
	Policy & Procedure	Version 07	Page: 1/15
			Approval Date: April 2023
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Social & Environmental Affairs Enforcement & Warning Letter Guideline			

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05	July 2015	Enforcement Guideline and Warning Letter SOP were merged into a single Guideline; Zero Tolerance & Threshold Issues Listing were removed, and added as an appendix; Unauthorized Production procedures were updated; Suppliers designated "Warning Letter 1" cannot accept new production without it first being authorized by SEA.
06	August 2016	Warning Letter scenarios were updated
07	February 2023	Warning Letter timeframes were updated


	Policy & Procedure	Version 07	Page: 2/15
			Approval Date: April 2023
			Effective date: April 2023
			Effective Until Replaced

**Social & Environmental Affairs
Enforcement & Warning Letter Guideline**

Table of Contents

Sections

1	Purpose	3
2	Scope	3
3	Regulations	3
4	Principles	3
4.1	Proportionality	3
4.2	Flexibility	4
4.3	Transparency	4
4.4	Targeting	5
5	Bribery	5
6	Unauthorized Production	5
7	Denial of Access	6
8	Defining Serious Non-Compliance	6
9	Enforcement Actions	7
9.1	Stop Work Notices	7
9.2	Third-Party Investigations	8
9.3	Review of Orders	8
9.4	Financial Contributions and Project Work	8
9.5	Warning Letters	9
9.5.1	Remediation Timeframes for Warning Letters	10
9.5.2	Expiration Timeframes for Warning Letters	11
9.5.3	Warning Letter Standard Operating Procedure	11
9.5.4	Warning Letter Scenarios based on different business entities	12
9.6	Termination of Manufacturing Agreements & Engagements	13
10	Fair Factories Clearinghouse Designation	13
11	Notes and Terms	15
	APPENDIX/ATTACHMENT	15

	Policy & Procedure	Version 07	Page: 3/15
			Approval Date: April 2023
	Social & Environmental Affairs Enforcement & Warning Letter Guideline		Effective date: April 2023
			Effective Until Replaced

1 Purpose

This Guideline sets out the approach of adidas' Social & Environmental Affairs ("SEA") Department enforcement of adidas' Workplace Standards ("Standards") when a supplier fails to comply with the Standards. This document provides an overview of how and where to find relevant information to assist in enforcement actions which maps out the process of investigation, remediation and enforcement, and the parties involved in that process.

2 Scope

This SOP is applicable to all suppliers for all adidas Sourcing entities, licensees, agents or other similar third-party business entities which source suppliers to make adidas product. (see the detailed definition in point 2 of Section 11 Notes and Terms)

3 Regulations

All steps and procedures set out in this Guideline must be followed strictly. Any exceptions to these procedures must receive the explicit approval of the Global VP for SEA.

4 Principles


SEA believes in firm but fair enforcement of adidas' Standards. Underlying a policy of firm but fair enforcement are the principles of:

- Proportionality in the application of the Standards and in ensuring compliance with them.
- Flexibility of approach by SEA toward all suppliers and across all regions.
- Transparency in relation to how the SEA operates and how the Standards should be implemented, i.e., providing clear information about what suppliers may expect from us and what we in turn expect of them.
- Targeting appropriately the recipients of any sanctions or other enforcement action.

4.1 Proportionality

The concept of proportionality requires that any action taken to protect workers, the environment or adidas' brands must be balanced against the risks and costs associated with that action.

Breaches of the Standards, in particular those relating to workplace health and safety, may cause or have the potential to cause serious risk of injury or death to workers. Other breaches of the Standards may interfere with workers' rights or may adversely impact the environment or local communities. SEA's priority is to prevent harm to workers, the environment, or local communities from occurring. Where adverse impacts have occurred, SEA strives to end or minimize those impacts. In each case, the enforcement action taken by SEA will be proportionate to the risks posed by, and the seriousness of, the breach of the Standards.

	Policy & Procedure	Version 07	Page: 4/15
			Approval Date: April 2023
			Effective date: April 2023
			Effective Until Replaced

**Social & Environmental Affairs
Enforcement & Warning Letter Guideline**

4.2 Flexibility

SEA aims to achieve consistency in the advice we provide to suppliers about the Standards and our responses to any non-compliance with the Standards. This requires us to adopt a similar approach in similar circumstances where the Standards have been breached to achieve a similar outcome – the outcome being protection of workers and the environment through compliance with the Standards.

However, SEA recognizes that consistency does not mean simple uniformity. We need to take into account many variables, such as the scale of the non-compliance, the attitude and actions of supplier management, and any history of previous incidents or breaches of the Standards. Any decision to take enforcement action against a supplier, for example to issue a stop work notice at a particular manufacturing site, restricting or limiting production until all Threshold Issues have been remediated, or to recommend termination of a Manufacturing Agreement, is a matter of professional judgement, and SEA will exercise its discretion in this area, in consultation with the impacted Sourcing Unit(s) and other stakeholders, where relevant.


The use of professional judgement also extends to the timelines that are detailed within this Guideline relating to the issuing of Warning Letters along with their terms and conditions. While adidas strives to ensure that non-compliances are remediated in a timely manner — generally in three months' time or less — this is dependent on a variety of factors that need to be considered. Regardless, adidas will always defer to what is the best outcome for the affected workers or the local community while using the Organization for Economic Cooperation and Development (OECD) [Guidelines for Multinational Enterprises](#) and the United Nations' [Guiding Principles on Business and Human Rights](#) as the basis for our team's guidance and decision making when it comes to utilizing available leverage to enforce our Standards.

4.3 Transparency

Transparency is important in maintaining supplier confidence in SEA. Suppliers who want to comply with the Standards need to understand what is expected of them and what they may expect from SEA in return. It also requires that SEA provides clear reasons as to why any action to enforce the Standards is necessary, and that any actions are clearly communicated to suppliers and relevant internal and external Sourcing Units.

Transparency is essential to the conduct of SEA. adidas provides ongoing training to SEA and continuously reviews and develops SEA's procedures to ensure that:

1. When a supplier does not comply with the Standards and remediation is required, it is clearly explained why the steps outlined in an action plan are necessary and must be carried out – and that there is a distinction in the action plan between implementation of best practice and meeting minimum compliance requirements;
2. An opportunity is provided to SEA and the supplier to discuss and clarify the requirements before any remediation steps are taken – unless urgent action is required, for example, to protect workers from imminent and serious danger or to prevent extreme environmental damage; and where urgent action to enforce the Standards is required, a clear and complete written explanation of the reasons will be provided.

	Policy & Procedure	Version	Page: 5/15
		07	Approval Date: April 2023
	Social & Environmental Affairs Enforcement & Warning Letter Guideline		Effective date: April 2023
			Effective Until Replaced

4.4 Targeting

Targeting means making sure that any enforcement action is directed appropriately at those primarily responsible for the breach of the Standards, and is focused on those areas which present the greatest risk or are the least well-controlled. Ultimately it is suppliers who are directly responsible for the risks at their manufacturing sites and who are best positioned to control those risks.

SEA has systems in place that help us prioritize and respond to risks as we become aware of them. They include:

1. Methods for responding to complaints received directly from workers, worker representatives, trade unions and/or other affected stakeholders or third parties.
2. Assessing the risks to worker health & safety and the environment posed by the manufacturing operations.
3. Reviewing the management systems, which regulate human resources practices, industrial relations, and environmental, health & safety.
4. Acting on the independent reports of third-party auditors and monitors.

In all cases, the attitude of management and the actions it takes (or fails to take) to promote compliance with the Standards are of critical importance. Repeated incidents or breaches of the Standards may be an indication of an unwillingness to comply with the Standards, to change unacceptable behaviors, or an inability to achieve sufficient control. This may require a total review of the relationship with the supplier, and in order to continue doing business, considerable investment by both adidas and the supplier. A chronic lack of management commitment can be cited as a Threshold Issue, as well.

5 Bribery


SEA and all authorized third-party auditors are held to a straightforward and unconditional code of professional conduct which means they cannot, directly or indirectly, seek or accept monetary "kickbacks" or any other benefit (e.g., gifts, free products, favors, promises of future work, etc.) in connection with an audit or any related follow-up work.

adidas is opposed to all forms of bribery and corruption. The offer and/or acceptance of a bribe is a clear breach of adidas' Business Code of Conduct. Where the offer or acceptance of a bribe is reported, and proven, it will likely result in a termination of our business relationship with a supplier and, for our own staff, their dismissal. Similarly, if an authorized third-party auditor is accused of soliciting or accepting a bribe, they and their employer can have their SEA accreditation revoked.

6 Unauthorized Production

If a supplier has not received the required SEA authorization, and there are adidas branded products found in production, the factory concerned will be considered unauthorized and adidas' Intellectual Property (IP) team will be immediately notified.

When any individual within a Sourcing entity places orders with an unauthorized supplier and there is clear and irrefutable evidence that they have knowingly ignored, or bypassed, the company's approval procedures, then this may warrant disciplinary measures being taken against that individual.

	Policy & Procedure	Version 07	Page: 6/15
			Approval Date: April 2023
			Effective date: April 2023
			Effective Until Replaced

Social & Environmental Affairs Enforcement & Warning Letter Guideline

If an approved factory was found engaging in unauthorized subcontracting, such production will be treated as such, and SEA will inform the related Sourcing entity and Legal department who will take action and issue a breach of contract letter. Licensees and agents are also required to issue breach of contract letters to their suppliers, when they have engaged in unauthorized subcontracting. The business unit within adidas that is managing the licensee or agent should liaise with Legal to ensure that the licensee or agent takes the necessary action to police the unauthorized subcontracting. A failure by a licensee or agent to take proper steps to control unauthorized subcontracting, may lead to a breach of their own agreements with adidas. In such cases Legal would enforce adidas' contractual rights.

In cases of unauthorized production, adidas' Intellectual Property (IP) team will be immediately notified, with all the legal and operational consequences. SEA will also assess the situation and use its professional judgement to determine the best course of action to ensure the health and wellbeing of the workers at the unauthorized facility e.g., SEA might request the unauthorized facility to hire a consultant to address certain areas of concern related to the factory's working conditions, or require an Initial Assessment to be conducted, etc.

7 Denial of Access


This occurs when SEA, external monitors, project partners or consultants are refused entry to the manufacturing site, access to documents, or permission to interview workers. All of these activities are required for monitoring of the workplace. If management does not permit such activities to proceed, then the supplier is obstructing the work of SEA. In rare cases, an emergency may genuinely preclude access, such as a strike or natural disaster or pandemic, and in such instances, the supplier would not be penalized.

Denial of access is considered to be an extremely serious issue that can result in the factory being designated 'SEA Rejected' for a proposed supplier, or 'SEA Terminated' for an existing supplier. As such, the obligation to provide free and unobstructed access to the SEA and third-party monitors is included in the Manufacturing Agreements signed by suppliers. Therefore, denial of access will be treated as a legal issue and not necessarily a compliance issue. Where SEA members are denied access, this will be reported to SEA Management, who will discuss appropriate actions with adidas' Legal department. In those cases where there is no signed Manufacturing Agreement, denial of access is still treated as an extremely serious issue, and appropriate action will be taken by adidas.

8 Defining Serious Non-Compliance

In the course of monitoring the manufacturing sites of suppliers, SEA regularly uncovers breaches of the Standards. In most cases, such incidences of non-compliance are not as severe in nature as to require sanction. Normal practice for SEA or an external monitor is to issue an action plan setting out negotiated timelines for supplier management to resolve any breaches of the Standards, which are not considered severe or place the business partnership at risk.

On other occasions, the breaches are more severe and may threaten the lives or well-being of workers, suppress fundamental human rights, or result in irreparable damage to the environment. The types of breaches or workplace issues which are considered to be extremely serious in nature are categorized as Zero Tolerance (ZT) and Threshold Issues (TI), requiring commitment from the supplier to take immediate action. Otherwise, enforcement action is considered to be taken against the supplier.

	Policy & Procedure	Version	Page: 7/15
		07	Approval Date: April 2023
	Social & Environmental Affairs Enforcement & Warning Letter Guideline		Effective date: April 2023
			Effective Until Replaced

9 Enforcement Actions

This section sets out a variety of remedial actions which the SEA may rely on, as illustrated in Enforcement Guideline Procedure Flowchart. The purpose of such remedial actions is to bring the non-compliance or violation to an end and to prevent, end or minimize the extent of the non-compliance or violation. In all cases, the impact of such action(s) on the workforce or the local community should be considered and balanced against the need to introduce sanctions or take other enforcement action. The remedial actions are to be applied on a case-by-case basis and are not mutually exclusive. For example, a supplier who has received several warnings may face other sanctions, such as a reduction in orders or, ultimately, termination of the manufacturing engagement.

In all cases, other than issuing of stop work notices (see directly below), no action will be taken against a supplier unless there has been extensive consultation with the relevant parties (e.g., Sourcing Unit, factory leadership, worker representatives, unions, etc.) This is to ensure that all parties fully understand why SEA is recommending enforcement action, and to determine whether the necessary changes can be made without the need for enforcement action.

The nature and timing of Enforcement action will also take into account other concurrent legal processes and enforcement mechanisms.


9.1 Stop Work Notices

Where it is warranted based on the circumstances, a temporary stop work notice may be issued, requiring suspension of operations at a manufacturing facility until certain requirements are met. A stop work notice may be issued where:

1. Incidents or breaches of workplace health and safety are life-threatening or likely to lead to injury of workers, or which have the potential for such consequences; or
2. Manufacturing operations have significant negative consequences for the environment, or which have the potential for such consequences.

Effectively, this is an instruction to the supplier to shut down (or 'power-down') the relevant production line(s) or production areas until the danger to workers, or other significant harm, is removed. Such action will only be taken by the SEA in extremely dangerous or serious circumstances, with a proper regard for balancing the production schedule against the risk associated with not issuing the notice.

SEA has designated staff, qualified and expert in the area of health, safety and environment that have the authority to issue a stop work notice if they are on-site. All other members or third-party monitors are required to contact and consult with their region's Senior Director or Vice President to determine whether a stop work notice should be issued. In all cases, SEA will first consult with supplier management and relevant Sourcing Unit, if any, on-site before stopping production. For practical reasons, and due to the nature of the extreme conditions that would require a stop work notice to be issued, notice will be given to management verbally in the first instance. However, a written record of the case will then be made by SEA and provided to all relevant parties.

	Policy & Procedure	Version 07	Page: 8/15
			Approval Date: April 2023
			Effective date: April 2023
			Effective Until Replaced

Social & Environmental Affairs Enforcement & Warning Letter Guideline

9.2 Third-Party Investigations

An independent, third-party investigation may be recommended where there are persistent or repeated breaches of the Standards or SEA requirements at the same manufacturing site or group of factories, and it has become a matter of public interest. In such cases, where adidas has been unable to influence supplier management over an extended period, prior to termination being recommended, an independent, third-party may be invited to:

- investigate the causes of non-compliance;
- evaluate the impact of such non-compliance on the workforce; and
- recommend a plan of remediation.

In most cases, the third-party will choose to publish its findings and recommendations. adidas also will be required to make public disclosure in relation to the supplier's response and development of action plans and other steps to remedy poor compliance with the Standards.

9.3 Review of Orders

In cases of proven non-compliance, or where a stop work notice or warning to a supplier has already been issued, SEA may recommend a review of orders. The relevant Sourcing Unit may then choose to reduce or relocate current orders, or reduce or temporarily suspend any new orders being placed with the supplier. Such action would be appropriate, for example, in the following cases:

- where the non-compliance relates to excessive working hours;
- where workers have complained of unreasonable production targets or excessive pressure being exerted by supervisors with the consent of management; or
- where it is determined that the supplier has misrepresented its capacity to complete and deliver the product on time, regardless of whether adidas is the sole 'buyer'.


Where a supplier has been issued a second warning letter, orders are authorized only for the existing Sourcing Units until:

- a) all requirements set out in the warning letter have been met; and
- b) SEA has verified that all items of non-compliance have been remediated satisfactorily and has designated the manufacturing site in question "SEA Accepted".

9.4 Financial Contributions and Project Work

In addition to its auditing and monitoring work, SEA is engaged in a number of projects aimed at making compliance more sustainable. The projects are diverse and cover a range of issues and due diligence, from the development of a mechanism to establish fair wage levels, workers grievance channels, women's empowerment, occupational health education and training, the implementation of human resources management systems, and best environmental practices in the manufacturing sites of suppliers who are more sophisticated in their management of environmental impacts. SEA partly funds these projects internally from the budget allocated to consultancies and project work on an annual basis.

Where poor compliance with the Standards results in the need to establish a plan of remediation involving project work by third-party consultants, monitors or local NGOs, the supplier will be expected to fund the remediation work and the costs of any external party. Examples of such work are provided below:

	Policy & Procedure	Version 07	Page: 9/15
			Approval Date: April 2023
			Effective date: April 2023
			Effective Until Replaced

**Social & Environmental Affairs
Enforcement & Warning Letter Guideline**

- Where there is no adequate grievance process or system of appeal against unreasonable or unfair disciplinary action – an independent body may be established with a local project partner to act as a center for receiving worker complaints and to assist management in building the proper grievance systems within the Human Resources or personnel departments.
- Where there is no effective management-worker communication or the industrial relations in the manufacturing site are very poor – the development and delivery of appropriate training modules for management and union officers (or other worker representatives) by local arbitration institutions, the ILO, or other experts in the industrial relations area.
- Where the health of workers is particularly poor or there is an unusually high incidence of chronic disease (e.g., tuberculosis, anemia, 'grey lung') – immediate health checks and medical assessment of all employees by local medical professionals, and a thorough review of the capacity of the clinic on site, its procedure and treatment provision.
- Where there is severe contamination or pollution of the local environment due to improper or uncontrolled manufacturing processes – an immediate environmental impact assessment and, where appropriate, clean-up operations.

9.5 Warning Letters


A Warning Letter is a written notification that, in the opinion of SEA, a breach of the Standards has been committed and that inadequate action has been taken by management to remedy the non-compliance. A record of Warning Letters issued by SEA will be maintained and such letters will be referred to in any subsequent recommendation either to reduce or suspend orders, or to terminate the manufacturing engagement. On any given issue, failure to remedy non-compliance after the issuance of Warning Letter 2 will usually result in a recommendation by SEA to the Sourcing Unit to terminate the business relationship; see Section 9.7.

SEA will consider the following factors in deciding whether to issue or escalate a Warning Letter:

- The effect of the non-compliance on the workforce
- The circumstances leading to the non-compliance
- The intent of the supplier (either at the individual manufacturing site level or at a group/corporate level)
- The history of Standards performance of the supplier
- The attitude of the supplier in discussions with the SEA regarding Standards requirements
- Any remedial steps taken to address the non-compliance.

The above list of factors is not exhaustive, and those which are relied on to issue the warning will vary from case to case. It is not simply a matter of weighing the number of factors for and against the supplier, in respect of its Standards performance. SEA will decide how important each factor is, given the specific circumstances, and will make an overall assessment before reaching a final decision. In select cases, prior to a Warning Letter being issued, Sourcing and SEA will send a written memorandum to the supplier's management, to prompt early action.

A Warning Letter will only be issued when the SEA has fully consulted with relevant Sourcing Unit and believes that all other avenues of dialogue with the supplier have been explored and have not yielded any result. A formal letter will also be issued to the parent company whenever it is applicable.


	Policy & Procedure	Version 07	Page: 10/15
			Approval Date: April 2023
	Social & Environmental Affairs Enforcement & Warning Letter Guideline		Effective date: April 2023
			Effective Until Replaced

9.5.1 Remediation Timeframes for Warning Letters

- 1) All action items in Warning Letter 1 (WL1) must be remediated within six months, in order to close the identified Threshold Issue (TI). This does not mean that all action items have a six-month time frame, as some may require immediate attention, if workers health and safety are in grave danger, while other issues require significantly less time than 6 months to resolve. Typically, most non-compliance can be resolved within 3 months, when supplier cooperation has been secured. SEA Field Monitors or SEA Lead Champion must set priorities based on the nature of the non-compliance and the timeframes negotiated with supplier management. SEA Field Monitors should contact their manager if there is any doubt as to the timeframe for remediation.
- 2) In extraordinary circumstances, a non-compliance might require more than six months' time to remediate given various considerations and factors. For example:
 - a) Where capital investment is required for new equipment or major engineering works that are environmentally beneficial or improve electrical, fire or building safety.
 - b) Where specific remediation is pending the results of a government or police investigation into the cause of an accident, death or injury; which may lead to a legal prosecution or other penalties.
 - c) Where a non-compliance is the subject of an independent judicial process, which will determine the legality of an action; as in the case of the dismissal of workers, following strike action.

In these instances, SEA will use its professional judgement to determine the appropriate timeline required to ensure that the non-compliance is remediated in a timely and sustainable manner.

- 3) As soon as all action points have been completed, and SEA or a third-party monitor has verified that they have been done satisfactorily, the FFC Designation changes to "SEA Accepted" and the supplier's KPI scores, if applicable, will be updated (i.e., WL1 will no longer affect the KPI). For Licensee suppliers, this can impact the Licensee Report Card performance rating}.
- 4) If no substantial improvements have been made or if new Threshold Issues are identified, a WL2 will be issued. In general, this will be done in three to six months after the WL1 was issued., However, SEA reserves the right to adjust these timelines as conditions warrant and will weigh up any consequential impacts. For example, if the cancellation of upcoming orders in effect forces the supplier into closure or leads to layoffs.
- 5) If after the agreed upon timeframe cited in the WL2 has passed and if there is still no sustainable improvement, the recommendation for termination will be made to Sourcing and its Legal Department and a Notification of Termination must be issued.
- 6) The SEA Field Monitors must maintain frequent dialogue with their line managers and other relevant staff (e.g., the Country Manager or SEA Operational Contact, production or materials managers, and any adidas licensee or agent sourcing colleagues) during the Warning Letter process. adidas is seeking continuous improvement from its suppliers, therefore in order to avoid escalating a case to a WL2 or a Notification of Termination, it is critical that SEA Field Monitors engage colleagues in Sourcing and/or within licensees/agents, to seek their support in resolving non-compliance problems at the supplier.

	Policy & Procedure	Version 07	Page: 11/15
			Approval Date: April 2023
			Effective date: April 2023
			Effective Until Replaced

**Social & Environmental Affairs
Enforcement & Warning Letter Guideline**


9.5.2 Expiration Timeframes for Warning Letters

- 1) If the supplier remediates the Threshold Issues (TIs) set out in WL1 and there are no new or repetitive TIs within 18 months of WL1 being issued, WL1 will expire. WL1 will be kept on record in the SEA database but will be regarded as inactive. Further, if there have been sustainable improvements in relation to all TIs set out in WL1, the supplier's KPI will not be affected.
- 2) WL2 will be issued in instances where WL1 has already been issued, but the TIs are recurring or new TIs are identified within 18 months of the WL1 issuance. If any additional TIs are identified *after* 18 months of WL1 having been issued, a new WL1 will be issued and the remediation and expiration timelines are reset to zero.
- 3) There is no expiration timeframe for WL2. This means that a WL2 will always be active in the FFC, and any non-compliance, either new or repetitive in nature, will lead to a Notification of Termination. However, if there has been sustainable remediation of all action points in WL2, the WL will no longer affect the supplier's KPI.

9.5.3 Warning Letter Standard Operating Procedure

The Warning Letter Flowcharts, within the Appendix/Attachments section, detail the steps to be taken when a WL is issued based on whether the factories are **internal coverage** by SEA, sourced directly by adidas, or **external coverage** by approved external monitors, sourced indirectly through third-party business entities such as licensees or agents. These are usually indicated in Custom Data 2 in Account Information Page in FFC.

*Timeframes for WL: *Drafting the WL*: within 5 working days after the decision to issue a WL is taken;
Collecting signatures: within 5 working days after the WL and its attachments are ready.


	Policy & Procedure	Version 07	Page: 12/15
			Approval Date: April 2023
			Effective date: April 2023
			Effective Until Replaced

**Social & Environmental Affairs
Enforcement & Warning Letter Guideline**

9.5.4 Warning Letter Scenarios based on different business entities

The table below illustrates the basic principle to have one major/primary sourcing party to sign off the Warning Letter. It also serves as a guidance for SEA member and the business entity in preparing the Warning Letter.

Scenario	Which Business Entity is involved?	Who signs the Warning Letter (WL)?	Which term to be used in the WL?
Scenario A: adidas Letterhead is used with corresponding LO address	Only LO	Signed by Sourcing and SEA Sr. Mgmt.	'Manufacturing Agreement' should be used
	LO and other Business Entities (BE*)	Signed by Sourcing and SEA Sr. Mgmt. Other BEs are copied.	
Scenario B: Letterhead of the BU is used	Only BU (other than LO)	Signed by Head of BU and SEA Sr. Mgmt.	If there is no Manufacturing Agreement signed, please use the more general term, 'Manufacturing Engagement'
	Business Unit(s) and/or Licensee(s) sourcing together	BU Direct Sourcing: Letterhead of the BU is used. Signed by Head of BU and SEA BU Indirect Sourcing: Letterhead of the major/primary BU/Licensee is used (based on larger % of order volume). Other BEs should be copied	
Scenario C: Letterhead of the Licensee is used	Only Licensee	Signed by the Head of Licensee (no need for SEA to sign)	
	Multiple Licensees	Signed by the Head of the Licensee who has the major/primary relationship (based on larger % of order volume) (no need for SEA to sign, but SEA must be copied on outgoing letter) SEA informs the designation, instead of sending the letter to other licensees, to avoid any business conflict.	

	Policy & Procedure	Version 07	Page: 13/15
			Approval Date: April 2023
			Effective date: April 2023
			Effective Until Replaced

Social & Environmental Affairs Enforcement & Warning Letter Guideline

9.6 Termination of Manufacturing Agreements & Engagements

SEA recognizes that recommending termination is a matter of last resort that should only be done after full consideration of all the consequences, especially any adverse impact on the workforce. A decision to terminate must be discussed and agreed with senior management level from the relevant Sourcing Unit.

Where a Zero Tolerance issue, or other such severe issue has been identified, and where all other options and opportunities for leverage have been exhausted and a supplier is still unwilling or unable to comply with the Standards, SEA will recommend termination of the Manufacturing Agreement or Manufacturing Engagement.

(Note: In case a supplier which has a 'Compliance Override' designation for fast-track onboarding fails to remedy the relevant non-compliances within the agreed time frame, SEA will issue a Notification of Termination letter).

Once a supplier has been terminated, it is permanently disqualified from production for adidas.


10 Fair Factories Clearinghouse Designation

When any enforcement action is taken against a supplier, the factory's Designation in the Fair Factories Clearinghouse (FFC), adidas' compliance database, will be updated. In doing so, the following tasks will be completed: a) update the Designation; b) change the Designation "status update" to the date the Warning Letter was issued; c) remove prior or outdated Designation comments; d) update the Designation comments to include a brief explanation on why the Warning Letter was issued; and e) upload a copy of the signed Warning Letter as an attachment to the Factory Account page in the FFC. The Designations are as follows:

- a. When SEA has issued the first Warning Letter, the SEA Field Monitor or Service Provider will update the FFC Designation to "On Probation – WL 1 Issued."
- b. When SEA has issued the second Warning Letter, the SEA Field Monitor or Service Provider will update the FFC Designation to "On Probation – WL 2 Issued."
- c. As soon as all sustainable remediation and action points have been completed, and SEA or Service Provider has verified that they have been done satisfactorily, the Designation changes from "On Probation – WL 1 Issued" or "On Probation – WL 2 Issued" to "SEA Accepted". (Note: see section 9.5.2 which deals with expiration timeframes for Warning Letters.)

