

Second-Party Opinion

adidas Sustainability Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the adidas Sustainability Bond Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds Sustainable Materials, Sustainable Processes and Community Engagement are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 7, 9, 10, 12.



PROJECT EVALUATION / SELECTION adidas' internal process in evaluating and selecting projects is managed by the Sustainability Sponsor Board (the "Board"). The Board is responsible for ensuring that eligible projects are aligned with the eligibility criteria and for reviewing and approving allocation, among other tasks. The Board will meet at least on a quarterly basis. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS The management of proceeds will be handled by the Corporate Treasury department (the "Treasury"). adidas plans to use existing internal tracking systems with Treasury using a register to keep track of allocation of proceeds. Pending allocation, proceeds may be temporarily invested or otherwise maintained in cash, cash equivalents, short-term investments, or used to repay other borrowings, such as general corporate purposes. This is in line with market practice.



REPORTING adidas intends to report allocation proceeds on its website on an annual basis until full allocation. Allocation reporting will include the total amount of net proceeds allocated to projects per category and unallocated proceeds. In addition, adidas is committed to reporting on relevant impact metrics, such as % of CO₂ emission reduction compared to baseline (2017) or number of scholarships financed for Black students. Sustainalytics views adidas' allocation and impact reporting as aligned with market practice.

Evaluation date	September 25, 2020
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Issuer Location	Herzogenaurach, Germany
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Introduction

adidas AG (“adidas”, or the “Company”) designs, develops, produces and markets a broad range of athletic and sports lifestyle products. Headquartered in Herzogenaurach, Germany, the Company employs over 59,000 people around the world.

adidas has developed the adidas Sustainability Bond Framework (the “Framework”) under which it intends to issue multiple sustainability bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that could strengthen its internal and external sustainability credentials, and generate positive social outcomes. The Framework defines eligibility criteria in three areas:

1. Sustainable Materials
2. Sustainable Processes
3. Community Engagement

adidas engaged Sustainalytics to review the adidas Sustainability Bond Framework, dated September 2020, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG).¹ This Framework has been published by adidas in a separate document.²

Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent³ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2018, Social Bond Principles 2020, and Sustainability Bond Guidelines 2018, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds;
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.5.1, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of adidas’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. adidas representatives have confirmed (1) they understand it is the sole responsibility of adidas to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and adidas.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The

¹ The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

² The adidas Sustainability Bond Framework is available on adidas’s corporate website at: www.adidas-group.com

³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that adidas has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the adidas Sustainability Bond Framework

Sustainalytics is of the opinion that the adidas Sustainability Bond Framework is credible, impactful and aligns with the four core components of the Green Bond Principles 2018 (GBP) and Social Bond Principles 2020 (SBP), and with the Sustainability Bond Guidelines 2018. Sustainalytics highlights the following elements of adidas' Sustainability Bond Framework:

- Use of Proceeds:
 - The eligible categories (i) Sustainable Materials, (ii) Sustainable Processes, and (iii) Community Engagement are aligned with those recognized by the GBP and SBP. Sustainalytics is of the opinion that the expenditures under the Framework will contribute to circularity in the sportswear industry and produce positive environmental and social impacts.
 - Within the Sustainable Materials category, adidas aims to finance the following activities:
 - adidas may use the proceeds to purchase fabric containing recycled polyester, directly or via its suppliers and product vendors. As a use of proceeds, the purchase of fabrics that contain at least 50% recycled polyester is aligned with adidas' overall sustainability strategy and supports a transition to more sustainable practices in the textile industry. Sustainalytics is of the opinion that a shift to 100% recycled materials is the preferred long-term outcome, and notes that the Framework mandates this level of recycled content by 2024. Sustainalytics also notes that there are currently technological and supply chain barriers to fully eliminating the use of all virgin polyester, and that a resolution to these challenges is required to achieve a fully circular economy.
 - adidas may finance the costs of sourcing cotton certified to the Better Cotton Initiative (BCI) standard.⁴ Sustainalytics notes that the procurement of BCI-certified cotton promotes sustainable practices by providing capacity building and support to farmers. The BCI standard addresses sustainability issues related to cotton, such as crop protection practices, water stewardship, and labour rights. Through its multi-stakeholder approach, BCI aims to drive positive overall outcomes across the industry; the organization has published data suggesting that, overall, cotton produced under the programme uses less pesticides and synthetic fertilizer (ranging from 5-40%) than comparable non-certified crops.⁵ Nevertheless, Sustainalytics notes that, in contrast to most credible certification schemes, BCI does not require adherence to specific performance standards, focusing instead on encouraging the attainment of improved performance over time. Sustainalytics also notes that BCI allows for the use of genetically modified organisms.⁶ Notwithstanding these drawbacks, and noting the positive ambition of the BCI scheme, Sustainalytics does not consider the use of BCI as an eligibility criterion that undermines the credibility of the Framework. For Sustainalytics' assessment of BCI, please refer to Appendix 1.

