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P.O. Box 251

August 24, 2006

Dear Hendrik

**RE: Reinstatement of Dismissed Workers**

I am writing to follow up on our meeting of 16<sup>th</sup> August and to respond to your letter of 26<sup>th</sup> July 2006.

As you know, since June 2006 we have repeatedly asked Panarub to reinstate the 30 dismissed workers. We have done so, based on the recommendation set forth by Komnas HAM in their letter of 31<sup>st</sup> May 2006. We understand and acknowledge that Panarub has followed the law (in relation to the dismissal process) and brought this case before the Manpower Department. Manpower, having considered the case, supported the dismissal of the 30 workers, and sought the reinstatement of 3 workers. However, rather than appeal the case through the court system, Perubpas challenged the decision-making process itself and requested an independent investigation by the Human Rights Commission (Komnas HAM) and the Ombudsman. In February 2006, adidas wrote to both Komnas HAM and the Ombudsman, stating our support for their investigations and undertaking to act on their findings. The Ombudsman found no wrong-doing or breach in administrative practices. However, Komnas HAM concluded that insufficient evidence had been presented to justify the dismissal of the workers.

Consequently, we requested a meeting with the Director General of Industrial Relations, Manpower on 12<sup>th</sup> July 2006. In that meeting, we raised our concern that the findings of Komnas HAM called into question the decision reached in the P4P process. The Director General responded by stating that Manpower is the proper authority in this matter, that the case was properly considered by his officers, and that there is a right of appeal available to the workers. He has communicated the same in a letter to Komnas HAM.

Our concern is that the questions raised by Komnas HAM have not been fully addressed and that, in the absence of any finding to the contrary either through a court decision or through an internal review by Manpower, doubt remains as to whether there was sufficient evidence to support the dismissal of the workers.

This is a complex case and involves several different actors, each with their own perspectives and interests. Your view is that reinstatement will create an unfavourable precedent and will override the

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lawful decision reached through the P4P process. Our view is that without a proper response by Manpower to the findings of Komnas HAM, the legitimacy of the decision remains in doubt and the workers should be reinstated.

Despite our repeated requests, Panarub has not reinstated the dismissed workers. Instead, you have begun to negotiate an 'out-of-court' settlement or compensation package with the individuals concerned. We understand that the dismissed workers are being offered a larger severance package in lieu of reinstatement. There are two problems with this approach. First, it reinforces the perception of wrong-doing on the part of the management, and that Panarub is trying to 'buy its way out of trouble'. Second, the workers have not been given a choice. They are not being offered reinstatement or financial compensation. Without being able to exercise this choice, we feel that this approach does not sufficiently protect the rights of the workers.

Given that you have rejected our request to reinstate the workers, and given that the workers themselves have decided not to exercise their right of appeal in the courts, we need to find an alternative solution that is acceptable to all parties. We have suggested in previous meetings that some form of independent arbitration should be considered. This would require Panarub and Perbupas (as the representative of the dismissed workers) to agree to be legally bound by such a process. Please consult with your legal counsel and confirm in writing your willingness to enter into a formal arbitration process. We will also write to Perbupas to request the same.

In our previous letter, we indicated to you that failure to reinstate the workers would require us to take enforcement action and that this would impact our business relationship. In choosing the most appropriate course of action, SEA has considered the current circumstances and also weighed up the impact on the workforce as a whole. It is our normal practice to issue warning letters and if they are not heeded, to terminate business with our suppliers. Clearly, terminating our relationship with Panarub at this time would lead to the potential loss of employment for more than 11,000 workers. Rather than pursuing this course of action, we have decided to recommend to Sourcing that they cap all future growth in orders for Panarub, until a satisfactory conclusion is reached in this case.

We can confirm that Footwear Sourcing have accepted our recommendation.

We look forward to receiving your response to this letter.

Sincerely,



William Anderson  
Head of Social & Environmental Affairs  
Asia Pacific

cc: Paul Griffiths  
Duncan Scott  
Harry Nurmansyah  
Steven Xie