

ADIDAS GROUP RESPONSE TO CROSS-STRAITS NGO PETITION

We wish to acknowledge receipt of your joint petition and respond to the statements made by you. We address the allegations related to in Indonesia first, briefly, and then provide a fuller response to matters pertaining to Dynamic Casting and Stella, which we understand are your central concerns.

Mass dismissal Panarub Dwikarya (PDK) Bena in Indonesia

Petitioner's Statement: "Besides the irresponsibility it has demonstrated in China, adidas' production practices in Indonesia make workers there suffer. Since July last year, 1300 Indonesian PDK (Adidas supplier) workers in Jakarta have been on strike demanding unpaid wages and better working condition, but they haven't been able to get a penny to date. We do not accept that a leading brand like Adidas keeps silent about obligations to workers at their suppliers around the world!"

adidas Group response: In July 2012 around 1100 workers were considered to have resigned, and dismissed accordingly, because of their participation in an unlawful strike which lasted for more than 7 days. The union disputed the ground of the dismissal but the factory management was firm that they were acting according to the law. At the time, adidas Group had no orders with this factory, which is a subcontractor of one of our main footwear sourcing partners in Indonesia, PT Panarub. We continue to have no orders with this factory, which makes for another major brand. Despite this fact, we have tried to be supportive and help the parties resolve this dispute and reach a fair settlement. adidas Group has facilitated a mediation (by a highly reputable and independent mediator) between the plant level union and factory management, but after months of negotiation, the mediation failed to bring about a resolution or agreement. We have encouraged the parties to continue to engage to resolve this case, or to take the matter to the Industrial Court for legal adjudication.

Please note that over the past year, some 750 workers have voluntarily accepted a compensation package from PDK. This means around 350 workers are still waiting for a final settlement to be reached between the union and the factory management. For the sake of these workers and their families we are calling on both the union and the factory management to expedite the settlement of this dispute.

For further background on this case, please visit the statements posted on our website at: http://www.adidas-group.com/en/sustainability/News/2012/Update_PDB_Indonesia_Oct_2012.aspx

Dynamic Casting

Petitioner's Statement: "Faced with Outbreak of Compensation Claims due to Occupational Diseases, Taiwanese owned Dynamic Precision Jumps Ship Back to Taiwan"

adidas Response: The inference from the petition headline is that Dynamic Precision is closing its operations in China and relocating to Taiwan to avoid paying the full and proper compensation to workers. That is both inaccurate and misleading. Dynamic has committed to pay all compensation claims according to the law and has secured funds to do so. As we have shared previously, since 2010 the

factory has faced several rounds of downsizing and closed, finally, in March 2013. There were two factors which underpinned this decision. The first was the substantial financial losses incurred at the plant in recent years and the second, Dynamic's desire to use its existing strength of titanium casting in Taiwan, by setting up the capability to finish cast heads at the same facility in Taiwan.

Petitioner's Statement: "Due to deplorable labor conditions, neglect of labor protections, in all 110 workers contracted various occupational diseases including Pneumoconiosis, Deafness, Benzolism, and (constituting the greatest in number) Hand/Arm Vibration Syndrome (HAV)."

adidas Response: We have summarised below the status of these cases.

Ninety-two workers have been diagnosed with HAVS. Those diagnoses have ranged from light to severe. Treatment and compensation packages have followed the guidance given by the occupational health hospital and social security services.

As the factory was in the processes of closing its operations, it undertook pre-release medical check-ups of all workers. On the basis of that additional medical screening 13 workers have been referred to the occupational hospital for further check-ups. Eight workers have suspected chemical exposure, but there has been no confirmation yet from the occupational health hospital as to the nature and severity of their condition. One worker has suspected dust based Pneumoconiosis and is waiting for further diagnosis, while another worker has confirmed as having low grade dust based Pneumoconiosis. Three workers have been diagnosed with Deafness, ranging from minor to severe.

