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Apple, Foxconn set new standard for Chinese workers

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By Poomima Gupta and Edwin Chan

SAN FRANCISCO (Reuters) - Apple Inc and its main contract manufacturing Foxconn agreed to tackle violations of conditions among the 1.2 million workers assembling iPhones and iPads in a landmark decision that could change the way Western companies do business in China.

Taiwan's Foxconn Technology Group, whose subsidiary Hon Hai Precision Industry assembles Apple devices in factories in China, will hire tens of thousands of new workers, eliminate illegal overtime, improve safety protocols and upgrade workers' housing and other amenities.

It is a response to one of the largest investigations ever conducted of a U.S. company's operations outside of America. Apple had agreed to the probe by the independent Fair Labor Association (FLA) to stem a crescendo of criticism that its products were built on the backs of mistreated Chinese workers.

The association, in disclosing its findings from a survey of three Foxconn plants and over 35,000 workers, said it had unearthed multiple violations of labor law, including extreme hours and unpaid overtime.

FLA President Aret van Heerden expects the agreement between Apple, the world's most valuable listed company, and Foxconn, which supplies 50 percent of the world's consumer electronics, to have far reaching affects.

"Apple and Foxconn are obviously the two biggest players in this sector," he said in an interview. "Since they're teaming up to drive this change, I really do think they set the bar for the rest of the sector."

That could affect brand names that have contracts with the Taiwanese company, including Dell Inc, Hewlett-Packard, Amazon.com Inc, Motorola Mobility Holdings, Nokia Oyj and Sony Corp.

The agreement is a sign of the increasing power of Chinese workers to command higher wages given increasing prices in China, and an ageing workforce that has led to labor shortages.

"Foxconn is proposing this better deal," said van Heerden. "Their competitors will be obliged to offer a similar package just in order to get enough workers."

Working conditions at many Chinese factories supplying Western brands are considerably inferior to those at Foxconn, experts say.

Still, labor costs are a fraction of the total cost of most high-tech devices, so consumers might not see higher prices.

"If Foxconn's labor cost goes up ... that will be an industry-wide phenomenon and then we have to decide how much do we pass on to our customers versus how much cost do we absorb," HP Chief Executive Meg Whitman told Reuters in February.

Under the agreement, Foxconn said it will reduce working hours to 49 per week, including overtime, while keeping total compensation for workers at its current level. The FLA audit found workers in the three factories put in more than 60 hours per week on average during peak production periods.

To keep up with demand, Foxconn will hire tens of thousands of additional workers and build more housing and canteens.

Apple CEO Tim Cook, who took over from the late co-founder Steve Jobs last year, has shown a willingness to tackle the criticism head-on.

"We fully support their recommendations," an Apple spokesman said. "We share the FLA's goal of improving lives and raising the bar for manufacturing companies everywhere."

But New York-based labor advocacy group China Labor Watch said the report failed to address the workers' primary concerns.

"Until Apple shares a larger proportion of its profits with its supplier factories, workers will receive the same pittance for a salary while working around the clock," Li Qiang, the director of China Labor Watch, said in an emailed statement.

The agreement has not gone down well with some Foxconn workers, either.



Chen Yamei, 25, who has worked at a Foxconn factory at Longhua in southern Guangdong province for four years, complained that her salary will drop to just over 2,000 yuan a month (\$317) from over 4,000 yuan.

"We are here to work and not to play," she said. "Our income is very important." Another worker was less concerned.

"Working here is just so-so. Working conditions and the pay are all right," said Li Wei, a 20-year-old who has worked at the Foxconn factory for about a year.

"However there are around 100,000 people in there, so sometimes the feeling can be oppressive," Li said, who works eight hours, or a maximum 10 hours, a day.

FIRST PHASE

Hon Hai shares fell on Friday around 1.3 percent, underperforming a rising market. Apple shares, which hit a record high on Wednesday, dropped 1.3 percent on Thursday.

The report marks the first phase of a probe into Apple's contract manufacturers across the world's most populous nation.

Foreign firms have long grappled with working conditions in China, dubbed the world's factory because of its low wages and efficient coastal transport and shipping infrastructure.

Global protests against Apple swelled after reports spread in 2010 of a string of suicides at Foxconn's plants in southern China, blamed on inhumane working conditions and the alienation that migrant laborers, often from impoverished provinces, face in a bustling metropolis like Shenzhen, where two of the three factories the FLA inspected are located.

In months past, protesters have shown up at Apple events - the rollout of the new iPad, the iPhone 4GS and its annual shareholders' meeting - holding up placards urging the \$500 billion corporation to make "ethical" devices.

Some have also criticized the FLA for its close alignment with corporations.

The actor Mike Daisey also did much to raise awareness of the issue through his one man show in the United States, "The Agony and the Ecstasy of Steve Jobs". His credibility was damaged though when it emerged parts of his monologue were fabricated.

NEW DORMS

The FLA in its report sought measures that will reduce working hours while ensuring that migrant laborers - often willing to pile up the overtime to make ends meet back home - do not forego much-needed income.

Foxconn committed to building new housing to ease situations where multiple workers were squeezed into rooms that seemed inhumane by Western standards. It agreed to improve accident reporting and help workers enroll for social welfare and increase their participation in committees and other union structures.

The FLA will conduct onsite verification visits to make sure the agreement is implemented, van Heerden said.

Apple is not the first U.S. consumer brand to respond to criticism of working conditions at factories abroad making its products.

Nike Inc implemented wide-ranging changes to improve safety and working conditions after it was rocked by reports in the 1990s that its contractors in China and elsewhere forced employees to work in slave-like conditions for a pittance.

Yet even Nike stopped short of Apple's and Foxconn's hiring and income-boosting spree. Last month, Foxconn said it was raising salaries by 16 to 25 percent, and was advertising a basic monthly wage, not including overtime, of 1,800 yuan (\$290) in the southern city of Shenzhen, Guangdong province - where the monthly minimum wage is 1,500 yuan.

Future forays by the FLA over coming months will encompass Apple contractors Quanta Computer Inc, Pegatron Corp, Wintek Corp and other suppliers, all notoriously tight-lipped about their operations.

(Additional reporting by Sui-Lee Wee in Beijing, Tan Ee-lyn in Hong Kong Editing by Gary Hill, Tim Dobbyn and Mark Bendeich)

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