⁴ Better Cotton Initiative, Principles and Criteria: <https://bettercotton.org/better-cotton-standard-system/production-principles-and-criteria/>

⁵ Better Cotton Initiative, Farmer Results, 2017-2018 season: https://bettercotton.org/wp-content/uploads/2019/10/BCI-Farmer-Results_2017-18_Combined.pdf

⁶ The use of GMO crops is widespread within the cotton sector. Proponents note that higher yields can be attained, while other observers cite the potential dependency imposed upon farmers and the impacts on biodiversity. BCI has "adopted a position of being 'technology neutral' with respect to GM cotton". See: <https://bettercotton.org/about-bci/frequently-asked-questions/>

- In addition, adidas may finance purchases of Parley Ocean Plastic and transport packaging composed of 100% recycled materials, such as recycled polybags and cartons. Parley Ocean Plastic refers to a material created from upcycled plastic waste, intercepted from beaches and coastal communities.
- adidas may finance investments into recycling technologies, collection mechanisms, training and capacity building as well as research and development ("R&D") to create more circular product designs. Recycling technologies process blended fabrics and/or those that can separate and process trims and hardware. Collection mechanisms aim at channelling discarded products and materials into proper recycling streams. Training and capacity building aim to help product designers create closed-loop products.
- In the category of Sustainable Processes, adidas may finance improvements to the sustainability of its operations, including renewable energy production, green buildings and support to its suppliers and product vendors in using renewable energy and driving energy efficiency measures. Renewable energy sources include solar for electricity generation and geothermal. Moreover, adidas may finance the production, installation and operation of heat pumps, including electric heat pumps from geothermal and water sources. Sustainalytics notes that heat pumps offer an energy-efficient heat transfer alternative to conventional systems. Nevertheless, Sustainalytics recommends adidas to exclude the financing of heat pumps with high-GWP refrigerant(s) and to promote robust refrigerant leak control, detection and monitoring, while ensuring recovery reclamation/recycling, or destruction of refrigerants at end of life. Green buildings must achieve a minimum certification level of LEED Gold, which Sustainalytics views as aligned with market practice. For Sustainalytics assessment of LEED, please refer to Appendix 2. Initiatives to support its suppliers and product vendors in using renewable energy and driving energy efficiency measures include technical capacity building, know-how transfer through consulting and feasibility studies, data management systems and costs for industry initiatives and advocacy.
- Regarding Community Engagement, financing may include expenditures and investments that aim to positively impact disadvantaged populations, as followed:
 - adidas may use the proceeds to promote diversity and inclusion, including through access to finance, operational resources and networks for people of colour, women and LGBTQ+ entrepreneurs focused on tech, healthcare and consumer products. In addition, adidas may support Black & LatinX⁷ underrepresented youth and communities through funding, mentorship and skills development programs to drive education and career progress.
 - adidas may support access to physical activity for underrepresented youth and communities that are excluded from sport based on socioeconomics, race, religion, gender or sexual orientation.
 - adidas may provide financing to drive social mobility and bring access to career and creative skill development for underrepresented youth and communities, such as young women. In addition, adidas intends to use the proceeds to help female workers accessing better opportunities, including through programs to enhance women's skillsets and encourage them to micro-entrepreneurship development.
 - adidas may provide financial support to refugees and immigrant communities through grants for education, language classes or development programs.
 - adidas may provide financial support to people with visible and non-visible disabilities to access leisure activities and learning opportunities.
 - adidas has confirmed that marketing costs⁸ will be excluded from the aforementioned financings.
- adidas has defined a look-back period of 24 months for refinancing activities.
- Project Evaluation and Selection:
 - adidas' internal process in evaluating and selecting projects is managed by the Sustainability Sponsor Board. The Board is responsible for ensuring that eligible projects are aligned with the

⁷ Latinx is a gender-neutral neologism, sometimes used instead of Latino or Latina to refer to people of Latin American cultural or ethnic identity in the United States.

