



November 16, 2012

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

Dear President Coleman,

We are writing to update you on the adidas Group's current efforts to support the former workers of PT Kizone. Although we had no business relationship with the factory at the time of its closure, we have committed more resources than any other brand to this matter. Importantly, we continue to make progress in developing sustainable business solutions that address the systemic root cause and consequence of unethical factory closures.

As you know, we are pursuing three ways to develop sustainable solutions for the PT Kizone workers and factory closures. We are addressing the plight of the Kizone workers, engaging with governments and regulatory agencies responsible for regulating factory closures, and engaging with others in finding globally sustainable solutions that mitigate negative impacts to workers during factory closures.

First, we are addressing the plight of the displaced workers. We have given \$525,000 in humanitarian aid which was and continues to be distributed to 2,800 workers through local organizations. Nearly half of that was in the form of food vouchers this past August and, based on independent surveys conducted locally, the workers were quite satisfied with the voucher program distribution and outcome. We are now working in partnership with local consultant PT Lidi to distribute the remaining aid to former workers before year end. We have commissioned hiring, recruitment and job training specialists to support job placement for displaced workers. We have also encouraged local suppliers and others to extend preferential hiring to the workers. A new company-employer has reopened the former Kizone factory site and has been hiring workers. Our job placement program is now closed but PT Lidi and others are actively engaged with former workers to receive re-employment help when it's needed.

We also committed to intervening with government officials, regulatory and trade associations to mitigate and prevent the flight of foreign employers from their legal and financial obligations to employees associated with factory closures. Several events have occurred in the last 4 months. In August 2012, a Memo of Understanding and Agreement on Corporate Responsibility was signed between the Korean Chamber of Commerce, the Indonesian Employers Association, and the International Labor Organization. It was witnessed by the Indonesian Trade Minister, Korean Ambassador and several multinational buyers. This newly established forum will discuss the implementation of CSR initiatives, strategies and best practices. The ILO's Country Director, Peter van Rooij said that "This is a remarkable event for all three parties to agree on the importance of increasing awareness of CSR and its implementation to businessmen in Indonesia. This event allows one step forward to reinforcing CSR activities in both Korean and Indonesian enterprises." The ILO will continue its collaboration with the Korean Government and relevant institutions in the ILO/Korea Partnership Program. The program assists the Indonesia government in assessing the market impacts on labor rights in foreign direct assessments.

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On October 5, the Indonesia Supreme Court issued a favorable ruling and verdict to the Curator's appeal in the Kizone bankruptcy. This means the Curator can distribute IDR 6.5 billion or almost USD 700 K to the workers which is approximately 20% of the total severance due. However the primary creditor in the bankruptcy, State Bank of India, immediately appealed the ruling so the completion of the ruling is on hold. We will continue to monitor this carefully as the 20% will be favorable based on the past track record of bankruptcy awards of workers severance.

The third commitment we made was to work with industry groups, manufacturers and other stakeholders to find sustainable business solutions that mitigate the underlying factors leading to unethical factory closures, strengthen the responses, and most effectively protect workers' rights. On October 23, the Global Forum for Sustainable Supply Chains convened a meeting for companies, universities, international institutions, insurance experts and civil society to discuss one of the most pressing issues still facing workers in global supply chains: the payment of severance when a factory closes. We appreciate that Professor Harlow joined the meeting. The adidas Group's Social and Environmental Affairs representatives Gregg Nebel and Frank Henke participated too. The meeting, held at the University of Lausanne, explored a number of opportunities to bring sustainable solutions to unprotected workers' severance. The development work for this concept dates back to 2008 and is a solid foundation to press the current engagement forward.

Ensuring fair labor practices, fair wages and safe working conditions in factories throughout our global supply chain is critical to our business and a priority for the adidas Group. 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. We hope this summary communicates sufficient clarity on our activities to address the PT Kizone closure and the progress towards global solutions to factory closures and negative consequences to workers. We appreciate your support of our efforts to protect worker's rights.

Sincerely,

The image shows two handwritten signatures in black ink. The signature on the left is for Patrik Nilsson, and the signature on the right is for Gregg Nebel. Both signatures are fluid and cursive.

Patrik Nilsson  
adidas America  
President

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