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CHEMICAL MANAGEMENT PROGRESS REPORT

SUMMARY 2022

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

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Our Approach to Chemical Management

adidas is committed to working with suppliers to reduce their environmental footprint in energy use, carbon emissions, water consumption, chemicals, and waste management. To achieve this, strategic suppliers at Tier 1 and Tier 2 levels are enrolled in the adidas environmental program, where they receive training to improve their environmental performance.

At adidas, using chemicals is essential to deliver high-performance and innovative products. Therefore, responsible chemical management is crucial to ensure the safe use of chemicals in our supply chain. We aim to effectively monitor the chemicals being introduced into the input process at our manufacturing facilities, together with sound output wastewater management control, to prevent the release of hazardous substances into our environment.

In 2022, we continued to adopt a holistic chemical management approach with three pillars focusing on 'INPUT – PROCESS – OUTPUT' of chemicals in our supply chain to strategically identify and adopt safer chemicals, implement on-site chemical management systems, and eliminate hazardous chemicals from wastewater, using state-of-the-art wastewater treatment technologies.

Figure 1. 3 Pillars of the chemical management approach

The adidas 'A-01' Restricted Substances List (RSL) was established in 1998 and applies to all suppliers. It lists potentially harmful chemicals used in our industry and specifies safe concentration limit values, taking into account the most stringent global regulations. We also collaborate with the EU REACH and AFIRM industry working groups and have integrated their RSL into ours. We continue to develop and update this policy to ensure that we do not use banned or restricted chemicals in our products.

We have strong relationships within the sustainability community and engage openly with our stakeholders. For example, adidas collaborates with various organizations and regulators, such as the Zero Discharge Hazardous Chemicals organization, the AFIRM Group, and the EU Registration, Evaluation, Authorisation and Restriction of Chemicals regulation (REACH) to achieve effective and sustainable solutions for managing chemicals in our supply chain. The goal is to ensure that suppliers do not use hazardous and toxic chemicals when making our products and that progress is regularly monitored and publicly reported.

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Targets and Progress to Date

Area	2025 Target	2022 Progress
Chemicals (Input)	**Promote sustainable chemistry**	
	80% of supplier facilities use 80% of the chemicals for production, achieving the highest level of conformance (Level 3) with ZDHC's Manufacturing Restricted Substances List (MRSL).	46% of supplier facilities used at least 50% of chemicals achieving ZDHC MRSL Level 3.
Wastewater (Output)	**Cleanest supply base**	
	80% of suppliers that operate on-site effluents plants achieve ZDHC 'Wastewater Foundational Level.'	89% of suppliers that operate on-site effluents plants with the direct discharge of wastewater achieved the ZDHC 'Wastewater Foundational Level.'

ZDHC Brand to Zero Program

adidas achieved 'Progressive Level' in the ZDHC Brand to Zero program in 2022, which measures the adoption and implementation of ZDHC guidelines and tools in a brand's supply chain.

adidas recognizes the value of industry partnerships with suppliers, chemical formulators, certifiers, consultants, and the academic sector in helping us develop and achieve our sustainability goals. We continue to work with our industry partners to identify challenges and explore innovative and scalable solutions.

Input Chemical Management

We require our suppliers to increase the use of chemicals that have achieved the highest ZDHC MRSL conformance (Level 3) in their production. By tracking their monthly chemical inventory records through the ZDHC-approved BVE3 management tool, we gain visibility into the ZDHC MRSL conformance level of chemicals. In addition, our suppliers continually develop best practices in self-evaluating their chemical usage and setting up control plans for the proper sourcing and use of chemicals for greater transparency and traceability. This approach helps advance our goals of driving sustainable chemistry from the chemical input stage throughout the production process to reduced discharge of hazardous chemicals at the output stage.

Our 2025 target to enable 80% of our supply facilities to use 80% ZDHC MRSL Level 3 chemicals is ambitious and challenging. We have recently focused on raising awareness of the ZDHC MRSL conformance level requirements in our supply chain, particularly in the leather and footwear industries.

In 2022, we engaged with our key suppliers and chemical manufacturers in a series of capacity-building programs to enhance their awareness and understanding of the importance of driving sustainable chemistry. We organized solution-based workshops to educate them on how to find alternatives to non-compliant chemicals, strategically increase the adoption of Level 3 chemicals, and communicate with their upstream suppliers to drive and sustain the changes.