⁸ Marketing costs refer to the costs incurred for marketing, promotion, advertising, or promotional materials around the eligible social projects.

eligibility criteria, ensuring that proposed allocations are aligned with internal policies and reviewing and approving allocation, and when relevant, impact reports. The Board will meet at least on a quarterly basis. Based on these elements, Sustainalytics considers this process to be in line with market practice.

- **Management of Proceeds:**
 - The management of proceeds will be handled by the Corporate Treasury department. adidas plans to use existing internal tracking systems with Treasury using a register to keep track of the allocation of proceeds. Pending allocation, proceeds may be temporarily invested or otherwise maintained in cash, cash equivalents, short-term investments, or used to repay other borrowings, such as general corporate purposes.⁹ adidas intends to reach full allocation of the proceeds within three years after issuance. Based on these elements, Sustainalytics considers this process to be in line with market practice.
- **Reporting:**
 - adidas AG intends to report allocation proceeds on its website on an annual basis until full allocation. Allocation reporting will include the total amount of net proceeds allocated to projects per category and unallocated proceeds. In addition, adidas is committed to reporting on relevant impact metrics, such as percentage of sustainable cotton sourced, percentage CO₂ emission reduction compared to baseline (2017) and number of scholarships financed for Black students. For a full list of possible impact metrics, please refer to Appendix 3. Based on these elements, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that the adidas Sustainability Bond Framework aligns to the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020). For detailed information please refer to Appendix 3: Sustainability Bond / Sustainability Bond Programme External Review Form.

Section 2: Sustainability Performance of adidas

Contribution of Framework to adidas' sustainability strategy

adidas' sustainability strategy identifies six priorities: (i) addressing water efficiency, quality and accessibility; (ii) increasing sustainable materials in production, products and stores; (iii) reducing absolute energy consumption and CO₂ emissions; (iv) empowering people; (v) enabling people to participate in sports and providing education about healthy lifestyles; and (vi) drive change in the sportswear industry.

adidas' commitment to reducing the impact of its operations and value chain and positively impacting global communities is demonstrated through the following efforts and targets:

- adidas is committed to reducing its direct and indirect GHG emissions by 30% by 2030, compared to 2017.¹⁰ Furthermore, the Company also plans to become climate neutral by 2050.
- adidas intends to manufacture shoes using recycled plastic waste from beaches and coastal regions. In 2019, adidas produced 11 million pairs of shoes with recycled plastics, more than a tenfold increase since 2017. By 2020, the Company aims at reaching between 15 to 20 million pairs of shoes produced with recycled plastics.² Moreover, adidas targets to increase the share of recycled-content polyester for use in its products from 50% in 2020¹¹ to 100% in 2024.² From 2021, adidas commits to source packaging to transport products from recycled materials.² Furthermore, as of 2018 adidas sourced 100% sustainable cotton from BCI-certified partners and plans to continue sourcing all cotton from sustainable operations.¹²
- adidas is pursuing LEED certification for new corporate construction key projects, such as the new offices at the Company's headquarters in Germany and new flagship stores.

⁹ In general, the Company will always hold a cash balance of above EUR 500 million, in bank deposits or in money market funds. Thus, adidas confirmed that the proceeds will not be supporting projects opposed to the intentions of the bond.

