COMPANY: Nike, Inc.
COUNTRY: Mexico
FACTORY CODE: 070050449H
MONITOR: Accordia Global Compliance
AUDIT DATE: November 3, 2009
PRODUCTS: Shoes
PROCESSES: Cutting, Sewing, Finishing, Packaging
NUMBER OF WORKERS: 267
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Wages, Benefits and Overtime Compensation: General Compliance

WBOT.1 Employers shall comply with all local laws, regulations and procedures concerning the payment of wages and benefits, including overtime compensation. In any case where laws and the FLA Code are contradictory, the standard that provides the greatest protection for workers shall apply. Where provisions are lacking, employers shall take measures to reasonably accommodate matters concerning the payments of wages and benefits, including overtime compensation. (S)

Noncompliance

Explanation:

1. It was observed that deductions of more than 30% of the worker salary were taken for savings from the caja de ahorro and loan debts from the caja de ahorro (Federal Labor Law 110).

2. It was noted that the company has not paid for overtime hours generated by the workers for the Saturdays that they work at the factory (Federal Labor Law 67). According to information learned during the worker interviews, this occurred during the Saturday previous to the day of the audit, October 31, 2009. This comment was corroborated by all 25 employees interviewed. Employees also commented that they do not punch time cards when working overtime hours; they record their entry and exit from the factory on a separate list.

Plan Of Action:

The factory management shall establish and follow a policy explaining how the saving fund and loan benefits work. The policy should also indicate that employee deductions shall in no case exceed 30% of the worker salary as entitled in FLL Art 110. Management shall verify how many employees have worked overtime, including on the Saturday, in order to pay pending overtime bonus. Also, management needs to ensure overtime worked is also registered in the same electronic timekeeping system.

Deadline Date: 03/26/2010

Action Taken: The brand visited the factory on March 17 and verified that the factory has established a new policy and a step-by-step procedure explaining how the saving fund works and indicating the 30% limit for deductions. This policy was signed and has been followed since January 2010. Management, supervisors and employees have been notified about this "caja de ahorro" policy. According to the documentation review of employee time records and wage slips, workers are punching their cards on Saturdays and overtime bonus payment has been made for their respective overtime worked.
Forced Labor: Employment Terms/Voluntary Agreement

F.3 Employment terms shall be those to which the worker has voluntarily agreed, in as far as those terms do not fall below provisions of local laws, freely negotiated and valid collective bargaining agreements, or the FLA Code. (P)

Noncompliance

Explanation: 1. It was noted that the factory establishes temporary labor contracts for 28 days without any legal justification. (Federal Labor Law Art. 35, 36 & 37)

2. It was observed that 20 labor contracts from the sample of 25 lacked a signature from the employer. One contract lacked the signature from the worker. (Federal Labor Law Art. 24)

3. The Internal Regulation Handbook was not registered with the government authority. (Federal Labor Law Art. 425)

Plan Of Action: The management has to make sure 28 day labor contracts are no longer used in the factory, as these have to be changed to undefined time contracts. Management needs to make sure that all labor contracts have been signed not only by the employer but also by the same workers. Also ensure the Internal Regulation Handbook is registered with the government authority. Company staff will review the evidence.

Deadline Date: 03/26/2010

Action Taken: 28 days labor contracts are no longer used since late September 2009; for new hires the factory uses undefined time contracts. Also, all contracts have now been signed by both the employer and the employee. Internal Regulation Handbook registrations are still pending, but the factory has committed to take it to the government authority within this month for its registration.
**Forced Labor: Employment Terms/Prohibitions**

F.4 There can be no employment terms (including in contracts or any other instruments or in any formal or informal recruitment arrangements) which: specify that employees can be confined or be subjected to restrictions on freedom of movement; allow employers to hold wages already earned; provide for penalties resulting in paying back wages already earned; or in any way punish workers for terminating employment. (P)

**Noncompliance**

**Explanation:** The Internal Regulation Handbook established under clause 29-I that overtime is mandatory and according to the clause 32-IA, in the case of refusal, the company can suspend the worker 1 day without payment of salary. (Federal Labor Law Art. 59)

**Plan Of Action:** If mandatory overtime is not a real practice within the factory rules, factory management needs to take clauses 29-I and 32-IA out of the Internal Regulation Handbook.