In 2022, we rolled out the following workshops and projects:

- Strengthened Collaboration with bluesign®
- Input Chemical Level-Up Workshops
- Chemical Clean-Up Exercise

Strengthened Collaboration with bluesign®

adidas has partnered with bluesign® since 2014 to drive sustainable chemical management and resource-saving production in our supply chain. As part of our partnership, we continue to record the chemical inventory of our strategic apparel material suppliers and have set targets for the use of bluesign® approved chemicals since 2018.

In 2022, we identified a gap where the chemical formulations supplied by our chemical manufacturers were not 100% bluesign® approved chemicals. To close the gap, we collaborated with bluesign® and communicated with 93 bluesign® formulators who supplied chemical formulations to our suppliers to convey a clear message on our sustainable chemistry direction and target requirements. We also encouraged them to certify more chemical products as bluesign® approved chemicals. As a result, nearly 60 chemical products will proceed with bluesign® certification, and another 300 chemical products are planned to complete certification in 2023.

Input Chemical Level-Up Workshops

To accelerate the adoption of ZDHC MRSL Level 3 chemicals in our supply chain, we partnered with ZDHC and TESTEX to conduct Input Chemical Level-up Workshops in China, Vietnam, and Indonesia. We engaged with our suppliers and key chemical formulators in their local languages to enhance their awareness on ZDHC MRSL conformance and familiarize them with the processes for certifying chemical products and registering them as Level 3 on the ZDHC Gateway. Nearly 160 suppliers participated in the workshops, where they were guided to develop their Level 3 roadmaps with clear timelines and milestones for their implementation. As a result, these suppliers are now able to communicate with their upstream chemical suppliers to change chemical formulations toward Level 3 certification, accelerating the adoption rate.

By the end of 2022, 46% of our facilities (66 of our 142 supplier facilities) used at least 50% of their chemicals in production that meet the ZDHC MRSL conformance Level 3, progressing closer to our 2025 target.

Chemical Clean-Up Exercise

The basic concept of chemical management is to minimize chemical risk and ensure proper use of chemicals and safe disposal of unused chemicals in facilities. To clean up our supply base and reduce the risk of chemical exposure, adidas partnered with Bureau Veritas to host two separate webinars in August in Mandarin and English with 377 participants from 187 supplier facilities to kick off the chemical clean-up exercise in our supply chain.

During the webinars, our suppliers were guided to review their chemical inventory list to identify low-usage or infrequently used chemicals in their facilities and take proactive steps to properly dispose of them. Two months after the webinars, 204 chemical formulations were reported to have been disposed of by our supplier facilities, representing 2% of the total chemical formulations used in our supply chain. Of the disposed chemicals, 10% were non-compliant with the ZDHC MRSL based on SDS screening. This exercise proved to be very effective in cleaning up our supply base. We will continue this clean-up exercise in 2023 and encourage our suppliers to use this practice to safely manage and dispose of unused chemicals.

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Process Chemical Management

We understand that we must protect nature and its resources from the harmful effects of chemicals by implementing sustainable chemical management practices in our supply chain.

In addition to our participation in developing the ZDHC CMS TIG Industry Guide, which provides clear guidance for suppliers to implement the chemical management system framework and best practices in their operation, we launched the ZDHC Supplier to Zero program in 2022 to empower our suppliers to take responsibility for implementing the ZDHC Foundational Chemical Management System.

Rollout of the ZDHC Supplier to Zero Program

In 2022, adidas adopted the ZDHC Supplier to Zero program and successfully implemented it in our supply chain. The Supplier to Zero program provides suppliers with an entry point into the ZDHC Chemical Management System. Suppliers learn how to implement ZDHC guidelines, platforms, and solutions through self-assessment. As a result, they identified areas for improvement in sustainable chemical management and reduced risks and costs associated with outdated practices.

By the end of 2022, 183 adidas supplier facilities had completed Supplier to Zero program assessments, with 156 facilities achieving the Foundational Level and three facilities achieving the Progressive Level and receiving certificates from ZDHC.