¹⁰ adidas, "Adidas Aims to End Plastic Waste With Innovation + Partnerships as the Solutions", (2020), at: <https://news.adidas.com/parley-ocean-plastic/adidas-aims-to-end-plastic-waste-with-innovation-partnerships-as-the-solutions/s/be70ac18-1fc9-45c1-9413-d8abaac2e849>

¹¹ adidas, "Adidas Uses More Than 50 Percent Recycled Polyester In Its Products In 2020 For The First Time", (2020), at: <https://www.adidas-group.com/en/media/news-archive/press-releases/2020/adidas-uses-more-than-50-percent-recycled-polyester-in-its-products-in-2020-for-the-first-time/>

¹² adidas, "2019 Annual Report", (2020), at: https://www.adidas-group.com/media/filer_public/a8/5c/a85c9b8e-865b-4237-8def-8574be243577/annual_report_gb-2019_en.pdf

- adidas' community engagement efforts are directed at supporting disadvantaged groups. These efforts include, for example, the following projects: (i) refugees' integration via language classes as well as intercultural communication, job application training and sports courses,¹³ and (ii) financial support to people with visible and non-visible disabilities to access leisure activities and learning opportunities.¹³
- adidas has recently announced that through 2025, the Company will invest USD 120 million to support and empower Black and LatinX communities in the U.S., such as funding 50 university scholarships annually for Black and LatinX students. At the same time, adidas will continue to drive existing social grassroots initiatives that bring equity to underrepresented youth and communities.

Sustainalytics is of the opinion that the adidas Sustainability Bond Framework is aligned with the company's overall sustainability strategy and initiatives and will further the Company's action on its key environmental priorities.

Well positioned to address common environmental and social risks associated with the projects

Sustainalytics acknowledges that the Framework will be directed towards eligible projects that have positive environmental and social impact. However, Sustainalytics acknowledges that such eligible projects could lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects could include occupational health and safety, labour rights, supply chain management, and material procurement.

Sustainalytics is of the opinion that adidas is able to manage and/or mitigate potential risks through implementation of the following:

- The adidas Stakeholder Relations Guidelines (the "Guidelines") specifies key principles for stakeholder relations and details the different forms of stakeholder engagement. The Guidelines aim at developing sustainable business approaches and discussing social and environmental topics on a global level.¹² adidas' stakeholder relations follow three principles, including (i) those affected by adidas' business have a right to be informed about the Company's activities, participate in a transparent stakeholder engagement process and be involved in issues and opportunities that affect them, (ii) stakeholders will be provided with timely and accurate information about adidas' business and the Company will take into account the needs and concerns of stakeholders when making decisions, and (iii) adidas will actively seek stakeholder input and feedback on business decisions and will respond to what they learn.¹⁴
- The Company is part of several initiatives to address ethical behaviour across its supply chain, such as the Zero Discharge of Hazardous Chemicals Working Group, and the Leather Working Group. adidas is also active in organizations such as the World Federation of the Sporting Goods Industry, the Fair Factories Clearinghouse, the Fair Labour Association, the Bangladesh Accord on Fire and Building Safety, International Labour Organization's Better Factories program in Cambodia, and the German government-led Partnership on Sustainable Textiles, as well as the UN Fashion Charter for Climate Action and the Fashion Pact.¹²
- adidas also manages exposure to supply chain risk through compliance with the following internal standards: the Labour Rights Charter, the Code of Conduct for Employees, Code of Conduct for Suppliers: 'Workplace Standards', Responsible Sourcing and Purchasing Policy, Modern Slavery Policy, Integrated Management System Policy for Health, Safety, Environment and Energy ("IMS").¹⁵ The IMS outlines the guiding principles for adidas to operate in a safe, healthy, energy-efficient and environmentally responsible manner, adhere to applicable legal requirements, compliance obligations, directives and guidelines and protect the environment, prevent pollution, and improve the environmental footprint.¹⁶
- Regarding employee health and safety, the Company established a health and safety management system certified against ISO 45001 in key locations.¹² Through the application of the standard and the IMS, adidas commits to provide safe and healthy working conditions to prevent work-related injury and illness, control occupational health and safety risks and hazards, and make appropriate protective equipment available to provide employees with a healthy and safe work environment.¹⁶

¹³ adidas, "Communities", at: <https://www.adidas-group.com/en/sustainability/people/community-engagement/#/support-for-refugees/>

¹⁴ Adidas, "Stakeholder Relations Guidelines", (2016), at: https://www.adidas-group.com/media/filer_public/37/b2/37b226ab-4f05-4ebc-bed4-b20cfb41d9d5/2016_stakeholderrelationsguidelines.pdf

¹⁵ adidas, "Policies and Standards", at: <https://www.adidas-group.com/en/sustainability/reporting/policies-and-standards/>

