



COMPANIES: adidas  
Mountain Equipment Co-op (MEC)

COUNTRY: El Salvador

ASSESSMENT DATE: 11/28/18

ASSESSOR: Francisco Chicas

PRODUCTS: Apparel

NUMBER OF WORKERS: 1179

## FLA Comments

FLA Comment: MEC is leaving this factory due to MEC's evolving product roadmap and strategy, the category the factory made is no longer a priority for MEC. Adidas and MEC have been leading the corrective action plan discussions and remediation with the factory since the 2018 SCI. Under Armour and New Balance also have production in this factory and are involved in the collaborative effort in remediation. MEC provided the most recent SCI CAP update to the factory on July 23, 2019. MEC has reached out to the collaborating brands to share the news of its divestment, ensuring the collaborating brands will continue to maintain regular communication and support throughout the remediation process. The collaborating brands had planned on arranging a verification audit in Q4 of 2019. At the time of divestment, MEC accounted for less than 5% of the factory's overall production.

## Summary of Code Violations

Companies that join the FLA agree to uphold the FLA Workplace Code of Conduct throughout their entire supply chain. The Code of Conduct is based on International Labour Organization (ILO) standards, and defines labor standards that aim to achieve decent and humane working conditions.

While it is important to note when violations of the FLA Workplace Code of Conduct occur, the purpose of these assessments is not simply to test compliance against a particular benchmark, but rather to develop an understanding of where and how improvements can be made to achieve sustainable compliance. Code of Conduct violations can be found throughout the course of an assessment of the employment and management functions, and are addressed in companies' action plans.

## Findings and Action Plans

### FINDING NO.1

#### SUSTAINABLE IMPROVEMENT REQUIRED

#### FINDING TYPE: Recruitment, Hiring & Personnel Development

##### Finding Explanation

1. There are no policies or procedures on performance reviews. [ER.1, ER.29]
2. The factory does not conduct performance reviews for any workers. Management is currently in the process of finalizing a tool that will be used to implement performance reviews in the future. [ER.1, ER.29]
3. As there are no performance reviews, management did not show documentary evidence that promotion decisions are objectively made. [ER.30]

##### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.29, ER.30)

#### COMPANY ACTION PLANS

##### Action Plan no 1.

##### Description

1. Per factory, there is a promotion policy, the promotion procedure will be worked on, linked to the performance evaluations that could be based on the same tool used to reduce personnel. It is recommended that the final promotion policy and procedure, include an evaluation tool under the promotion procedure, as well as formal decision making procedures for a promotion. 2. Please send the finalized promotional policy for review once complete. 3. Factory management to provide comprehensive training on evaluation tool to all workers, managers, and supervisors so they are equipped to properly complete evaluations.

##### Planned completion date

01/25/19

##### Company Action Plan Update

adidas December 2019 Update: 1.i. Completed. The factory is using their newly created Performance Evaluation in their retrenchment process as a way to base termination decisions on workers' performance. ii. In progress. Factory should verify that metrics used by supervisor to assess certain components of the Performance Evaluation do not unfairly assess workers and/or opens the supervisory to unconscious biases or risks for discrimination. This is an ongoing conversation between PC and Factory 2.

In progress. Factory must finalize the evaluation tool to finalize promotion policy. To do this, Factory must ensure that the metrics used by supervisors to assess the Performance Evaluation do not unfairly assess workers and/or opens the supervisors to unconscious biases or risk for discrimination. 3. In progress. Factory has provided some training to supervisors. However, trainings to be provided once Performance Evaluation are finalized.

## FINDING NO.2

### IMMEDIATE ACTION REQUIRED

#### FINDING TYPE: Hours of Work

##### Finding Explanation

1. Assessors reviewed a sample of nineteen workers' pay slips and working hours records from the first two weeks of June. The working hours of four unskilled workers, four factory guards, and two supervisors exceeded 60 hours per week, ranging from 60.5 hours to 79 hours. [HOW.1, HOW.8]

2. During peak production periods in 2018, some workers worked 12 consecutive hours at night (from 6:00 pm to 6:00 am). In these cases, workers did not use the formal time tracking system to register their hours of work; instead, the factory manually recorded their hours of work. Also, the night shift exceeded the legal limit of seven hours of work, legally established for night work. The specific dates in which the night work was performed, and specific amount of affected workers is as follows:

April 16, 18 and 20 (14 workers);  
May 28, 29 and 30 (391 workers);  
May 21, 22 and 23 (98 workers);  
June 04, 05 and 06 (100 workers);  
June 07 and 08 (122 workers).  
[ER.2, ER.23, C.1, C.5]

3. Some of the workers who worked 12-hour night shifts informed assessors that they could opt to work the day after a night shift. This violates local law, which states that workers should receive, at least, eight consecutive hours of rest between work days. [HOW.1]

##### Local Law or Code Requirement

Labor Code of the Republic of El Salvador, Articles 161, 167, 168 and 169; FLA Workplace Code (Employment Relationship Benchmarks ER.2 and ER.23; Hours of Work Benchmarks HOW.1 and HOW.8; Compensation Benchmarks C.1 and C.5)

##### Recommendations for Immediate Action

1. Do not allow workers' total working hours (regular plus overtime hours) to exceed 60 hours per week. This applies to production workers, as well as workers whose positions are not directly related to production, such as factory guards.

2. Record all working hours, including night work, using the electronic time tracking system. Cease the practice of manually recording night shift work.

3. Ensure that workers who work overtime at night have at least eight consecutive hours of rest before initiating the next workday, as legally required.