In 2023, we will continue to use the Supplier to Zero program to enhance chemical processes in our supply chain and encourage our suppliers to move beyond the Foundational Level. We will also support ZDHC in advancing the tool by refining the assessment questions at the aspirational level and participating in pilots for implementation and platform enhancement.

adidas Chemical Management E-Learning Program Development and Pilot Rollout

Since 2018, we have partnered with SGS to develop the adidas Chemical Management Academy (aCMA), a comprehensive training program for our suppliers to establish more sustainable chemical management practices and ensure they have competent and skilled personnel at their production sites. We relaunched this training in partnership with SGS in 2022 to overcome many unforeseeable challenges and transform our comprehensive training program into a scalable online e-learning program. This well-structured aCMA e-learning curriculum consists of five online videos and practical tools to enable our suppliers to increase their knowledge and practical skills in conducting chemical risk and hazard assessments and root cause analysis for wastewater problems. With this online training platform, suppliers can grasp the concepts step-by-step based on availability and ensure complete comprehension before moving on to the next module. In particular, we added an interactive session to ensure that enrolled suppliers can fully engage with each other to share best practices and learn from peers to stay competitive.

In 2022, we successfully completed an aCMA pilot with five selected suppliers to walk through the steps to ensure a smooth global implementation and gather their feedback to improve our program. In the second quarter of 2023, we will further scale this aCMA online training program to our global supply chain to further improve chemical management practices in the industry and replicate the successful textile industry model in the footwear industry to prepare them for the change.

To acknowledge the accomplishment of suppliers who completed the aCMA training and passed the ZDHC CMS TIG assessment tests, we collaborated with ZDHC to award the suppliers with certificates issued by the ZDHC Academy. This also helps suppliers demonstrate their contribution to achieving an important milestone in sustainable chemicals management.

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Output Wastewater Management

Water is a scarce resource and adidas must manage its water consumption and wastewater treatment to reduce its impact on water. adidas has publicly committed to eliminating all discharges of hazardous chemicals throughout our supply chain and across the entire lifecycle of products. We have supported the development and adoption of the ZDHC Wastewater Guidelines since the beginning. These guidelines provide an industry testing standard for wastewater, enabling facilities to demonstrate conformance and implement corrective actions through the use of practical guidelines.

adidas has committed that, by 2025, at least 80% of our global supply chain facilities with wet processing by volume in apparel, footwear, and accessories & gear will adopt the ZDHC Wastewater Guideline (WWG) as central guidance and perform testing twice a year following the WWG testing cadence. They must disclose their latest wastewater test performance annually on the IPE DETOX platform and the ZDHC Gateway platform.

By the end of 2022, our key achievements on ZDHC Gateway platform engagement were:

- 97% (195 out of 201) of adidas wet process facilities registered on the ZDHC Gateway.
- 81% (163 out of 201) of adidas wet process facilities generated and published ClearStream Reports on the ZDHC Gateway.

Public Disclosure Commitment

In 2022, 201 wet processing facilities generating industrial wastewater were subject to biannual testing. 41% were classified as Direct Discharge facilities, 56% were Indirect Discharge facilities, and 3% were Zero Liquid Discharge (ZLD) facilities. These facilities were located in 16 countries.

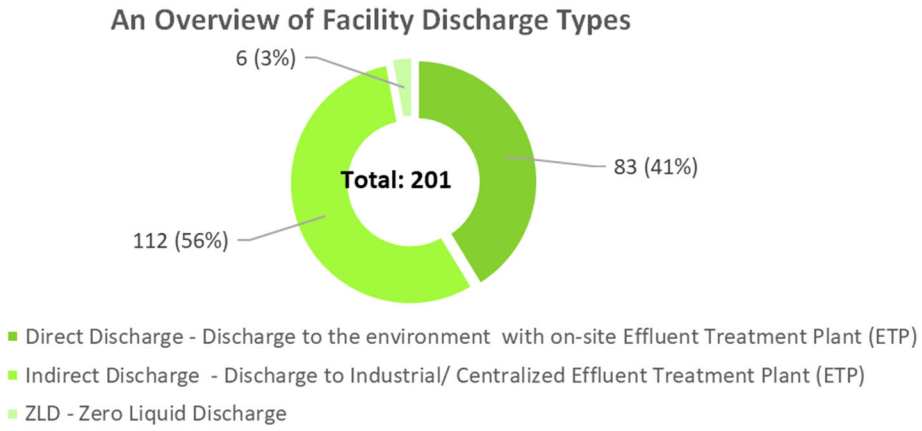

Figure 2. Discharge types of wet process facilities

To increase transparency for our stakeholders, since 2014, we have expanded our publicly available supplier list to include our strategic Tier 2 wet processing suppliers. The Global Factory List is published on our website and updated regularly every six months to provide the latest information about our supply base, including factory name, address, product category, number of employees, and other relevant details.

