

FORCED & CHILD LABOUR IN CANADIAN SUPPLY CHAINS ACT – ADIDAS REPORT

The following report has been prepared in accordance with the *Fighting Against Forced Labour and Child Labour in Supply Chains Act* (the “Act”).

1. Reporting entity

The reporting entity covered by this report is **adidas Canada Limited** (100052950RC0003), having its registered office at 8100 Highway 27, Woodbridge, Ontario, Canada L4H 3N2, for the financial year beginning **1 January 2023** and ending **31 December 2023**.

adidas Canada Limited is proud of the steps that we have taken to combat forced labour, child labour, modern slavery and human trafficking described in this report and supporting documents. However, we also recognize that forced labour and child labour is a complex and challenging subject area where there are limitations in terms of knowledge, understanding and influence. We are committed to improving our practices to ensure that our preventative and remedial efforts continue to be relevant, timely and effective.

2. Structure, activities and supply chain

adidas Canada Limited is a federally incorporated Canadian corporation which is a wholly owned subsidiary of adidas International BV, a Dutch company, and its ultimate holding company is adidas AG (“adidas”), which is a publicly listed company on the German stock exchange. adidas Canada Limited employs approximately 1472 employees and does not control or own any other entities.

adidas Canada Limited is engaged in the retail and wholesale of sporting, fitness, clothing and lifestyle products under the brand of adidas within Canada, either directly through our own 30 retail stores and ecommerce channels or through third-party distributors and retailers and/or third-party ecommerce platforms, and all activities related thereto.

adidas Canada Limited primarily purchases products from an affiliate of adidas. Those products are manufactured in a variety of countries around the world. In 2023, adidas Canada Limited worked with four Canada-based suppliers. Globally, in 2023 adidas worked with 357 independent supplier facilities that manufacture products for our company in 40 countries, including the Canada-based suppliers referenced above. For more information on the adidas supply chain structure and to view the adidas global supplier lists, see: adidas-group.com/en/sustainability/transparency/supplier-lists

3. Policies and due diligence processes

With respect to forced labor, child labor, and human rights due diligence, adidas Canada Limited operates under the policies and processes of adidas. adidas’ highest level of policy commitment to preventing forced labour and human trafficking, and child labour, is expressed in its [Human Rights Policy](#) which demonstrates adidas’ commitment to respecting human rights in accordance with the [United Nations Guiding Principles on Business and Human Rights \(“UNGPs”\)](#) and in line with the [OECD Guidelines for Multinational Enterprises \(“OECD MNE Guidelines”\)](#). adidas is committed to respecting all internationally recognized human rights, including those encompassed within the [United Nations International Bill of Human Rights](#) and the [International Labour Organization \(ILO\) Declaration on Fundamental Principles and Rights at Work](#).

adidas’ approach to managing and eradicating forced labour and child labour from its business and business partners’ activities is outlined in adidas’ [Modern Slavery Policy Framework and Strategy Implementation](#), first

published in 2010, and updated in 2023. This document outlines adidas' commitment to preventing forced labour and child labour in our business operations and supply chain, as well as adidas' approach for a tailored, risk based due-diligence process, regular monitoring activities and performance measurements as well as designing and delivering targeted training and capacity building. adidas also has included clear and well-defined policies on the prohibition of forced labour, child labour and modern slavery in its [Policy on Responsible Recruitment](#) and [Responsible Sourcing and Purchasing Policy](#).

adidas' commitment to ensuring fair labour practices and safe working conditions in the manufacturing facilities that produce for adidas across its global supply chain is fundamental to its human rights approach and is outlined in the adidas [Workplace Standards](#), which is the adidas supply chain code of conduct. adidas requires all of its supplier partners to uphold the Workplace Standards, which expressly prohibit all forms of forced or compulsory labour, including prison labour, human trafficking, and child labour. adidas requires its suppliers to live up to the Workplace Standards and expects them to cascade these standards – as well as the adidas Human Rights Policy commitments – throughout their own supply chains. adidas applies enforcement actions when existing suppliers are not in compliance with those Standards.

To support suppliers in meeting these expectations, adidas has produced a number of [supporting guidelines](#). These supporting guidelines include [additional resources](#) for business partners to prevent child labour, responsibly manage the employment of juvenile workers, and manage third-party relationships such as subcontractors, agents or outsourcing companies to prevent child labour.¹

All policies mentioned are available on the adidas corporate website [here](#).