Further treatment and the handling of any compensation claims will be based on the diagnoses given by the occupational health hospital. DC has submitted updated information on the work history of each worker to the authorities, who will determine whether these can be attributed to operations or working conditions within the factory.

Petitioner's Statement: "These illnesses resulted in unavoidable and detrimental impacts on worker's health. However, the Taiwanese owned Dynamic Precision Ltd., in an effort to save on costs associated with compensation, chose to compel workers to sever their labor relationship (i.e. give up any claims to future salary or compensation) in exchange for paying off workers with a one time 'settlement'. Nonetheless, over a dozen workers have insisted on securing a just settlement in accordance with China's legal statutes and procedures."

adidas Response: We believe the statement here relates to an action by DC in 2012 where 23 workers signed an agreement waiving rights for future claims, after the settlement of compensation. As we pointed out to DC no one can override an individual's statutory rights by means of a private agreement. We asked DC to void the agreement with the workers and a new agreement was prepared and approved by the local authorities.

All workers were notified at the time of the closure of the factory of their rights to make claims should they experience any delayed onset of an illness. Specific training was given to workers on this topic, including available channels for communication. Workers have also been provided with an NGO-run worker hotline number (which is sponsored by adidas) as a failsafe to lodge claims. DC has paid the

necessary worker injury insurance for all workers in their employment and therefore this mechanism for claims is available to workers. It is managed by government and is independent of the supplier.

Taken together, we believe the above processes safeguard the workers' rights to make future claims, should these arise.

Petitioner's Statement: "Dynamic Precision management has adopted a reprehensible attitude toward these remaining workers seeking justice in accordance with Chinese law, starting with its sudden decision to close the factory and return to Taiwan, wage losses that compelled workers to have to look for work elsewhere, and consistently refusing to discuss or negotiate the matter and, in a show of utter disdain for workers' rights, sending thugs in to rough up these workers."

adidas Response: See our earlier comment on the reasons for the factory closure. We have not seen evidence of DC having denied a lawful claim or a claim that is aligned with the legal compensation assessed by government agencies, based on severity of an illness or disability. It is the government agencies which determine payment levels, based on their diagnosis and the recommended treatment, rehabilitation or required compensation.

We know that a small number of workers have actively engaged with the factory management seeking compensation payments that were higher than those initially offered to them. We understand that 6 workers have now taken their claims to local arbitration, as is their legal right. We understand that the arbitration is still on going.

Also we are aware of the case of Mr Fang, who claimed back wages for wrongful dismissal in 2012. Mr Fang's case was taken to arbitration and then, on appeal, to the local Court. The Court did not find in Mr Fang's favour.

We cannot override decisions taken by the local courts or arbitration processes, but we will step in and apply pressure to our business partners, where we see evidence of them knowingly underpaying workers their proper legal compensation, or if they fail to follow the directions or decisions of a court or arbitration body.

Petitioner's Statement: "This Taiwanese company closed its Guangzhou factory in March and announced its intent to return production back to Taiwan. Additionally, to date Adidas has not subjected Dynamic Precision to any kind of financial repercussions. In fact Adidas has only added its purchase orders from Dynamic Precision. This is truly irresponsible! As labor organizations, we have called on Adidas to make changes in its policies toward such suppliers across China, by establishing a fund for compensating health care expenses that workers face due to industrial diseases, prohibit any factory operations that harm workers, and implement feasible guarantees of industrial health and safety. However, Adidas has consistently refused to answer such calls, nor made needed changes. We regard this kind of behaviour as unbecoming of business leaders and are profoundly disappointed."

adidas Response: Dynamic Precision has committed to establish a fund to settle all legal and medical compensation claims brought to them with respect to the occupation health cases, including the severance owed to workers due to the closure of the plant in China. This was communicated to the NGO

community last year. We believe it would be counterproductive to penalise them by cutting current orders, thereby impacting or impinging on their ability to meet these financial obligations.

It is not possible for adidas Group to offer a blanket guarantee that all workers in China making for our contracted suppliers, now or in the future, are free from any occupation diseases or illnesses. We have team of monitoring staff which conduct periodic audits of our current and active suppliers and highlight critical concerns when these are identified. We have also continued to engage and train our suppliers to identify safety hazards and push them for the early identification of issues to reduce the risks for workers. To support this we have been a founding brand of the EHS Academy in Southern China, to build the knowledge and technical capacity of factory staff to manage health and safety.

When necessary, we have reached out to governments to have their involvement in cases such as Hands-Arm Vibration, or chemical exposure, which require qualified and specialised occupational health doctors to make the necessary diagnosis of an illness. We do not have the capacity to replace the technical and medical expertise of the Centre for Disease Control, or the registered Occupational Health Hospitals which operate in China.

Compensation claims in China demand the involvement of government authorities and the worker injury insurance programmes that are place. We cannot bypass these legal mechanisms, even if they are not always perfect, or speedy in the settlement of cases. We do expect our suppliers to positively engage with workers, or their family members where they are claimants, to resolve issues in an open and fair manner.

Stella International Holdings Limited

Petitioner's Statement: "Chinese labor NGOs have noted another case of a Adidas supplier: calls Dongguan Xingang (Stella International Holdings Limited in Hong Kong), whose parent company is Stella Footware (Taiwan), involving 3 workers who have experienced Benzene poisoning. The situation is very grave. 1 worker died in March. Upon being poisoned, Dongguan Xingang has taken a hostile posture toward these workers and refused to cover the costs for diagnosis, lost salary due to illness, and at-home nursing care.

Stella is a major brown shoe supplier with multiple factories across China. It produces goods for over 30 international fashion retailers and brands. adidas Group is one of Stella's smallest buyers, by volume. Although we have very limited leverage with this supplier, we have investigated these cases, communicated with the affected workers and engaged with Stella on their follow-up actions. The current status of each of the three cases is described below in our response to the NGO's "Demands".

Petitioner's Statement: In 2010, Adidas' Safe Production Regulations already clearly prohibit the use of Benzene and Methylbenzene in production, as they poison workers when they breathe in these chemicals. However, Chinese workers use organic solvents that contain Benzene to clean and shine many products, causing them great physical harm and danger. An environmental audit of the shop floor where the 3 workers worked noted the detection of Benzene in the air content. Even though Adidas has prohibited use of these chemical toxins, Chinese workers at their suppliers continue to contract Benzene

poisoning, ironically proving true their trademark slogan “Nothing is Impossible”! Adidas’ lax supervision of its suppliers in China is nothing short of shameless.”

adidas Response: We were one of three sporting goods brands contacted by the Worker Rights Consortium (WRC) in April 2013 and asked if we could investigate reported cases of “benzene poisoning” at three Stella factories, which collectively employ some 13,600 workers. Given our very small sourcing presence in Stella, we have reached out to other brands who are the factories’ main buyers to support these investigations. One of our first actions was to go back to look at our past monitoring records. There has been no evidence from our review of the chemical inventories and MSDS sheets of the presence of benzene in breach of our Standards.

The results of the air testing conducted by the CDC, which WRC shared with us, would not in itself trigger concerns over potential exposure to benzene, or action by the government safety agencies. Indeed the local government safety agency found no evidence of benzene or other hazardous chemicals in their follow-up air quality tests which they conducted in September last year; such monitoring was triggered by a notification from the occupation health hospital of these cases.

Given the above results, it is possible that the individual workers have been exposed to benzene outside of the current workplace, but where and when it is difficult to determine. The safety authorities are reviewing the work history of each worker, to see if they can establish a cause. It is notably the worker who passed away joined Stella only 11 months before being diagnosed with a benzene-induced disease. Given their medical condition, and the latency period for the onset of the disease, it is possible that they were exposed to benzene in earlier years, but it is difficult to be conclusive in such matters given the limited available information.

As a safeguarding measure we have asked Stella to carry out a review the frequency of the indoor air quality testing and improve the medical screening which takes place through a local medical provider. We wish an assurance from Stella that these are isolated cases and do not indicate a larger issue over potential worker exposure to chemicals in their manufacturing plants.

Demands

Petitioner’s Statement:

- 1) Immediately give the 3 women workers employed by Dynamic Casting who are suffering from Benzene poisoning needed hospital treatment for associated occupational diseases.**

Currently none of the workers who are suspected of chemical exposure, based on their preliminary medical check-ups, have received confirmed diagnoses. As mentioned earlier, workers are either undergoing further medical tests, or their medical results are still being reviewed by the occupational health hospital. DC will be arranging for the necessary medical treatment as soon as the diagnoses and treatment requirements are determined by the hospital.

- 2) **Fairly and justly resolve the compensation claims made by the remaining 6 cases of workers employed by Dynamic Casting who are suffering from HAVS.**

As stated previously, the 6 HAVS workers to whom you refer have taken their claims to arbitration and the compensation payment will be settled according to the law.

- 3) **Dynamic Precision Ltd. guarantee it will reform work conditions and labor practices in its factories, accept monitoring by Taiwanese labor NGOs, and ensure that it will absolutely not subject Taiwanese workers to the disastrous conditions it imposed on workers in Guangzhou.**

The situation in Dynamic Casting has prompted a comprehensive review of manufacturing practices related to the vibration impacts of grinding and polishing operations, including the use of stationary (pedestal) and hand-held equipment. An advisory notice was issued to all factories in adidas Group's global supply chain to highlight hazards from HAVS. We have also appointment a leading expert in this field to review programmes developed to strengthen occupational health monitoring and risk assessments for HAVS. We will be sharing our findings from our research with other brands, as it is apparent that HAVS is not well understood.

As part of this targeted programme, we continue to gather baseline information on industrial hygiene and occupation health and safety conditions in our partners' manufacturing facilities, including those in Taiwan, and we will be consulting the Taiwanese safety agencies for their further input.

- 4) **Fairly and justly address the health care needs and compensation for 3 workers suffering from Benzene Poisoning at the Taiwanese owned Dongguan Xingang Shoe Factory (Stella International Holdings Limited).**

We are always deeply concerned when we hear of the death of a worker, especially if it is associated with possible occupational exposure or an occupational disease. We can confirm that Stella has settled compensation claims with the worker's family and this was achieved through civil mediation undertaken by the Second People's Court of Dongguan City. This settlement amount was greater than normally required by law. Stella has made its first payment to the family in accordance with a court-specified payment schedule and the balance of the amount agreed to by the family will be paid out as a final lump sum.

For the two other workers currently undergoing medical treatment, Stella has covered all medical expenses. Moreover, Stella has provided additional support including nursing assistant care and transportation costs for the workers, including the costs for the families to visit them in the hospital. In terms of salary, while the law would normally define a set period of payment, Stella has gone beyond this and committed to pay the workers' salaries on on-going basis, until all medical treatment is completed and they are restored to health. In addition, Stella has committed to provide financial assistance to support the education of the worker's children during the treatment period. These actions go well beyond legal norms.

5) Adidas establish an industrial disease compensation fund and guarantees the workplace safety of Chinese workers at its supplier factories in China.

Our guidance and training on HSE for suppliers is recognised as one of the most advanced in our industry, and we continue to strive to improve safety practices in our supply chain, but even so, it is not feasible or practical for us, as a third party, to offer “guarantees”.

The Chinese government has a system to assess and pay out compensation where workers are the subject of occupational diseases, whether these arose due to their current or past employment. We require our suppliers to meet their obligations under China law and settle all compensation as legally required.

6) Adidas carry out an industry wide production practices reform and agree to inspections by labor NGOs.

Please explain what specific production practices you believe require reform.

We have successfully partnered in the past with NGOs in China on worker training for HSE. We would welcome more information on ways in which the labour NGOs could support and work with us on improving worker safety and provide us with specific information on areas of expertise in OHS.