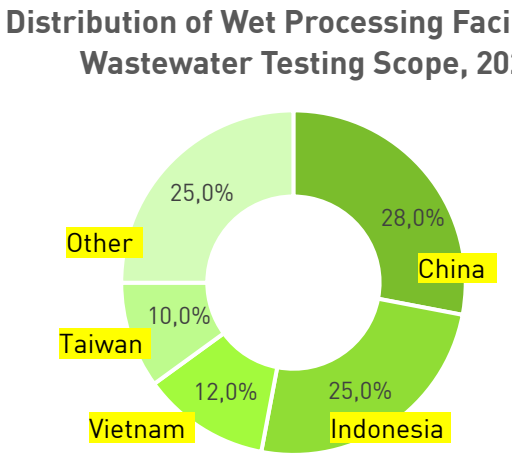

Figure 3. Distribution of Wet Processing Facilities

Wastewater Performance

Some of our suppliers need assistance in meeting the Foundational Level of the ZDHC Wastewater Guidelines. To support facilities in continuously improving the quality of their wastewater discharge, we have developed the adidas Effluent Treatment Plant (ETP) evaluation tool as a part of our in-house capacity-building tools to help wastewater treatment plants achieve the Foundational Level or better. In 2022, 89% of direct discharge facilities (74 out of 83) achieved the ZDHC Wastewater Foundational Level or above. This indicates that these facilities have successfully managed both input chemicals and wastewater treatment plants, demonstrating full conformance with both conventional and ZDHC MRSL parameters. We have already successfully surpassed our 2025 target of 80% of our suppliers operating on-site effluent treatment plants to achieve the ZDHC Wastewater Foundational Level. Notably, eight of the 83 facilities achieved the ZDHC Progressive Level, and one facility was reported to have achieved the highest 'Aspirational' Level. While we had significant success in 2022, we expect the newly published ZDHC Wastewater Guideline V2.1 to be challenging for our suppliers. Therefore, we have decided to wait and understand the impact of the new guidelines in 2023 before further reviewing our 2025 targets.

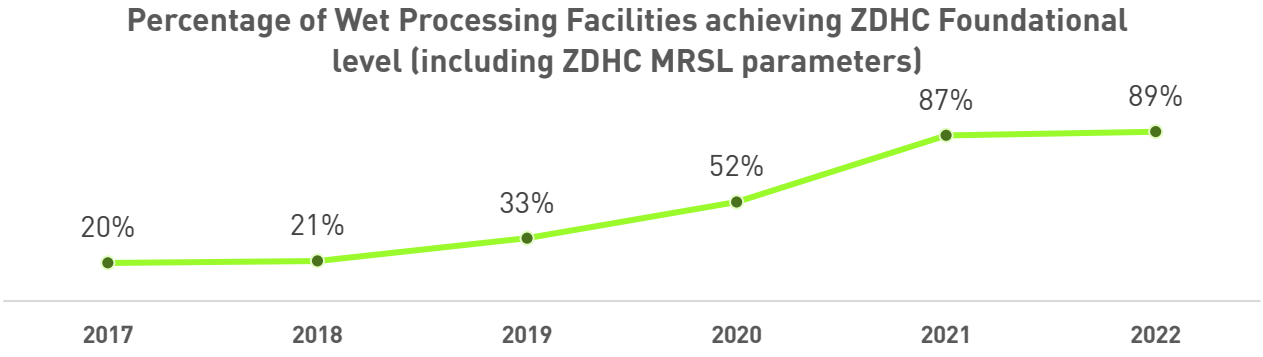

Figure 4. Performance trend of achieving ZDHC Foundational Level, 2017 - 2022

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How the adidas ETP Evaluation Tool Improved Facilities' Wastewater Performance

Our ETP evaluation tool consists of three modules: (1) Process Design, (2) Operation Control and (3) Team Competence to help wet processing facilities ensure that their discharged wastewater meets minimum legal compliance requirements and ZDHC Foundational Level by evaluating their ETP management practices and providing corrective actions for improvement.