4. Forced labour and child labour risks

For over 25 years, the adidas human and labour rights program has been focused on delivering on its commitment to human rights through the application of an ongoing Human Rights and Environmental Due Diligence (“HREDD”) process to identify, address, evaluate, and communicate the risks of involvement with adverse human rights and environmental impacts through its own operations, products, or services, or via its business relationships.

As a global company, adidas has continued to evolve and adapt this HREDD process to ensure it is consistently and proactively monitoring our supply chain for human rights risks, and to ensure it are compliant with a shifting regulatory landscape requiring greater supply chain transparency and human rights due diligence which extends across the value chain.

Preventing Child Labour in our Supply Chain

The adidas Workplace Standards prohibit the employment of children younger than 15 years old, or less than the required age for completing compulsory education per local law if it is over 15 years old. Over the past 25 years, adidas has engaged with its suppliers to build their capacity to eliminate child labour from all Tier 1 supplier facilities. adidas has developed [specific guidelines](#) for the effective management of the recruitment process and strengthening Human Resources (HR) systems at the factory-level to prevent child labour, ensure protections for juvenile workers and to respond to violations, if they occur.

Should instances of child labour be identified, adidas has issued guidance to suppliers on immediate measures to be taken, such as: verifying the identify and age of the child, removing the child from the production area and

¹ The adidas global approach to preventing child labour in our supply chain and handling cases of child labour – in the rare event they should be identified – are aligned with the steps outlined in the [ILO-IQE Child Labour Guidance Tool for Business](#), which supports companies in meeting their obligations under the UNGPs as they pertain to child labour.

providing accommodation, food and care until a solution is found, identifying opportunities to re-enroll the child in school, evaluating family circumstances, and other measures; and medium-term measures including: reviewing recruitment and personnel practices to identify gaps or failures, building a remediation network of local organizations, trade unions, government and other parties to provide support services, and implement a robust remediation program.

Risk Assessment

Given the scale and complexity of the adidas global value chain – with products sourced from more than 40 countries globally and sold in over 100 markets – the company has developed a risk-based due diligence approach that targets high-risk locations, processes or activities that require the closest attention and where we are able to apply influence to mitigate or remediate issues, where they occur. This due diligence approach also considers potential adverse impacts and risks arising out of non-trade procurement and other operational areas of our business.

The adidas modern slavery risk assessment is updated on a rolling, three-year basis, and cuts across all tiers of the global adidas supply chain. It was designed to effectively identify the evolving risks of modern slavery and prioritize areas of action where, as a business, there would be the most leverage to effect positive and meaningful change. The risk assessment reflects several key inputs, including: (1) internal and external stakeholder engagement, including tailored engagements with specific stakeholder groups, with the investor community, through worker interviews, and engagement with government agencies on human rights topics; (2) direct experience of having worked on these topics within the global supply chain; and (3) emerging legislative and regulatory requirements. More information on the efforts made in 2023 to address the identified modern slavery risks are outlined on the corporate website here: <https://www.adidas-group.com/en/sustainability/social-impacts/human-rights>

As a company, adidas has evolved its approach from conducting a standalone modern slavery risk assessment, to a broader approach. In 2023, this assessment was integrated into a broader HREDD risk management efforts, as part of the ambition to have a system in place to identify and manage high risk human rights issues across 100% of the adidas value chain by 2025 – an ambition which is linked to the fulfilment of legal obligations, as a publicly listed company, under the German Supply Chain Due Diligence Act of 2021 (*Lieferkettensorgfaltspflichtengesetz*, hereafter LkSG).

In addition, last year, the HREDD risk management process was enhanced, including: (1) expanding the scope of human rights and environmental risk management beyond sourcing activities to include other business functions including Brand, Non-Trade Procurement and Human Resources; and (2) assigning ‘risk owners’ in each relevant business function, who are accountable for identifying, assessing, and managing adverse human rights and environmental risks in their respective area of operational responsibility.

The HREDD risk assessment is aligned with the UNGP approach, OECD MNE Guidelines, and LkSG legislative requirements and is designed to identify salient human rights issues and prioritize them according to the expected likelihood of a risk to materialize, and the expected severity (scope, scale and remediability) of the impact. It is informed by internal and external sources of information, including assessments and reports issued by government agencies and multilateral organizations, risk studies by third parties, general media coverage, issues defined by mandatory due diligence legislation, and through other available forms of stakeholder engagement, including issues raised by the advocacy community.

