



September 27, 2012

Mary Sue Coleman, President  
University of Michigan  
2074 Fleming Administrative Building  
503 Thompson Street  
Ann Arbor, MI 48109-1340

Dear President Coleman,

Thank you for your letter of September 21, 2012. We are writing to update you on the adidas Group's current efforts to ensure fair labor practices, fair wages and safe working conditions in factories throughout our global supply chain and, importantly, address your specific requests regarding our actions with respect to former workers of PT Kizone. We are confident that we are adhering to and, in fact, exceeding both the spirit and the letter of the University of Michigan's strict code of conduct required of its business partners.

By way of background, 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.

Regarding your specific requests:

- 1) *Act immediately to provide substantial cash or food assistance to former PT Kizone workers as humanitarian aid*

We have acted on this, and acted again today. In August 2012, we provided \$250,000 to a local organization to deliver humanitarian aid in the form of food vouchers to 2,800 former workers. This was done at a critical time for workers, during the important Islamic holiday of Idul Fitri. In addition, 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.

- 2) *Provide the University with monthly updates beginning October 2012, on progress toward resolution of the complaint, including*
  - a. *Status of adidas's remediation of the issue with PT Kizone*
  - b. *Adidas's efforts in facilitating job placements for former PT Kizone workers*
  - c. *Adidas's efforts in working with the national government in Indonesia and Korea to address this violation, including the status of the bankruptcy process and on diplomatic efforts to recoup lost severance from the factory owners*

- a) We will provide monthly updates to the University of Michigan on our humanitarian aid efforts noted above.
- b) Thank you for recognizing the effort and importance of identifying reemployment. 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 PT Kizone workers. Since March 2011, 1,200 former PT Kizone workers found new jobs, with approximately 200 workers filling positions with adidas Group suppliers. We retained the services of a local recruitment consultant, PT Lidi, to assist workers and the plant union with job placement. Both our consultant and our staff have met with and engaged with the displaced workers to understand their circumstances and needs. Our outreach has been supported by ex-officials from the former PT Kizone plant union, who live locally in the community. In addition, we understand the new entity that opened in the PT Kizone factory site began hiring workers in August and September. Again, we will provide monthly updates to the University on our job placement efforts.
- c) 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 this 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. We will provide monthly updates on this matter as well.

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.

As you may already know, adidas is a global leader in socially conscious business practices. 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 13<sup>th</sup> 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.

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 the success of our business. It is also the right thing to do. Our focus continues to be on collaborating with labor groups and the industry to create sustainable business practices for all parties. 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.

page 3

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.

Given the University of Michigan’s leadership in labor matters and the keen interest of the members of the Advisory Committee on Labor Standards and Human Rights, we would welcome someone from the University to join us in Lausanne on October 23. Please let us know and we will make introductions to Britta Klemmer, Executive Director Global Forum and Auret van Heerden, President and CEO of the Fair Labor Association.

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.

We look forward to keeping you updated on our efforts. In the meantime, we would like the opportunity to come to Ann Arbor to meet with you and discuss this important issue further. Please let us know what dates would work for you to meet.

Sincerely,



Patrik Nilsson  
adidas America  
President



Gregg Nebel  
adidas Group  
Head of Social and Environmental Affairs, the Americas