The Designation "Pending Termination" is issued to an existing supplier who has been issued a Notification of Termination letter under the Enforcement Guideline and termination is being processed, existing production on the line can be completed. Once production is completed, the Designation changes to "SEA Terminated." This applies to an existing supplier who has been terminated on SEA's recommendation, because Zero Tolerance or Threshold Issues were discovered and the supplier would not remediate these issues in a sustainable manner.

For some situations, Business Entities may choose to deactivate the factories based on business reasons before the issuing of the Warning Letter. In such cases, Warning Letter may not be issued but the intention to issue the Warning Letter shall be reported in the Designation Comment by SEA in the FFC to keep the compliance history of these factories.

	Policy & Procedure	Version 07	Page: 14/15
			Approval Date: April 2023
			Effective date: April 2023
			Effective Until Replaced


**Social & Environmental Affairs
Enforcement & Warning Letter Guideline**

Designations and Order Authorizations

When enforcement action is taken against a supplier, SEA or the SEA-designated Service Provider will update the designation for the relevant manufacturing site in the FFC as follows:

Designation	Definition	Order Authorization
SEA Accepted – Risk of Enforcement	Applies to existing suppliers where Threshold Issues have been discovered in a previous Desktop or Performance Audit, which requires the factory to remediate the Threshold Issues prior to their next audit or risk facing enforcement action (ex. Warning Letter 1). Follow-up audit must take place within 3-6 months of the factory being designated “SEA Accepted—Risk of Enforcement”.	Orders are authorized.
On Probation – WL1 Issued	The supplier has been issued Warning Letter 1.	Orders are authorized only for the existing Sourcing Units. Any new Sourcing Units cannot place orders without first getting authorization from SEA.
On Probation – WL2 Issued	The supplier has been issued Warning Letter 2.	Orders are authorized only for the existing Sourcing Units during the remedial period. Future order may be suspended or capped. The continuation of adidas production is subject to the completion of all required remedial actions outlined in this Warning Letter. Any new Sourcing Units cannot place orders without first getting authorization
Pending Termination	The supplier has been issued with a notification of termination. SEA is awaiting confirmation from a) adidas Legal Department that the Manufacturing Agreement has been terminated*, and b) Sourcing Unit that production is complete.	Orders are not authorized.
SEA Terminated	SEA has received confirmation that the Manufacturing Agreement/ Engagement with the supplier has been terminated and there is no production in process.	The supplier may not be re-instated as an active supplier by adidas or any other business entity doing business with or on behalf of adidas.

***Note:** This only applies to those cases where there is a signed Manufacturing Agreement in place. Otherwise, confirmation from Sourcing Unit is sufficient.

	Policy & Procedure	Version 07	Page: 15/15
			Approval Date: April 2023
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**Social & Environmental Affairs
Enforcement & Warning Letter Guideline**

11 Notes and Terms

1. This Guideline will be updated from time to time. SEA will advise adidas colleagues, suppliers and other relevant business entities of any significant changes in the approach of the SEA to enforcement and termination procedures.
2. Supplier in this document refers to the factory (including subcontractors), i.e., manufacturing site for any type of production regardless of what kind of product for adidas. It also covers a broader term to reflect any sourcing and/or legal relationship including manufacturer, parent company or individual manufacturer, or other organization from whom adidas sources product directly (including, and in particular, those suppliers with whom adidas has signed a Manufacturing Agreement) or indirectly through a third-party business entity such as a licensee or agent.

APPENDIX/ATTACHMENT

Notification of Termination – ZT Identified Template

Notification of Termination Template

Notification of Termination Attachment

Warning Letter 1 Template

Warning Letter 1-2 Attachment

Warning Letter 2 Template

Zero Tolerance (ZT) and Threshold Issues (TI)

Warning Letter Flow Diagram