Recognizing the challenges of directly addressing the full range of forced labour and child labour risks in the global upstream supply chain – particularly at the raw materials level – adidas relies on industry-led initiatives and collaborative approaches to exert influence and create the necessary leverage to effect change. The approaches

described below are examples of efforts we have taken as a company as well as industry-wide efforts to mitigate the risk of forced labour and child labour in the adidas supply chain.

Through the HREDD risk assessment conducted in its first phases in 2023, the greatest potential risk of forced labour and child labour were identified in the adidas materials supply chain (Tier 2 and Tier 3) in high-risk locations such as Greater China, and in raw materials (Tier 4+) sourcing activities for materials including cotton, leather, and recycled polyester. While adidas does not hold any direct contractual relationships with Tier 2 (T2) material or Tier 3 (T3) yarn suppliers and do not source any raw materials directly, the company is nevertheless exposed to risks of adverse human rights impacts through the use of these materials in final products.

Tier 2 Material and Tier 3 Yarn Supplier Risk Management

In close cooperation with the Global Operations function, all potential new suppliers are assessed by the adidas Social and Environmental Affairs (SEA) team, to ensure that new suppliers meet our standards. Sourcing teams can only place orders with a new supplier if the SEA team has given its approval. For more on the overall approach to monitoring supplier performance and ensuring compliance with adidas' social and environmental standards, please see [here](#).

While adidas has no direct contractual relationship with Tier 2 apparel material suppliers, a nomination process has been implemented, whereby Tier 1 manufacturing partners source fabric from specifically designated T2 business entities. Such nominated apparel material suppliers are subject to annual labour compliance audits to ensure full compliance with the Workplace Standards. adidas' T2 partners are also obligated to disclose their sourcing activities and materials transactions related to T3 suppliers, and the origin of materials sourced for yarn production.

In high-risk contexts for forced labour, adidas has conducted targeted audits and has mapped the audit results to an internal forced labour indicator reporting tool. The tool enables findings from the labour compliance assessment to be reviewed and evaluated in accordance with the ILO Forced Labor Indicators. Any "yes" answer will prompt an assessment of the degree of impact and, if strong indicators are present, this would be raised by the auditor with adidas to vet the findings and agree on next steps.

Since the tool was launched in January 2022, audits of applicable adidas' Tier 1 manufacturing partners, selected Tier 2 materials suppliers and targeted Tier 3 spinners in Asia have been mapped against the ILO indicators. Based on these monitoring findings to date, no indications of forced labour were identified that would have triggered enforcement action or business terminations. Between 2022 and 2023, a total of 57 T2 audits and 21 T3 audits were conducted, and did not identify any indicators of forced labour. This tool will be applied globally to ensure ongoing regulatory compliance across the entire global supply chain.

Further enhancements to the overall approach to managing forced labour and child labour in the upstream supply chain included the introduction in October 2023 of a global risk analytics platform, which screens individual business entities and production locations against trade sanctions and forced labour risk data. In 2024, adidas will further streamline the use of this platform by implementing a standardized and regular review process of proposed and existing suppliers utilizing this platform.

If there are any findings or indications of forced labour, triggered through audits, third-party complaints, or other sources, adidas ensures rapid follow-up with in-depth investigations to determine the facts and possible remedial steps should actual instances of forced labour or child labour be identified.

Raw Materials – Cotton

adidas has worked to reduce our risk exposure to potential forced labour in its cotton supply chain through participation in [Better Cotton](#) and by reviewing countries of origin for cotton. These risk mitigation measures have been implemented with a view to ensure compliance with regulatory requirements in the United States on forced labour and child labour.

In 2023, adidas responded to two government inquiries, one from the [U.S. Congressional Select Committee on the Chinese Communist Party](#), and the other from the Federal Office of Economics and Export Control (BAFA), which is responsible for the enforcement of the German Supply Chain Due Diligence Act. Both inquiries were seeking clarification on advocacy claims and an explanation of how adidas addresses forced labour risks in its global supply chain.

In 2023, cotton was primarily sourced from countries including Australia, Brazil, India, Pakistan, Turkey and the United States. Better Cotton makes up the vast majority of cotton used in adidas products, and in 2023, 96% of cotton was attributed to Better Cotton. Better Cotton promotes sustainable farming practices and promotes social compliance at the farm-level, by ensuring living wages, decent working conditions, and the eradication of forced labour.