¹⁶ adidas, "Global Policy Manual. GWP01 – Integrated Management System Policy", (2019), at: https://www.adidas-group.com/media/filer_public/e9/a3/e9a30e8b-a476-4dab-9c62-34df4cedd54b/2019_adidas_integrated_management_policy.pdf

- In addition, adidas has implemented an environmental management and an energy management system certified against ISO 14001 and ISO 50001, respectively.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that adidas has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All three use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

The importance of increasing eco-efficient products and materials in the apparel industry

The textile industry¹⁷ has evolved into a €917 billion industry globally¹⁸ and the consumption of clothing doubled from ~50 billion units of clothing sales in 2000 to over 100 billion units in 2015.¹⁹ Today, an average person purchases ~60% more items of clothing every year and keeps them for about half as long compared to 15 years ago.¹⁸ This significant growth and increase in demand has led to additional pressures on natural resources, with studies stating that on an annual basis, the apparel industry consumes approximately 93 billion m³ of water and accounts for approximately 20% of industrial water pollution globally; roughly enough to meet the consumption needs of five million people.²⁰ In 2019, the fashion industry was reported to be the second largest-polluting sector in the world, responsible for approximately 10% of annual global carbon emissions; a figure that is expected to increase by more than 50% by 2030.²⁰

Given the above context, increasing the input of recycled materials, designing clothes for recyclability and increasing end-of-life textile collection/recycling are key opportunities for reducing the industry's total emissions and increasing circularity of the value chain. In an Ellen MacArthur Foundation report, which was supported by adidas, it is stated that a coordinated effort to improve the sustainability of the entire value chain is required.²¹ By financing the procurement of sustainable and recycled materials and investing into innovative circular product designs and disposal, including investments into training and capacity building for product designers to develop closed-loop products, and investing into improved fabric recycling technologies and collection mechanisms to increase end-of-life recovery of clothing, adidas is contributing to improvements across its entire value chain, thus reducing the impact of the Company and the industry as a whole.

Sustainalytics is of the opinion that the adidas investments into reducing the impact of its value chain and increasing the circularity of its products will contribute to positive impacts by reducing the industry's overall environmental footprint.

The importance of fostering social cohesion and investing into communities

As the world is experiencing a rise in social upheaval stemming from political divides, war-torn countries, the current pandemic and other global social issues, the need for fostering social cohesion and inclusiveness is critical for developing robust societies with strong governance and opportunities for social mobility. Ultimately, societies that do not develop inclusive institutions and fostering social cohesion end up confronting one part of society with another.²² A report from the G20 synthesized a list of drivers and ramifications of social cohesion, some of which include racial diversity, economic inequality, level of education, and subjective well-being, among others. In essence, social inequalities are often the root of declining social cohesion. As such, efforts to reduce inequalities and provide underserved and minority groups with opportunities for integrating into the community are essential to driving cohesiveness and ensuring social stability.

adidas is actively involved in the financing of community engagements activities that contribute to fostering social cohesion and inclusiveness for targeted individuals. Many of these activities will be further supported by the proceeds raised under this Framework. adidas has identified a wide variety of potential expenditures

¹⁷ Comprising clothing as well as furniture and mattress material, linens, draperies, cleaning materials, leisure equipment and other items.

¹⁸ CBI, "The European market potential for recycled fashion", (2020), at: <https://www.cbi.eu/market-information/apparel/recycled-fashion/market-potential>

¹⁹ The World Bank, "Euromonitor international apparel and footwear", (2016), at: <https://www.intechopen.com/online-first/sustainability-initiatives-in-the-fashion-industry#F1>

²⁰ The World Bank, "How Much Do Our Wardrobes Cost to the Environment?", (2019), at: <https://www.worldbank.org/en/news/feature/2019/09/23/costo-moda-medio-ambiente>

²¹ Ellen MacArthur Foundation, "A New Textiles Economy", (2017), at: https://www.ellenmacarthurfoundation.org/assets/downloads/publications/A-New-Textiles-Economy_Full-Report_Updated_1-12-17.pdf

²² IMD, "Social Cohesion – Why it matters", (2014), at: https://www.imd.org/research-knowledge/articles/com_april_2014/

for community engagement including the promotion of diversity and inclusion to create lasting change and advance economic opportunities for underrepresented communities, including the Black and LatinX communities. Additionally, as an athletic wear Company, adidas is heavily involved in bringing sports and fitness to communities, including targeted efforts to provide access to sports and fitness for underrepresented youth and marginalized communities. adidas may also finance education, language and development programs for migrants, refugees and individuals with disabilities. Moreover, the Company will finance a variety of activities to help bring socio-economic advancement opportunities to these communities. All of these activities are important drivers of social cohesion and inclusiveness.