**Deadline Date:** 03/26/2010

**Action Taken:** The Internal Regulation Handbook no longer includes clauses 29-I and 32-IA. As neither clause is practiced in the plant, the factory decided to remove them both. HR communicated to supervisors and workers about this rule; information has also been posted regarding the clause removals.
**Code Awareness:**

GEN.2 Ensure that all Company factories as well as contractors and suppliers inform their employees about the workplace standards orally and through the posting of standards in a prominent place (in the local languages spoken by employees and managers) and undertake other efforts to educate employees about the standards on a regular basis.

**Noncompliance**

**Explanation:**  The factory does not provide training for the Nike or FLA Codes of Conduct during the induction process or during the labor life of the workers.

**Plan Of Action:**  The factory's management shall include a training regarding Nike and/or FLA Code of Conduct within its induction process or during the labor life of the workers.

**Deadline Date:**  03/26/2010

**Action Taken:**  Since January 2010, employees have received training regarding the Nike Code of Conduct. This training is also provided within the induction process.

**Plan Complete:**

**Plan Complete Date:**

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**Code Awareness:**

GEN.3 Develop a secure communications channel, in a manner appropriate to the culture and situation, to enable Company employees and employees of contractors and suppliers to report to the Company on noncompliance with the workplace standards, with security that they shall not be punished or prejudiced for doing so.

**Noncompliance**

**Explanation:**  There is no effective direct channel of communication in place between the workers and Nike.

**Plan Of Action:**  The management has to implement a direct communication channel between the workers and Nike.
Health and Safety: Permits and Certificates

H&S.8 The employer shall at all times be in possession of all legally required and valid permits and certificates related to health and safety issues, such as those related to the purchase and storage of chemicals, fire safety inspections, inspection of machinery, and (chemical) waste disposal. (P)

Noncompliance

Explanation: The biological and infectious waste from the internal medical service is not collected by an authorized company. (General Law of Ecological Equilibrium and Environmental Protection - LGEEPA)

Plan Of Action: Ensure that biological and infectious waste from the internal medical service is collected by an authorized company. Documentation as the waste collection manifests shall be kept by the factory management.

Deadline Date: 03/26/2010

Action Taken: Since February 2010, the factory has contacted and set up an agreement with an external company that will be responsible for collecting the biological and infectious waste. A copy of the agreement is kept by the brand.

Plan Complete:
Health and Safety: Evacuation Requirements and Procedure

H&S.9 All applicable legally required or recommended elements of safe evacuation (such as posting of evacuation plans, the installation and maintenance of an employee alarm and emergency lighting systems, ensuring aisles/exits are not blocked and that workers are not blocked within their workstations, employee education, evacuation procedures, etc.) shall be complied with. Workers shall be trained in evacuation procedures. Alarm systems shall be regularly tested and evacuation drills shall be undertaken at least annually. (S)

Noncompliance

Explanation:
1. It was noted during the factory tour that 2 emergency exits were blocked with production boxes and a vehicle. (Labor Secretary and Social Prevention NOM-002-STPS-2000. 9.1.3)

2. During the document review, no evidence was available for a recent fire drill performed by the factory. (Health, Safety and Environment Federal Regulation 28-VI)

3. It was noted that the last training for the fire fighting brigade was conducted in July 2008. (Health, Safety and Environment Federal Regulation 28-V)

Plan Of Action:
The factory management has to work on its Emergency Action Program in order to ensure no emergency exits are observed either blocked or obstructed during the working day and that a fire drill is performed in the factory at least once a year. Finally, the fire fighting brigade should receive training at least once a year, especially if the fire brigade members have changed. Documentation for all kinds of training must be kept by factory management. Company staff will review the evidence.

Deadline Date: 03/26/2010

Action Taken: During the visit on March 17, it was observed that emergency exits and some aisles are obstructed by boxes. Fire drill is scheduled within this month. The factory committed to send evidence as soon as they perform the drill.