To further diversify cotton sourcing countries of origin and reduce forced labour risks in the adidas cotton supply chain, in 2023 adidas launched a pilot with the [U.S. Cotton Trust Protocol \(USCTP\)](#), which aims to ensure article-level transparency and traceability in sourcing cotton from the United States, and monitors the production of cotton according to a range of sustainability metrics.

adidas also continue to expand our due diligence efforts in other tiers of the cotton supply chain. For instance, adidas continues to support the [Yarn Ethically & Sustainably Sourced \(YESS\)](#) program which has run pilot projects in countries in South Asia. The YESS Standards aim to eliminate forced labour involved in cotton production by training and assessing fabric and yarn manufacturers to implement due diligence and address the risk of cotton produced with forced labour within their own supply chains.

Where an elevated risk of forced labour and child labour in the upstream supply chain has been identified, adidas has used the expertise and on-the-ground presence of organizations such as the Fair Labor Association (“FLA”) to assess such risks. This has been the case historically in the rubber supply chain in Vietnam and more recently for leather, as described below, and adidas is currently engaged with FLA in a scoping study to assess the presence of forced labour and child labour in cotton cultivation in India. This is being undertaken in collaboration with other international brands and in close cooperation with the labour rights advocacy community.

Raw Materials – Leather

Currently, more than 99% of the global adidas leather volume is audited in accordance with the Leather Working Group protocol, and most hides are sourced from tanneries with the highest LWG rating (LWG Gold). The primary sourcing countries for bovine hides include the United States – which supplies nearly half of the hides to the tanneries adidas works with – followed by Argentina and Brazil.

Brazil has been identified by the [U.S. Department of Labor](#) as a source country for beef and cattle which may be produced with forced and child labour. Based on the potential risk of forced labour and/or child labour being connected to the leather industry through the beef and cattle sectors, in 2023 adidas initiated a study of the leather sector in Brazil in partnership with the Fair Labor Association (FLA). The purpose is to increase the knowledge of apparel and footwear brands on the various tiers in the leather supply chain, how leather intersects with other sectors (e.g., meat packing), the human and labour rights risks, and provide recommendations on an effective approach to promoting human rights and decent working conditions in the leather supply chain. The outcomes of the study are expected to be delivered by mid-2024.

Raw Materials – Recycled Polyester

Globally, adidas almost exclusively uses recycled polyester (rPET) in our products. Last year, 96% of all polyester used was recycled, and the company is on track to use 100% recycled polyester from 2024 onwards. The main rPET yarn manufacturers are located in Taiwan, Vietnam, and China. As part of adidas' upstream due diligence efforts, the recycled polyester supply chain in China was mapped to the T3 level and the application of certification programs under the Global Recycling Standard (GRS) was expanded to capture labour compliance data. adidas also conducted targeted labour audits and supplier screening using the aforementioned forced labour indicators tool. In 2023, adidas conducted 7 audits of T3 facilities, and accepted 12 T3 facilities with valid GRS scope certificates. Based on those assessments, in 2023 no instances of forced labour in the rPET supply chain were identified.

Raw Materials – Natural Rubber

As part of adidas' broader sustainability efforts, in 2023 the company initiated a supply chain mapping exercise for natural rubber to identify the countries of origin of this material and supply chain linkages from raw material to Tier 2 supplier. The gaps identified in this analysis will be addressed over the coming years to ensure better and more complete visibility of the natural rubber supply chain. Increased transparency of the natural rubber supply chain will support adidas in achieving its ambitions to source deforestation and conversion-free (DCF) raw materials and will support in identifying risk 'hotspots' for forced labour, child labour, and other adverse human rights impacts.

This current mapping complements earlier research into the sourcing of natural rubber from Vietnam and prior work with the FLA on developing a multistakeholder approach to evaluate risk and the opportunities for industry collaboration to prevent child labour and forced labour risks in upstream supply chains. See:

https://www.fairlabor.org/wp-content/uploads/2022/01/vietnam_mappingreport_final.pdf

5. Remediation measures

adidas Canada Limited is not aware of any incidents or significant risks of forced or child labour in its supply chain in 2023 and thus the question of remediation has not arisen. As such, the question of remediation is considered not applicable. Nevertheless, adidas Canada Limited will remain vigilant in this regard and will continue to act in accordance with its commitment to respecting human rights and avoiding forced labour and child labour in its supply chains.

6. Remediation of loss of income

adidas Canada Limited is not aware of any incidents or significant risks of forced or child labour in its supply chain and thus the question of remediation has not arisen. adidas Canada Limited has therefore concluded that there was no loss of income for vulnerable families resulting from measures taken to eliminate the use of forced labour or child labour within its supply chains.

7. Training

As a company, adidas strives to embed modern slavery awareness within its business and among its suppliers to ensure effective remediation and sustainable capacity building. As part of continuous efforts to achieve more effective and sustainable practices within the supply chain, adidas initiated a system of multi-level and cross-functional training sessions with its global supplier network utilizing both in-person and eLearning trainings to maximize the trainings' impact throughout the supply chain. This includes reinforcement of the core fundamentals of the Workplace Standards, which expressly prohibits the use of forced or compulsory labour, and child labour.

adidas initially launched a modern slavery awareness training for Sourcing and Procurement employees in 2018 and this has been provided to relevant employees in subsequent years. In 2023 adidas finalized its approach for online global employee training on topics including preventing forced labour and child labour. It will be developing a targeted curriculum for all global corporate employees to further embed respect for human rights across the business, and the online training curriculum will include a module on the global Human Rights Policy, as well as awareness-raising modules on preventing forced labour and child labour in supply chains and human rights due diligence. The trainings will utilize materials from established and respected training bodies, multi-stakeholder institutions, non-governmental organizations, etc.

8. Assessing effectiveness & external recognition

adidas is committed to transparency and to independent assurance, to inform and improve the performance of its due diligence program.

The human rights due diligence program – including those elements related to monitoring risks of forced labour and child labour – are independently verified by the FLA through an [annual assessment process](#). FLA's assessment is a rigorous, multi-year process that evaluates companies' systems to protect workers throughout global supply chains. adidas was initially accredited by the FLA in 2005 and has been subsequently reaccredited an industry-leading three times. In its most recent annual evaluation, covering 2022-23, adidas received a 100% rating following the FLA's review of our company's '2023 FLA Annual Evaluation'.

adidas further tracks its efforts to address modern slavery risks and provide frequent updates to both internal and external stakeholders to increase transparency and disclosure. Through annual UK and Australia Modern Slavery Statements, annual Modern Slavery Progress reports, and other public disclosures to comply with regulations such as the German Supply Chain Due Diligence Act and Norwegian Transparency Act, the company regularly shares and communicates the actions it has taken to address forced labour and modern slavery in its supply chain.

adidas also utilizes external benchmarks to review the quality and depth of transparency and disclosure on human rights and modern slavery. adidas has frequently been awarded with leadership positions in the Corporate Human Rights Benchmark and KnowTheChain, recognizing the company's efforts in managing human rights across its own operations, as well as efforts to eradicate forced labour, human trafficking and child labour from its supply chain.

In the [2023 KnowTheChain benchmark](#), which evaluates companies' actions to address forced labour risks in their supply chains, adidas ranked 3rd out of 65 apparel and footwear companies. In the [2023 Corporate Human Rights Benchmark](#), which assesses companies' policies, processes, and practices related to human rights and how they respond to serious allegations, adidas ranks 8th among all apparel companies in the benchmark, and it is one of only two apparel companies that disclose the outcomes of its grievance mechanism and the changes made to the human rights management system as a result of grievances received.

9. Approval and Attestation

This Report was approved pursuant to subparagraph 11(4)(a) of the Act by the Board of Directors of adidas Canada Limited.

In accordance with the requirements of the Act, and in particular section 11 thereof, I attest that I have reviewed the information contained in the report for the entity or entities listed above. Based on my knowledge, and having exercised reasonable diligence, I attest that the information in the report is true, accurate and complete in all material respects for the purposes of the Act, for the reporting year listed above.

I have the authority to bind adidas Canada Limited.

Per: DocuSigned by:
Lesley Hawkins
627085C11128426...
Name: Lesley Hawkins
Title: Canada Head of Retail and Board Director,
adidas Canada Limited
Date:

Per: DocuSigned by:
Michael Slofstra
103FC01588B545F...
Name: Michael Slofstra
Title: SVP Finance, North America and Board
Director, adidas Canada Limited
Date: