

Oxfam Australia
New South Wales Office
PO Box 1711, Strawberry Hills
NSW, 2012, Australia

Attention: Ms Kelly Dent

November 12, 2008

Dear Ms Dent,

Thank you for your letter dated 10th September 2008 regarding alleged discrimination against trade union officials and other issues related to our supplier factories in Indonesia.

The following responds to each of the points raised in your letter.

1.The case of Mr. Parjo (PT Alaska factory)

We view discrimination against any individual for their current, or past, trade union affiliations, as a breach of the adidas Group Workplace Standards. To verify the allegation set forth in your letter, our field staff conducted an investigation at PT Alaska. We would like to report that the outcome of our investigations does not support the claim that Mr Parjo was the subject of discrimination.

Based on our interviews with both HR and factory managers, it has been confirmed that Mr. Parjo was never formally offered employment by PT Alaska. He was neither hired, nor "fired" as stated in your letter. Apparently Mr. Parjo tried to find employment in the factory through his friend, Mr.Asep, who is the factory's Production Department Head. Mr. Asep and Mr Parjo had worked together in PT Panarub in the past and were friends.

According to Mr. Asep, even though there was no opening in the factory at the time when Mr. Parjo came to him, Mr. Asep tried to help his friend. He invited Mr Parjo to join a skills test in late February 2008. Mr. Asep then told Mr Parjo to wait until further notice and once an opening became available his application would be formally processed by the factory's HR Department. This is not necessarily in line with PT Alaska's recruitment procedures, but as a production chief, Mr Asep had helped a number of his friends to find employment in the factory.

Unfortunately for Mr Parjo, the factory canceled its plan to expand production, and therefore there was no job opening available. Mr Asep offered to help his friend find employment at PT CLI and at KMK (a Nike supplier), but neither of these factories were hiring at the time.

It is not clear to us whether Mr Asep is the "factory management" referred to by Mr Parjo in his story. We can confirm, however, that Mr Asep categorically denies he had ever advised Mr Parjo that his failure to secure a job at PT Alaska was because of his past union affiliation.

Based on our investigations, we can find no evidence to support the allegation that PT Alaska discriminated against Mr Parjo. The fact that PT Alaska previously hired Mr Asep, a former Perbupas member, and has also employed other ex-Perbupas members, appears to show that they do not discriminate in their hiring practices against trade unionists.

We would suggest GSBi meet again with Mr Parjo to clarify his allegations. We would also be pleased to meet with GSBi to discuss our findings. We have copied this letter to GSBi for their information and further action.

We stand by our commitment to investigate any deliberate acts of discrimination in our supplier's hiring practices, but to date we have received no information that supports the allegation that Mr Parjo, or others, has been the subject to an explicit "blacklisting" by our suppliers. We would ask for GSBi's assistance in obtaining a full profile of each dismissed ex-Perbupas official, in terms of their current job status and a documented record of their attempts to secure employment with adidas' suppliers. We have requested that any application made by those who were dismissed from PT Panarub, be copied to the SEA team in Jakarta for independent tracking and follow-up if there is any report of discrimination practice.

2.The case of dismissed ex SBGTS/Perbupas Union Leaders

We share your concern that a number of former union officials that were dismissed by PT Panarub have still to find gainful employment.

Our online statement of April 14th, 2008, was an accurate reflection of the lack of feedback we had received from the ex-Perbupas union leaders to our proposals for a job placement scheme, as set out in our letters of May and August 2007 to SBGTS. We have no record of having received an email from SBGTS dated October 29th, 2007 and we would be grateful if this could be forward to us for our further action. We would add that our Indonesian staff met with SBGTS officials, including Ali, on several occasions during



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the past 12 months and there was no acknowledgement that the ex-Perbupas union leaders had accepted our earlier proposals.

In addition to the factory addresses and contact information previously supplied to SBGTS, we are happy to also furnish them with the name of the HR Manager in each adidas supplier factory. We will write separately to SBGTS with this information.

You brought up Neneng's experience, in applying for a job at PT Nikomas, as an example of the problem of submitting applications and the involvement of middlemen. In our letter of December 17th 2007, we have described the steps taken by the SEA team to help Neneng resolve the issue with her lodging of a job application at PT Nikomas. However, it is disturbing to subsequently learn that Neneng had had to pay money to secure her job. We would very much like to obtain a formal statement from Neneng on the bribe payment, so that we can investigate further.

As part of PT Nikomas's recruitment procedures, all new employee are required to sign a statement confirming that they have not paid recruitment fees, and if have, to report the details of this to the hotline number provided by HR Department. We believe Neneng signed such a statement. We also understand from the PT Nikomas HR Manager that they have several cases in the past where they launched internal investigations and resolved the case of reported payment of recruitment fee.

3.The current SBGTS Union in Panarub should be allowed to freely organized and collectively bargain

In April 2008 SBGTS issued a letter to the factory management raising concerns about specific incidents and issues that they felt infringed the union's freedom of association. The letter was copied to SEA for our information. We followed up by meetings with SBGTS in April and May 2008, who again outlined issues that they had not satisfactorily resolved with PT Panarub's management. One of the issues, which you have raised in your letter, was an allegation that following a strike in March 2008 workers had been pressured to "resign" from SBGTS through the cancellation of their union fee deductions. Our team immediately launched an investigation. During the preceding weeks we visited PT Panarub a number of times. We interviewed many people, including workers, supervisors and management and checked all related evidence and documents. We came to conclusion that some line supervisors and section heads had acted improperly and that their action could be viewed as an attempt to influence workers in relation to their union membership.

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Although PT Panarub did not entirely agree with our conclusion, they did agree to take action. 193 workers who had submitted forms to cancel their SBGTS union fee deduction were called by the factory HR Department, and they were briefed about the improper actions of the middle management. These workers were also asked to re-confirm their decision to stop the union fee payment to SBGTS, to ensure that their decision had been voluntarily. Of 193 contacted, 40 workers decided to reverse their decision.

In addition, as part of the corrective action, all of the supervisors and section heads who has involved in this case were given verbal warning and had to attend refresher training on freedom of association. This infringement of trade union rights is considered a serious breach of our Workplace Standards. Consequently, it has significantly affected PT Panarub's overall compliance performance (KPI).

We also followed up complaints we received from SBGTS that they had been banned from meeting their members inside the factory. The SEA investigation revealed that the root cause of this issue was the failure of both union and management to follow pre-agreed procedures, permitting union officials to meet with their individual members inside the production area. As a corrective action, the management has sent a letter to both SBGTS and SPN emphasizing the correct procedures to be followed. The letter has been acknowledged by both unions.

Contrary to what you have stated in your letter, adidas did address the issues of infringement of FOA raised by SBGTS. The SEA team spent considerable time and effort to investigate the allegations and to follow up on corrective actions. We have kept SBGTS leaders informed of each stage of our investigations, but have also continued to urge them to obtain the full details directly from Panarub management, as we do not want to circumvent the proper communication and grievance channels between the factory management and the union.

With regards to the union membership verification process, we would like to clarify that it was not our intention to lay blame on any of individual party. We were merely highlighting the fact that it is extremely difficult to resolve this issue, when the related parties cannot find common ground and agree a way forward.

We have repeatedly expressed our concern that the responsibility for carrying out the union verification process can not be placed solely on the shoulders of adidas. Put simply we can not deliver this verification unless all of the parties - PT Panarub's two unions and the factory management - act together. Once a consensus has been reached, adidas is ready to play a supporting role, that is, to facilitate the verification process and ensure that it reaches the desired goal.

4. The status of job application of SBGTS officials at CLI

We were informed by CLI that there are at least 2 former SBGTS officials who have been hired and are now working at the factory. They are Ms. Neni Sumernih and Mr. Jayadih. It is quite possible that there are others, but this is difficult to confirm this as the factory's employment records do not indicate the current or former union affiliations of employees.

Due to the high numbers of applicants, CLI stopped receipt of new applications to its PO Box number on December 28th, 2007. By then, CLI had received around 18,800 applications for 2850 available positions. Of the applications received, some 2,400 were from former Spotec workers. All of the ex-Spotec workers applications received by that date were entered into the recruitment database by CLI. To ensure objectivity and accuracy, the SEA team in Jakarta has cross-checked the information contained in CLI's database.

Of the seven individuals listed in your letter, we can find no record of their applications in the database. We are unsure whether their applications were sent before, or after, the cut-off date for the receipt of applications (i.e. December 28th, 2007). We have delivered a clear message to CLI that they must abide by the adidas Group Workplace Standard and the local law and they should not discriminate against any applicant on the grounds of their past union affiliation. If we can have the dates that the applications were submitted, we will be able to investigate further.

We continue to monitor the recruitment process at CLI, which currently slowed. Recently we sent the call list (of applications) to the union committee, including SBGTS, for the latest round of recruitment which took place in middle of November 2008.

5. Encouraging respect for FOA in adidas supplier factories

FOA and the right to bargain collectively is one of the key principles under adidas Group Workplace Standards and, as we have stated previously, it is also a key performance measured in our KPI.

To clarify, FOA is not assessed in the "Management System" unit of measure. It is part of the parameters for "Worker-management communication and Industrial Relations", which includes:

- Respect towards workers representation/union
- Ability to resolve industrial dispute and industrial actions
- Promoting effective worker-management communication, and
- Effective handling of workers grievance

FOA related principles carry equal weight compare with the five other units of measure in the SEA KPI, i.e. approximately 17% of the total KPI score. What is also important to note is that the calculation of total KPI score is affected by the lowest score achieved in any of six units of measure. In other words, if a factory under performs in the measurement of "worker-management communication and industrial relations" where FOA is assessed, then it significantly impacts the total KPI score.

We continue to test the applicability and effectiveness of the current KPI tool. Our recent evaluation has led us to the conclusion that we might need to review and change how we measure FOA, to ensure that remains relevant to the protection and promotion of FOA principles.

A factory's compliance levels, which are reflected in its KPI score, forms a part of the overall supplier's performance evaluation which informs our Sourcing department's order placement decisions.

We hope the above adequately responds to the issues you raised in your letter. We have proposed a follow-up meeting to discuss your specific concerns and we are pleased that you and Mr Conner have agreed to meet.

We look forward to speaking to you both on November 17th, 2008.

Sincerely,



Harry Nurmansyah
SEA Regional Manager,
South Asia



William Anderson
Head of Social & Environmental Affairs
Asia Pacific