Plan Complete:
**Health and Safety: Safety Equipment and First Aid Training**

H&S.10 All safety and medical equipment (such as firefighting equipment, first aid kits, etc.) shall be available in sufficient numbers throughout the factory, maintained and stocked as prescribed and easily accessible to workers. A sufficient number of workers shall be trained in first aid and fire fighting techniques. (S)

**Noncompliance**

**Explanation:** It was observed that medicines were expired in the first aid kit installed in the “montado” area. (Federal Labor Law 132)

**Plan Of Action:** The management, along with the first aid brigade, shall make a complete first aid kit review making sure no medicines are expired or about to expire. For those expired medicines besides the ones in the montado area, factory management shall replace them with new ones. Factory management and the first aid brigade shall implement a preventive system to make sure this will never happen again. Company staff will review for its correction in the next factory visit.

**Deadline Date:** 03/26/2010

**Action Taken:** No expired medicines are stored in the first kit anymore and first aid brigade has reinforced the control of the first aid kit. First aid kit is also checked out during the weekly walkthrough.

**Plan Complete:**

**Plan Complete Date:**
Health and Safety: Personal Protective Equipment

H&S.11 Workers shall be provided with effective and all necessary personal protective equipment (such as gloves, eye protection, hearing protection, respiratory protection, etc.) to prevent unsafe exposure (such as inhalation or contact with solvent vapors, noise, dust, etc.) to health and safety hazards, including medical waste. (S)

Noncompliance

Explanation: During the tour it was noted that the workers in the montado area were not using appropriate PPE (e.g., ear protections). (Health, Safety and Environment Federal Regulation 101)

Plan Of Action: Factory management along with the Safety Committee shall provide ear protection as earplugs for employees in the montado area. Safety Committee members as well as supervisors at the montado area have to make sure PPE is properly used at all time.

Deadline Date: 03/26/2010

Action Taken: Workers were still observed to be working without using PPE.

Plan Complete:

Plan Complete Date:

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Health and Safety: Chemical Management and Training

H&S.13 All chemicals and hazardous substances shall be properly labeled and stored in accordance with applicable laws. Labels shall be placed in the local language and the language(s) spoken by workers, if different from the local language. Workers shall receive training, appropriate to their job responsibilities, concerning the hazards, risks and the safe use of chemicals and other hazardous substances. (S)

Noncompliance
**Explanation:**

1. It was noted that soda containers were found used to store chemicals, containers which also lacked clear identification. (Health, Safety and Environment Federal Regulation 65)

2. The eye wash station installed in the montado area was not functioning properly. (Health, Safety and Environment Federal Regulation 45)

3. It was noted that no secondary containment was available for the chemical containers in the warehouse. (Health, Safety and Environment Federal Regulation 61)

**Plan Of Action:**

Factory management along with the Safety Committee shall work on a chemical communication plan/program, making sure the following points are covered:

1. Appropriate and identified (hazardous ID system) containers shall be provided to employees, no soda containers should be used.

2. Eye wash station is in good condition for its use.

3. Secondary containment for the chemicals stored inside the chemical warehouse.

**Deadline Date:** 03/26/2010

**Action Taken:** Labeled and identified chemical containers have been provided to employees. Secondary containment has been installed for big chemical containers inside the chemical warehouse; the eye wash station in the montado area has been fixed. Water is provided from an independent source.

**Plan Complete Date:**

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**Health and Safety: Machinery Maintenance and Worker Training**

H&S.18 All production machinery, equipment and tools shall be regularly maintained and properly guarded. Workers shall receive training in the proper use and safe operation of machinery, equipment and tools they use. Employers shall ensure safety instructions are either displayed/posted near all machinery or are readily accessible to the workers. (S)

**Noncompliance**
Explanation: It was observed that 6 of 35 sewing machines in the stitching area lacked pulley guards. (Labor Secretary and Social Prevention (STPS) - NOM-004-STPS-1999. 8.1.)

Plan Of Action: Factory management along with the Safety Committee shall work on a machine guarding system, making sure all the guards are installed in the machinery (in this case the pulley guards of the sewing machines in the stitching area).

Deadline Date: 03/26/2010

Action Taken: The sewing machines were still lacking pulley guards. The maintenance staff has not done anything to fix them.

Plan Complete:

Plan Complete
Date:

Health and Safety: Medical Facilities
H&S.21 Medical facilities shall be established and maintained in factories as required by applicable laws. Medical staff shall be fully licensed and recognized under applicable local rules and regulations. An appropriate number of medical staff shall be on duty during all working hours, including any type of overtime, as required under local law. An appropriate stock of medical supplies shall be maintained at all times. Medicines of which the expiration date has passed must be replaced immediately and disposed of in a safe manner. (P)

Noncompliance

Explanation: The doctor who attends to the internal medical service is present 1 and a half hours during the shift. (Federal Labor Law 504)

Plan Of Action: The factory’s management shall see the option of having more medical service coverage time within the shift.

Deadline Date: 03/26/2010

Action Taken: The management is working on getting an extension of the medical service time to 3 hours a day.

Plan Complete:
Health and Safety: Sanitation in Factory Facilities

H&S.22 All facilities including factory buildings, toilets, canteens, kitchens, and clinics, shall be kept clean and safe and be in compliance with all applicable laws, including relevant sanitation, medical and safety and health regulations. (S)

Noncompliance

Explanation:

1. It was observed that no seats were present in stalls within the female bathroom. (Health, Safety and Environment Federal Regulation 108)

2. It was observed that employees were smoking in the men's bathroom in the montado area. (Anti-Smoking Federal Law)

Plan Of Action:

Factory management, along with the Safety Committee, have to make sure that stalls within the female bathroom are in good condition (e.g., seats installed) and that no workers are allowed to smoke inside the facility in accordance to the employee handbook.

Deadline Date: 03/26/2010

Action Taken: Seats have been installed in the stalls within the female bathroom. However, evidence was again observed of people smoking inside the male bathroom (cigarette residues found on the floor).

Plan Complete Date:
Health and Safety: Food Preparation

H&S.25 All food made available to workers shall be prepared, stored, and served in a safe and sanitary manner in accordance with all applicable laws. All workers handling food shall be provided with the tools and equipment necessary to do so in a safe and sanitary manner. (S)

Noncompliance

Explanation: The canteen’s capacity is 40 workers. During each rest period 50% of the 267 workers take their break. It was observed that workers were eating outside of the factory, sitting on the floor or eating in working areas such as the synthetic cutting area and chemical warehouse. (Health, Safety and Environment Federal Regulation No. 65)

Plan Of Action: Factory management needs to work on how they can improve the situation at the time the lunch breaks begin. They also need to work on if the capacity of the canteen is not enough for the number of workers in the factory. No workers should eat their lunch sitting on the floor or in working areas such as cutting and the chemical warehouse.

Deadline Date: 03/26/2010

Action Taken: This is a serious issue for the factory, as right now they are having a lot of problems in terms of space. Employee lockers were even moved from the restrooms to the canteen area; the capacity there is now even less. The factory is planning to move to a larger place so the canteen situation is no longer an issue.

Plan Complete Date:
Hours of Work: Time Recording System

HOW.6 Time worked by all workers, regardless of compensation system, shall be fully documented by time cards or other accurate and reliable recording systems such as electronic swipe cards. Employers are prohibited from maintaining multiple time-keeping systems and/or false records for any fraudulent reason, such as to falsely demonstrate working hours. Time records maintained shall be authentic and accurate. (P)

Noncompliance

Explanation: It was noted that the company does not maintain an attendance registration on the Saturdays that the employees work at the factory. (Social Security Law - LSS 15)

Plan Of Action: The management has to make sure that hours worked on Saturday shall be also registered in the same electronic timekeeping system used within the ordinary week.

Deadline Date: 03/26/2010

Action Taken: As mentioned before, according to the documentation review of employee time records and wage slips, workers are punching their cards on Saturdays. Overtime bonus payments have been made for the respective overtime worked.

Plan Complete: Plan Complete Date: