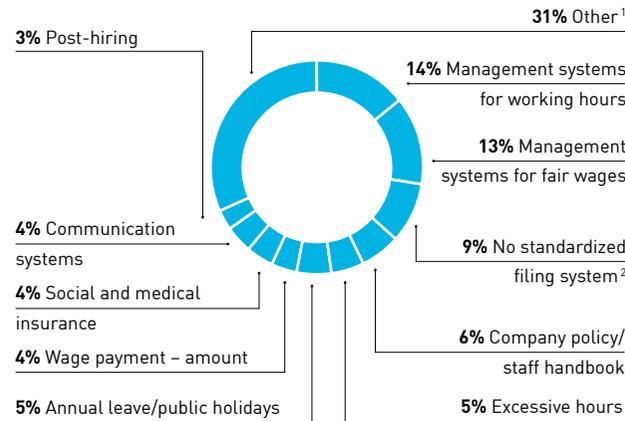
Shortcomings identified in active factories

Our suppliers' factories are evaluated against a number of critical compliance issues. While threshold issues are serious but correctable non-compliances that can be addressed in a specified timeframe through remedial action, zero-tolerance issues – such as forced labor, child labor practices and critical life-threatening health, safety and environment conditions – immediately trigger a warning and potential disqualification of a supplier. We report these non-compliance findings that were identified through performance audits, collaboration audits and self-governance assessments in 2019. We follow up on all cases of non-compliance and seek to remediate them within a given timeframe. As can be seen below, the identified issues in 2019 remained largely the same as those in 2018.

— **Shortcomings in the area of labor:** Besides identifying non-compliances with our Workplace Standards, the adidas compliance team focuses on the use and effectiveness of the factories' HR management systems and identifies any gaps in policies and procedures related to specific risk areas, such as forced labor, child labor, freedom of association or discrimination. As a result, the percentages shown indicate the systemic shortcomings of active factories, rather than the confirmed presence of a specific case of non-compliance. ■ SEE DIAGRAM 49

— **Shortcomings in the area of health and safety:** Fire, electrical and machine safety are critical areas for existing factories and together accounted for 33% of the non-compliances identified in 2019. The way chemicals were stored and used, including the presence of banned chemicals, accounted for 11% of non-compliance findings reported. A further 7% of the findings related to management systems, policies and procedures, and specifically a lack of compliance with our Workplace

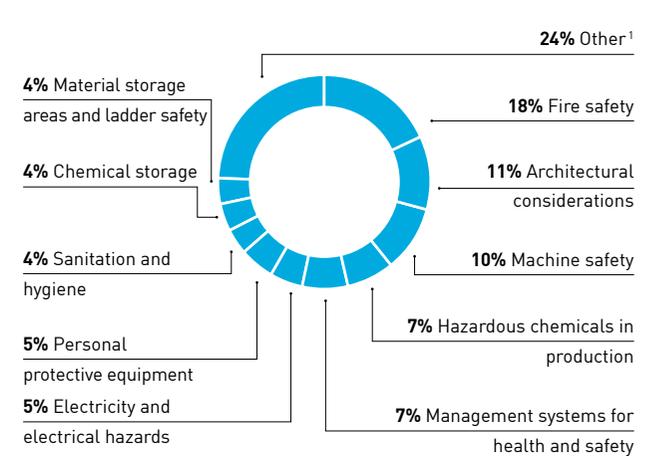
Top 10 shortcomings in the area of labor identified during audits in 2019 49



¹ 'Other' includes, for example, freedom of association issues, and management system for disciplinary practices.
² 'No standardized filing system' indicates a factory does not keep relevant information/documents and records which demonstrate compliance with laws and regulations.

Standards and expectation for effective health and safety systems, including the recruitment and retention of qualified safety staff. ■ SEE DIAGRAM 50

Top 10 shortcomings in the area of health and safety identified during audits in 2019 50



¹ 'Other' includes, for example, housekeeping, occupational hazard risk assessment, and ergonomics.

Independent FLA audits

In 2019, the FLA deprioritized factory assessments and remediation verification under its Sustainable Compliance Initiative (SCI), in favor of other impact areas, including fair wage compensation and factory training³. Consequently, adidas received only one SCI verification, compared to three in 2018.

³ In 2019, FLA focused on: [1] improving its work toward the progressive realization of fair compensation, including a new online fair compensation dashboard to provide affiliates with the ability to compare wages and measure progress in wage increases over time; [2] improving the accreditation process by further aligning the FLA's program with international standards; [3] affiliates' disclosure practices; [4] developing responsible licensing principles; [5] responsible recruitment and forced labor trainings and the development of a forced labor toolkit; [6] audit coverage and capacity-building activities in partnership with brands and governments.

Enforcement

Warning letters are an essential part of our enforcement efforts and are triggered when we find ongoing serious non-compliance issues that need to be addressed by our suppliers' factories. We work closely with our suppliers to help them improve their performance. However, where we face situations of severe or repeated non-compliance, we do terminate business relationships with factories.

- **Warning letters:** In 2019, we had a total of 41 active warning letters (2018: 39) across 14 countries. The largest number of warning letters continues to be issued in Asia. Compared to the previous year, the overall number of active first warning letters decreased slightly; the total number of second warnings increased from one in 2018 to six in 2019. Factories that receive second warning letters are only one step away from being notified of possible termination of the manufacturing agreement and receive focused monitoring by the SEA team. The number of third warning letters issued to business partners (which result in factory terminations) remained stable in 2019 (2018: 1). [SEE TABLE 51](#) It is difficult to generalize about the grounds for a warning letter as it may be issued for a single unresolved non-conformance or for multiple breaches of our standards. The range of issues that resulted in warning letters in 2019 due to non-compliance regarding fire safety practices, receipt of wages, social and medical insurance, hazardous chemicals management, overtime, deductions, transparency or safety controls in high-risk areas remained the same compared to the previous year.
- **Terminations:** In 2019, we terminated agreements with two suppliers for compliance reasons (2018: 1). In one case there was inadequate progress in remediating serious migrant labor issues and in the other the supplier refused to grant the SEA team access to audit the factory.

[SEE TABLE 52](#) While terminations happen at our existing factories, we pre-screen all new factories and if our initial assessments uncover zero-tolerance or threshold issues factories are rejected. [▶](#)

Number of warning letters by region¹

51

Region	1st warning		2nd warning		3rd and final warning		Total warning letters	
	2019	2018	2019	2018	2019	2018	2019	2018
Asia	27	30	5	1	1	1	33	32
Americas	4	5	0	0	0	0	4	5
EMEA	3	2	1	0	0	0	4	2
Total	34	37	6	1	1	1	41	39

¹ Includes warning letters issued by licensees and agents, but excluding warnings to factories for the non-disclosure of subcontractors, which are either issued directly through business entities, or by the adidas Legal department where there is a breach of contract obligations under a manufacturing agreement. A third and final warning results in a recommended termination.

Number of business relationship terminations due to compliance problems

52

Region	2019	2018
Asia	2	1
Americas	0	0
EMEA	0	0
Global	2	1

NON-FINANCIAL STATEMENT

In accordance with §§ 315b, 315c HGB in combination with §§ 289b to 289e HGB, adidas publishes a combined non-financial statement for adidas AG and the Group in this combined Management Report. The content of the non-financial statement can be found throughout the entire combined Management Report, with relevant parts being indicated by this symbol . These parts are not covered by the Audit of the Consolidated Financial Statements and of the Group Management Report, as they were subject to a separate limited assurance engagement of KPMG AG Wirtschaftsprüfungsgesellschaft.  [SEE LIMITED ASSURANCE REPORT, P. 219](#) Links and references are not part of the non-financial statement and have not been assessed.

adidas applied the Global Reporting Initiative (GRI) guidelines as an external reporting framework. The content of the non-financial statement combined with further information in this report and on our corporate website fulfills the GRI Standard 'Core' option. The GRI content index can be found online. [➔ REPORT.ADIDAS-GROUP.COM](#)

Description of business model

 [SEE SALES AND DISTRIBUTION STRATEGY, P. 61](#)

 [SEE GLOBAL OPERATIONS, P. 63](#)

Environmental approach

— Sustainable materials and processes

 [SEE SUSTAINABILITY, P. 78](#)

— Water consumption (supply chain)

 [SEE SUSTAINABILITY, P. 78](#)

— Carbon footprint (supply chain)

 [SEE SUSTAINABILITY, P. 78](#)

— Waste volume (supply chain)

 [SEE SUSTAINABILITY, P. 78](#)

Product responsibility

— Product safety and transparency

 [SEE SUSTAINABILITY, P. 78](#)

People and Culture

— Wages and benefits

 [SEE PEOPLE AND CULTURE, P. 70](#)

— Development and training

 [SEE PEOPLE AND CULTURE, P. 70](#)

— Employee engagement

 [SEE PEOPLE AND CULTURE, P. 70](#)

 [SEE INTERNAL MANAGEMENT SYSTEM, P. 92](#)

 [SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK, P. 130](#)

— Diversity

 [SEE PEOPLE AND CULTURE, P. 70](#)

Consumer matters

— Consumer satisfaction

 [SEE INTERNAL MANAGEMENT SYSTEM, P. 92](#)

 [SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK, P. 130](#)

Human Rights

— Fair labor conditions

 [SEE SUSTAINABILITY, P. 78](#)

— Fair labor conditions (supply chain)

 [SEE SUSTAINABILITY, P. 78](#)

— Supplier relationships

 [SEE GLOBAL OPERATIONS, P. 63](#)

Anti-bribery and corruption

— Ethical business practices

 [SEE RISK AND OPPORTUNITY REPORT, P. 120](#)