

September 27, 2012

Dear University Partner,

We are writing to update you on the adidas Group's current work to ensure fair labor practices, fair wages and safe working conditions in factories throughout our global supply chain. With recent discussion around the unethical closure of the PT Kizone factory in Indonesia, we want to set the record straight and update you on our progress to develop sustainable business solutions that address the systemic root cause of these issues and protect workers' benefits and severance due from their employers. We are confident that we are adhering to and, in fact, exceeding both the spirit and the letter of the codes of conduct our university partners require.

Background on PT Kizone

In June 2010, PT Kizone told the adidas Group they would no longer accept production orders so they would have capacity to accept additional orders from another manufacturer. By November 2010, all of the adidas Group's orders had been shipped. The owner of PT Kizone fled the country in January 2011 and our former buying agent Green Textile kept the plant running and workers paid until March 2011, permitting its other customers' orders to be shipped. PT Kizone closed in April 2011, more than 5 months after the relationship with adidas ended.

The issue of workers left without severance when their employer flees the country is, unfortunately, a problem. In Indonesia, it is part of a wider issue of underpayment of severance by employers, with only one-third of legally eligible employees receiving any form of payment after job separation. In recognition of this, during our 4-year relationship with PT Kizone, we regularly monitored the factory and remediated any threshold issues identified by our monitors.

adidas Group's Leadership in Workplace Standards

As you may already know, adidas is a global leader in socially conscious business practices. Today, as we have since 1997, we work to identify root causes of breaches of workers' rights, and to develop effective and sustainable resolutions. We work with hundreds of factories in our supply chain every year to ensure fair, healthy and safe working conditions. We measure factories' performance, as well as our efficacy in resolving these issues. We do this in collaboration with other brands, the Fair Labor Association, governments and regulatory authorities, and civil society groups. Because of our approach to these issues, our programs are recognized as best practice by leading socially responsible investment agencies like the Dow Jones Sustainability Index and the FTSE4Good index. In fact, earlier this month, for the 13th consecutive time, the adidas Group was included in the Dow Jones Sustainability Index and was rated as the industry leader in sustainability issues and corporate responsibility in the *Clothing, Accessories and Footwear* category. Regardless of this recognition, we always strive for increasingly effective ways that influence change.

We care about the situation facing the former PT Kizone workers and their families and we have taken steps to assist these workers. We provided \$250,000 to a local organization to deliver food aid to 2,800 former workers during the important Islamic holiday of Idul Fitri. We understand that workers' primary concern has been to find reemployment and we have encouraged local suppliers and others to extend preferential hiring to former Kizone workers. We also retained the services of a local recruitment consultant PT Lidi to assist workers and the plant union with job placement.

We have pressured the Indonesian regulatory agencies, trade associations and their Korean counterparts to mitigate and prevent the flight of foreign employers from their legal and financial obligations to employees. As a result of our pressure, on August 6, 2012, an MOU on Corporate Responsibility was signed in Jakarta by the Korean Chamber of Commerce, the Indonesian Government and the employers' association, and the International Labor Organization, witnessed by the Trade Minister and Korean Ambassador.

adidas Group's Sustainable Solutions

Protecting the interests of global workers involved in producing our footwear and apparel is an ongoing priority for the adidas Group because it is critical to our business. It is also the right thing to do. In addition to the job placement program and the \$250,000 food aid program we have already established, we are committing another \$275,000 in humanitarian aid in recognition of the continuing hardship faced by former workers and their families. Although the adidas Group had no business relationship with the factory at the time of its closure, we are the leaders in the industry and, accordingly, the adidas Group has directly dedicated more towards the former PT Kizone workers than any other brand. Our \$525,000 in humanitarian aid underscores our commitment to promoting global workplace standards.

Additionally, our focus continues to be on collaborating with labor groups and the industry to create sustainable business practices for all supply chain actors. The global market economy and global supply chains are complicated by lapses in governance and these gaps pose real risks to all stakeholders – investors, buyers, workers and consumers. One of the critical gaps is that many countries have legislation providing for severance pay, but very few require the employer to make provision for eventual severance obligations. We are currently leading an effort to review the viability and implementation of a private fund or insurance product – what we've termed a Provident Fund – that would provide coverage to workers affected by factory closures and non-payment of wages and benefits. At our request, the Global Forum for Sustainable Supply Chains has agreed to facilitate a discussion and evaluate options for a private fund for workers' severance and unemployment insurance. We are looking forward to meeting with the group of international financing institutions, insurance experts, companies and brands, and civil society October 23 in Switzerland to discuss solutions.

We hope this provides clarity on not only our activities addressing the PT Kizone closure, but also the complex issues the industry faces to ensure fair labor practices and safe working conditions. We welcome your support in our efforts to develop lasting solutions that protect worker's rights. If you have questions about our programs or actions, please do not hesitate to contact us.