Based on the above, Sustainalytics is of the opinion that adidas investments into community engagement activities are an important contributor of social cohesion and thus social stability. As such, Sustainalytics considers adidas investments in this category as positive and impactful.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Sustainable Materials	12. Responsible consumption and production	12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Sustainable Processes	7. Affordable and clean energy 9. Industry, innovation and infrastructure	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.
Community Engagement	9. Industry, innovation and infrastructure 10. Reduced inequalities	9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

Conclusion


adidas has developed the adidas Sustainability Bond Framework under which it will issue sustainability bonds and use the proceeds to finance projects that promote sustainability across the Company's value chain, from the sourcing of raw materials through the manufacturing, transportation, and marketing of products. Sustainalytics considers that the projects funded by the sustainability bond proceeds could strengthen adidas' internal and external sustainability credentials, and has the potential to generate positive social outcomes.

The adidas Sustainability Bond Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that adidas' Sustainability Bond Framework is aligned with the overall sustainability strategy of the company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 7, 9, 10, and 12. Additionally, Sustainalytics is of the opinion that adidas has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that adidas AG is well-positioned to issue sustainability bonds and that the adidas Sustainability Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020).

Appendices

Appendix 1: Sustainalytics assessment of LEED certification scheme

	LEED
Background	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.
Certification levels	Certified Silver Gold Platinum
Areas of Assessment: Environmental Performance of the Building	<ul style="list-style-type: none"> • Energy and atmosphere • Sustainable Sites • Location and Transportation • Materials and resources • Water efficiency • Indoor environmental quality • Innovation in Design • Regional Priority
Requirements	<p>Prerequisites (independent of level of certification) + Credits with associated points</p> <p>These points are then added together to obtain the LEED level of certification</p> <p>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</p>
Performance display	

Appendix 2: Sustainalytics' assessment of Better Cotton Initiative certification scheme

	Better Cotton Initiative (BCI)
Background	The Better Cotton Initiative (BCI) is a global non-profit cotton sustainability program that seeks to (i) reduce the environmental impact of cotton products, (ii) improve livelihoods and economic development in cotton producing areas, (iii) improve commitment to and flow of Better Cotton through supply chain, and iv) ensure credibility and sustainability of the Better Cotton Initiative.
Clear positive impact	Transforming cotton production worldwide by developing 'Better Cotton' as a sustainable mainstream commodity.
Minimum standards	In order to receive a license to grow 'Better Cotton', farmers must comply with a set of minimum requirements and "improvement" criteria across seven key principles: crop protection, water stewardship, soil health, biodiversity enhancement & land use, fibre quality, decent work and effective management. The principles and criteria form the global definition of what is considered 'Better Cotton'. In recognition of the differences in production methods and workforces, BCI distinguishes between the minimum requirements for three categories of farmers (smallholders, medium farms and large farms).
Directly addressing social and environmental risk	BCI addresses key risks through its requirements, including human rights, child labour, biodiversity use, water stewardship and pesticide use.
Verification of standards and risk mitigation	BCI conducts supply chain monitoring and audits to ensure that companies sourcing cotton as Better Cotton comply with relevant Chain of Custody requirements, and to ensure continuous improvement.
Third party expertise and multi-stakeholder process	The WWF founded the Better Cotton Initiative in 2005. BCI partners with the following standards, which are all recognized by BCI as being equivalent to the Better Cotton Standard System: myBMP (My Best Management Practice) in Australia, ABRAPA (Associação Brasileira dos Produtores de Algodão) in Brazil, 'Cotton made in Africa' (CmiA) and 'Smallholder Cotton Standard' (SCS) of Aid by Trade Foundation (AbTF).
Performance Display	
Accreditation	Standard setting is aligned with the ISEAL Standard Setting Code.
Qualitative considerations	Global recognition across 21 countries. In 2018, 2 million licensed BCI Farmers produced 5.1 metric tonnes of Better Cotton, accounting for 19% of global cotton product. Some observers have cited the BCI's lack of commitment to a full phase out of synthetic chemicals among other social and environmental challenges.

Appendix 3: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:

Adidas AG

Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: adidas Sustainability Bond Framework

Review provider's name: Sustainalytics

Completion date of this form: September 8, 2020

Publication date of review publication:

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

The eligible categories for the use of proceeds Sustainable Materials, Sustainable Processes and Community Engagement are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG 7, 9, 10, 12.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Community Engagement |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input checked="" type="checkbox"/> Other (please specify): Sustainable Materials, Sustainable Processes |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|---|---|
| <input type="checkbox"/> Affordable basic infrastructure | <input type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input checked="" type="checkbox"/> Other (please specify): Community Engagement |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

adidas' internal process in evaluating and selecting projects is managed by the Sustainability Sponsor Board (the "Board"). The Board is responsible for ensuring that eligible projects are aligned with the eligibility criteria and to reviewing and approving allocation, among other tasks. The Board will meet at least on a quarterly basis. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|---|--|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

The management of proceeds will be handled by the Corporate Treasury department (the "Treasury"). Adidas plans to use existing internal tracking systems with Treasury using a register to keep track of allocation of proceeds. Pending allocation, proceeds may be temporarily invested or otherwise maintained in cash, cash equivalents, short-term investments, or used to repay other borrowings, such as general corporate purposes. This is in line with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|--|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify): |

4. REPORTING

Overall comment on section (*if applicable*):

adidas intends to report allocation proceeds on its website on an annual basis until full allocation. Allocation reporting will include the total amount of net proceeds allocated to projects per category and unallocated proceeds. In addition, adidas is committed to reporting on relevant impact metrics, such as % of CO2 emission reduction compared to baseline (2017) or number of scholarships financed for Black students. Sustainalytics views adidas' allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input checked="" type="checkbox"/> Other (please specify):
unallocated proceeds | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported (expected or ex-post):

- | | |
|---|---|
| <input type="checkbox"/> GHG Emissions / Savings

<input type="checkbox"/> Decrease in water use

<input type="checkbox"/> Target populations | <input type="checkbox"/> Energy Savings

<input type="checkbox"/> Number of beneficiaries

<input checked="" type="checkbox"/> Other ESG indicators (please specify):
<u>Sustainable Materials:</u> <ul style="list-style-type: none"> % of recycled Polyester used for our apparel and footwear ranges % of Better Cotton sourced Number of pairs of shoes produced containing Parley Ocean Plastic Number of pieces of apparel produced containing Parley Ocean Plastic Number of pairs of shoes produced that are fully recyclable Number of pieces of apparel produced that are fully recyclable |
|---|---|

Sustainable Processes:

- % of CO₂ emission reduction (baseline 2017)
- Number of new buildings certified to LEED Gold standard
- % of energy & water savings achieved by strategic suppliers

Community Engagement:

- Number of schools and number of children participating in BOKS program
- Number of scholarships financed for Black and LatinX students
- Number of underrepresented youth and communities provided with access to sport
- Total amount of donations made toward non-profit organizations that are driving racial justice and human rights for underrepresented youth and communities

Frequency:

- ☒ Annual
 ☐ Semi-annual
- ☐ Other (please specify):

Means of Disclosure

- ☐ Information published in financial report
 ☐ Information published in sustainability report
- ☒ Information published in ad hoc documents
 ☐ Other (please specify):
- ☐ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

Allocation and impact reports will be published on adidas corporate website, at: www.adidas-group.com

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**Type(s) of Review provided:**

- ☐ Consultancy (incl. 2nd opinion)
 ☐ Certification
- ☐ Verification / Audit
 ☐ Rating
- ☐ Other (please specify):

Review provider(s):**Date of publication:****ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP**

- i. **Second-Party Opinion:** An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world's foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the "Largest Approved Verifier for Certified Climate Bonds" for the third consecutive year. The firm was also recognized by Environmental Finance as the "Largest External Reviewer" in 2020 for the second consecutive year. For more information, visit www.sustainalytics.com.



Named
2015: Best SRI or Green Bond Research or Rating Firm
2017, 2018, 2019: Most Impressive Second Opinion Provider