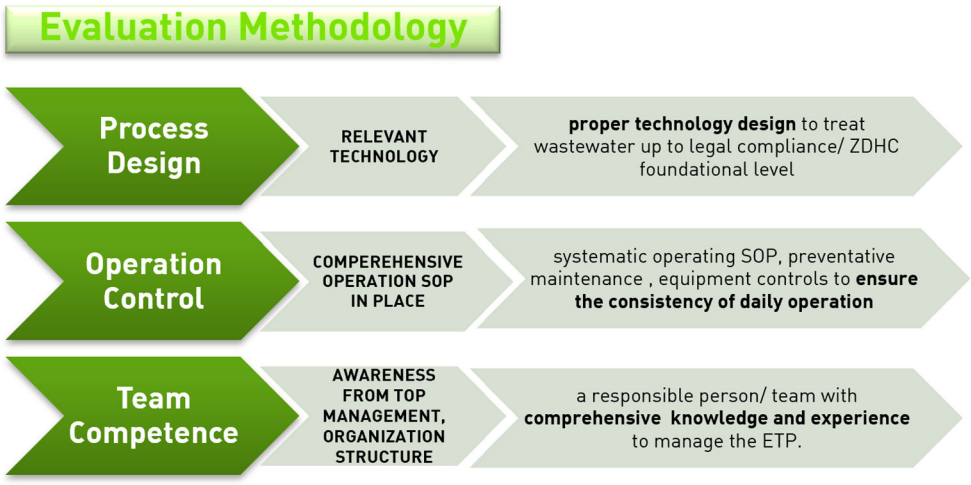

Figure 5. The program structure of ETP Evaluation

By the end of 2022, 15 wet processing facilities had successfully completed ETP evaluations. Qualified third-party technical consultants assisted them through a minimum of 3-6 months of consulting, including an initial on-site ETP verification, Corrective Action Plan (CAP) implementation, and final verification. During CAP implementation, the technical consultant provided comprehensive guidance for the facilities to improve their input chemical management system and improve their ETP performance.

All 15 facilities benefited from this ETP evaluation program and moved at least one level up in their wastewater test performance. In addition, one facility significantly improved to achieve ZDHC's Progressive Level in its October 2022 batch wastewater testing.

Engagement with ZDHC Supplier Platform

To create a positive impact and maximize accessibility to a wider group of stakeholders, adidas contributed our ETP evaluation tool to the ZDHC as a basis for further development of an industry solution which is now being integrated into the ZDHC Supplier Platform. As part of this initiative, a task team was established by ZDHC and contributor brands. In addition, we nominated two wet processing facilities to participate in a pilot to support the implementation of this enhanced ETP evaluation tool and provide feedback to ZDHC for further improvement. After the pilot phase, in 2023, this ETP evaluation program will be officially launched via the ZDHC Supplier Platform as one of the ZDHC tools to be widely adopted by other ZDHC contributor brands to benefit more facilities.

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Going Forward

We continue to drive more sustainable chemistry by:

- Educating our suppliers to integrate more sustainable chemical ingredients, fewer hazards, and safer alternatives into their purchasing decisions and providing additional guidance to make more informed choices on the use of chemicals in production.
- Advocating through various programs and training the need for chemical formulators to manufacture chemical products made with safer and more sustainable materials.
- Maintaining more than 90% bluesign® approved auxiliaries and dyes in our production.
- Working closely with the ZDHC and other key industry partners to drive the adoption of ZDHC MRSL Level 3 chemicals and penetrating deeper into the leather and footwear supply chains.
- With the new ZDHC wastewater guidelines with more parameters and stringent requirements, we will monitor our performance and redefine a more ambitious target, encouraging our facilities to achieve the Progressive Level and beyond.

Acronyms

1. ZDHC – Zero Discharge of Hazardous Chemicals
2. MRSL – Manufacturing Restricted Substances List
3. SGS – Société Générale de Surveillance SA
4. ETP – Effluent Treatment Plant
5. BV – Bureau Veritas
6. BVE3 – Bureau Veritas Environmental Emission Evaluator
7. TESTEX – Testex Swiss Textile-Testing Limited
8. SDS – Safety Data Sheet
9. aCMA – adidas Chemical Management Academy
10. ZDHC CMS-TIG – ZDHC Chemical Management System Technical Industry Guide
11. IPE – Institute of Public & Environmental Affairs