

**adidas Group's Response to the article issued by
the Sunday Times on March 30, 2008**

The Sunday Times newspaper in the United Kingdom issued an article on March 30, 2008 containing critical comments about the working conditions in the Shunda factory, operated by the Ching Luh Group, an adidas Group footwear supplier located in Fuzhou, China.

Comments were made about wage payments, working hours, discrimination against male workers, as well as restrictions placed on the nomination of candidates during a recent trade union election. The Sunday Times claims that their findings are based on interviews with the factory workers in Fuzhou.

Before the publication of the article, the newspaper's Far East Correspondent contacted the adidas Group to seek our comments. On March 13, 2008 the correspondent forwarded several questions via email asking for a response by March 14, 2008. A comprehensive response was provided within the given timeline.

Having reviewed the article in full detail, we are concerned that our comments and the additional information submitted to the newspaper have not been sufficiently taken into account. And that the journalists have not come back to us to obtain further clarification before releasing the article. Furthermore, it appears that the article heavily relies on information from an NGO report titled "Reebok's Chinese Trade Union Experiment: Five Years On", which was published in September 2007. The NGO report contained a number of inaccuracies and misrepresented Reebok's historical efforts and the current factory conditions.

We would like to state that through the adidas Group's extensive training and enforcement efforts, we continue to see improvements in workplace conditions in China. These efforts include extensive monitoring of our suppliers to satisfy our 'Workplace Standards', as well as ensure compliance with China's labour and trade union laws.

We believe that the article contains a number of erroneous conclusions. It also lacks the broader context and therefore could be misinterpreted by the reader. We have prepared a comprehensive response to the questions raised by the Sunday Times, and these are stated below.

Sunday Times Questions

1. Workers at three factories in Fuzhou operated by the Taiwan-owned Qing Lu group, known locally as Shunda, Gusan 1 and Gusan 2, allege that they are cheated out of overtime payments by management. They allege that wage slips routinely under-state actual time worked. As a result their pay is lower than that stipulated in the Fuzhou labour regulations and is thus a violation of the law. What is your response?
2. The workers allege that they are frequently forced to work unpaid overtime to complete production tasks set by management to unreasonable levels. This appears to break both the Adidas code of workplace standards and the labour law. What is your response?
3. Workers say that four strikes of short duration took place in 2007 in sections of the three factories and that a further strike took place at the beginning of 2008, all over issues of pay. Do you confirm that these strikes took place?
4. The Shunda factory appears to discriminate against men in its recruitment. A notice at the factory gate requires male applicants for jobs to produce a certificate from the public security bureau in the applicant's home town to state that they do not have a criminal record. No such regulation applies to female job applicants. Workers say managers openly state they do not want too many male workers because they are more likely to stand up for themselves. This appears to be a breach of the ban on discrimination in the Adidas workplace standard code. What is your comment?
5. The Shunda factories conducted a pioneering election for union representatives in 2002, when the principal customer was Reebok. In October 2007, however, workers were allowed to vote only on the re-election of part-time representatives. The union leader, Mr Tang Ximou, and his two deputies, the only full time representatives, were reappointed without election. This appears to breach both article 9 of the Chinese trade union law of 2001 and the clause on freedom of representation in the Adidas workplace code. What is your response?
6. Reebok appointed a human rights officer to liaise with workers and management at Shunda. However workers say Adidas has appointed nobody to the post and it is now vacant. What is your comment?
7. In general, workers at the three Fuzhou factories and at the Fu Wa company in Shenzhen, which manufactures swimwear, say conditions, pay and relations with management have got worse since Adidas took over Reebok. At Shunda, workers say Adidas production methods have imposed unreasonable burdens upon them due to shortened production lines with reduced numbers of workers. At all four factories workers say the basic salary is not enough to live on, which makes overtime, in reality, compulsory. The Adidas workplace standards state that employees must not be required except in extraordinary circumstances to work more than 60 hours a week. However many workers stated they often work more than 70 hours a week both because of production needs and due to the fact that basic pay is too low. The Sunday Times has obtained original wage slips which show that the basic wage at Shunda can vary from 395 yuan to 570 yuan. One wage slip in our possession lists the basic hourly rate at 3.41 yuan, which equals 545 yuan for one months work on the basis of eight hours a day for five days a week. The legal minimum monthly wage in Fuzhou is 650 yuan. What is your comment?

8. One small but, workers say, symbolic aspect of the Taiwanese management's attitude is that working mothers at Shunda are obliged to breast-feed their infants in a public area in front of the factory during rest breaks because the company and the union have failed to fulfill promises to provide a place where working mothers may be with their children. The Sunday Times has photographs documenting the practice. Does Adidas consider this an appropriate way to treat female employees and how does it fit with the statement in the Adidas code of workplace standards that employees "must be treated with respect and dignity."
9. Workers allege that there has been systematic harassment of individuals who seek to raise issues of pay and conditions with the management. They cite, among other cases, that of Mr Li, an elected union representative at Shunda, who it is alleged was transferred by managers to work ten hours or more a day tying shoelaces, a task that left his hands blistered and bleeding, leading eventually to his departure from the company on the grounds that he was unable to do his allocated job. What is your response?
10. Nike, a principal competitor to Adidas, has recently disclosed that it employs 210,000 workers at 180 factories throughout China. Nike has called on the Chinese government to recognize and respect the relevant International Labour Organisation conventions (87 and 98) and has said it will work to raise standards concerning pay and representation. What are the comparative figures for Adidas, does Adidas also call for recognition and respect of the ILO conventions and does Adidas also wish to commit itself to raising standards concerning pay and representation?
11. What does Adidas consider to be the consequences for its image in China as a sponsor of the 2008 Olympics after the Chinese public is made aware of these long-running and apparently chronic disputes over pay and conditions for Chinese workers at its China factories?

The adidas Group Response

The adidas Group continues to show leadership in its efforts to protect labour rights in China and improve the health, safety and well-being of the workers who make our products. This is recognised by our stakeholders and market indexes. We have a dedicated team of 63 compliance experts, of which 13 staff are located in the People's Republic of China. Our China monitoring team regularly visits and assesses the workplace conditions of our main partner factories and also operates hotline services, to receive and follow up on individual worker complaints.

Our factories are required by contract to comply with the adidas Group's Workplace Standards. These Standards are based on the International Labour Organization's (ILO's) core labour rights conventions and the model code of the World Federation of Sporting Goods Industry.

Since the integration of Reebok, the work of our social compliance team in China has expanded to accommodate an enlarged supplier base, but the quality and coverage has not diminished. In some areas we have intensified our activities, for example, through the development of a China-wide safety officer registration scheme, the further extension of our human resource management capacity building programmes and our ongoing efforts to improve our suppliers' worker-management communication channels, as well as worker representation in factory committee structures.

Post-integration, we have seen no deterioration in the general level of compliance being achieved in long established partner factories. To the contrary, we are continuing to see gradual improvements in the workplace conditions. There have however been challenges and at times extraordinary circumstances that have created additional workload for our suppliers. For example, in 2006-7 three key Reebok footwear suppliers in Indonesia declared bankruptcy in quick succession. This led to the urgent relocation of orders to other existing Reebok footwear suppliers which had the necessary tooling to accommodate the orders. As results there were periods of extended working hours in those factories; including factories within the Ching Luh Group.

Having reviewed the information that accompanies the question set, we would conclude that there are a number of factual errors and erroneous conclusions. Perhaps these are based on an incomplete understanding of the factory operations, the law, or the adidas Group's social compliance programme. There is other information which is correct, but lacks context and therefore could be misconstrued or misrepresented. We have sought to highlight these below.

We are only aware of three stoppages that took place at the Shandu between January 2007 and January 2008, all of which were reported to us by the factory management as per our internal monitoring procedure. These were not "strikes" and it would be inappropriate to characterise them as such. The three stoppages involved between 4 and 20 workers and lasted between 30 minutes to one hour. Shandu employs over 13,000 workers, the relatively small number and scale of the stoppages reported are therefore well below the industry averages in China.

The restrictions that were placed on the re-election of only part-time representatives in the October 2007 union elections, was a decision taken by the Fuxing Economic Development Zone ACTFU, i.e. the parent union. They instructed the factory-level union accordingly. The factory and adidas had no part to play in this decision.

We are aware of off-the-clock working, which is a common issue in the manufacturing sector across China. More often than not, this practice is adopted by suppliers because of the stringencies of the workplace standards imposed by brand compliance programmes such as our own. In the case of Shandu, we understand that unrecorded overtime has taken place from time to time. However, where we have conducted investigations into such incidences, we have found no evidence of the underpayment of workers; additional undeclared OT having been compensated through special allowances that feature in the workers pay slips.

Excessive working is common place in China and it is an issue which the adidas Group has been striving to eliminate through the implementation of productivity measures, such as lean manufacturing techniques. Indeed this is an area where we have shown leadership within the sports goods industry. However, as 'lean' measures are implemented, they require workers to adjust to new ways of working and to change their daily patterns of work to reduce overtime. Initially this may be stressful, as indicated by some of the comments you have received with respect to Question 7.

Also, with respect to Question 7, we would like to point out that Fu Wah and factories within the Ching Luh Group have been producing swimwear and footwear product for adidas, as well as Reebok, for many years. Well before the acquisition of Reebok took place.

You have made reference to 'original pay slips', and without seeing these it is difficult to comment on the calculations that have been rendered. Minimum wages are guaranteed to workers and this is closely scrutinised and vigorously enforced by our compliance staff. Our compliance staff regularly cross-check factory payroll and worker pay slips.

Based on our own records we can confirm that before August 2007 Shandu paid the required minimum wage of RMB 570 per month, which equals RMB 3.41/hour (the standard calculation is as follows: $570 / 20.92 \text{ days} / 8 \text{ hours} = 3.41$). As far as we are aware there has never been a basic wage of RMB 545 in this factory. After August 2007, the factory paid minimum wage of RMB 650 per month, which is in line with the minimum wage increase stipulated by the local government. Actual worker pay including overtime compensation is around 1000 RMB per month (76 GBP). It seems that, in error, you may be confusing pre-August basic wages with post-August minimum wage levels.

The requesting of criminal records is a widespread practice among industry in China. We agree that if this is selectively applied to male workers, it can be considered a form of discriminatory and this was raised as a non-compliance with the factory in 2005. The practice was phased out in 2006.

The harassment of individual workers, for whatever reason, is clearly unacceptable to us and a breach of our Workplace Standards. If you would provide us with more particulars we will investigate. The only Mr Lin we are aware of who was a member of the factory union left the factory's employment in August 2003. Is the case, or conditions you are citing, from 5 years ago?

Finally, it is not clear to us why breast-feeding mothers are feeding their new born babies in public when, as far as we are aware, the factory already provides a nursing room for mothers adjacent to the clinic. The nursing room accommodates approximately 30 workers and is under the supervision of the medical staff in the clinic. We will seek an explanation from the factory management.

Having read through your questions, it appears to us that you have relied heavily on information from two separate reports that were circulated by NGOs in late 2007. Namely a report entitled "Reebok's Chinese Trade Union Experiment: Five Years On", which was published in September 2007 and a report on factory conditions in Southern China issued by China Labor Watch (CLW), a New York based NGO. The so-called trade union report contains many inaccuracies and misreports Reebok's historical efforts and current factory conditions. The China Labor Watch report, issued in November 2007, also contained some inaccuracies, which were addressed directly with that NGO. We would encourage you to speak to Mr Li Qiang the Executive Director of CLW, who will confirm that adidas has been working closely with them to address the concerns they raised. A public statement was previously issued on the CLW report and can be found at:
http://www.adidas-group.com/en/sustainability/statements/2007/Fook_Wah_China_Labor_Watch_Nov_2007.asp