### COMPANY ACTION PLANS

#### Action Plan no 1.

##### Description

In addition to remediation identified for Finding No 1 of this report. 1. It is recommended to maintain a weekly monitoring report of all working hours to ensure workers are not asked to work OT once they have surpassed daily limits or 60 hours/week limits. 2. Additionally, factory management should ensure to identify and adopt mechanisms that help prevent excessive OT including cross training for workers (to allow workers to learn multiple machines), review of production planning vs. capacity, etc. The brands would like to understand how Varsity will maintain a working week of 60 hours or less moving forward. Please provide a detailed plan of action for review.

##### Planned completion date

12/11/18

##### Company Action Plan Update

adidas December 2019 Update: 1. In progress. The factory has a time sheet to control hours of work (HoW). It was verified during the audit that the time sheet is being implemented by the factory and it has been able to control OT limits mostly. However, October 2019 annual audit identified that the Factory had surpassed HoW limits in July. This issue will be reviewed during next visit. 2. In progress. Factory management is implementing a verbal procedure they have to request OT. Yet, no written procedure in place. Production is planned on regular working hours without the use of OT. Planning Department meets with the Engineering department and plan accordingly to the item they are producing. They plan according to the legal hours that are permitted. However if there are peaks in production OT is scheduled which first has to be approved by the top management.

### FINDING NO.3

#### IMMEDIATE ACTION REQUIRED

#### FINDING TYPE: Termination & Retrenchment

##### Finding Explanation

1. The factory pays workers' termination payouts (severance plus proportional vacation and Christmas bonuses) in advance on a yearly basis, even though workers are still employed by the factory. This practice is legal and preferred by workers, but it poses a risk that workers will not receive the full termination payouts that they are eligible for. If the minimum wage is increased while a worker is employed at the factory, some of the worker's termination payouts will have been calculated based on an outdated, lower minimum wage. [ER.19, ER.22, C.5]

2. There are no policies and procedures on Retrenchment. However, management has developed draft policies and procedures, and they are in the process of completing final versions in consultation with the union leaders. [ER.1, ER.19, ER.32]

3. During the past year, the factory retrenched workers due to a decrease in production orders. Assessors were unable to determine whether the decisions regarding which workers to lay off were based on non-discriminatory selection criteria. This is because the factory lacks policies and procedures on retrenchment, and because in the past there was not instruments used to implement and record retrenchments; hence, there was no documentation available to assess whether the process had been made fairly and objectively. [ER.32]

##### Local Law or Code Requirement

Labor Code of the Republic of El Salvador, Article 58; FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.19, ER.22, and ER.32; Compensation Benchmark C.5)

##### Recommendations for Immediate Action

1. Ensure that all dismissed, retrenched, and resigned workers receive termination payouts that are calculated based on the most recent minimum wage.

#### COMPANY ACTION PLANS

##### Action Plan no 1.

##### Description

Special Note: FLA Company affiliates are in agreement with this finding and as such, FLA's interpretation of severance requirements. However, given ambiguity of annual severance requirements vis a vis annual severance advances (indemnizaciones), Brands will seek explanation from Ministry of Labor to support Factory's understanding this finding. This may delay the completion of this remediation plan. 1. a. It is recommended that when termination without cause and severance payments have been paid in advance, that Varsity calculate and pays the severance based on the worker's current salary (minus any advance severance) given that severance payouts must be calculated based on workers' current salary. Please ensure to maintain clear and accurate records to show calculation on payouts. b. Factory management to clearly include how severance will be calculated and paid out in wages and benefit policy. 2-3. Please provide the finalized Retrenchment Policy and Worker Evaluation for review, in particular latest version of the criteria selection.

##### Planned completion date

12/11/18

##### Company Action Plan Update

adidas December 2019 Update: 1.a-b. PC is in agreement with FLA's recommendation. However, in light that the Salvadoran Labor Code does not have clear guidance re: severance calculations for workers who have received severance advances, PC has requested clarification to the Ministry of Labor (MoL) in hope guidance from MoL on legal interpretation can be used to ensure factory

understands requirement. At the time of writing, PC was awaiting response from MoL. 2.i. Complete. It was verified worker evaluation is based on worker's responsibility (punctuality), seniority, results oriented capabilities, productivity, interpersonal skills, ability. Retrenchment decisions will be based on results of internal performance reviews. ii. In progress. Factory should verify that metrics used by supervisor to assess certain portions of the Performance Evaluation does not unfairly assess workers and/or opens the supervisors to unconscious biases or risks for discrimination. This is an ongoing discussion between PC and Factory. iii. In progress. It was reviewed on the audit that the seniority is assessed according to factory's latest criteria (Point 2.i), however, mistakes in application of this portion of performance review were identified in some cases during October 2019 Audit . 3. In progress. Retrenchment procedure will be finalized when questions on Performance Evaluation are completed and approved.

## FINDING NO.4

### SUSTAINABLE IMPROVEMENT REQUIRED

#### FINDING TYPE: Industrial Relations

##### Finding Explanation

1. The factory has not provided the union with office space or other facilities necessary for the proper exercise of their functions (e.g. a notice board, access to workers during working hours in order to collect workers' complaints and bring them to the attention of management). [FOA.1, FOA.15, ER.26]

2. The communication and training provided to workers regarding Industrial Relations has not been effective. While being interviewed by assessors, workers expressed negative views towards unions and the right to freedom of association. For example, a few workers expressed that they preferred not to talk with union leaders as doing so might lead to negative consequences for them. Assessors did not find evidence that management is deliberately promoting these messages; however, the communication and training provided by management has not effectively prevented this mindset. [ER.1, ER.15, ER.16]

##### Local Law or Code Requirement

International Labor Organization Workers' Representatives Convention (No.135), Article 2; Constitution of the Republic of El Salvador, Article 144; FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.15, ER.16, and ER.26; Freedom of Association Benchmarks FOA.1 and FOA.15)

### COMPANY ACTION PLANS

#### Action Plan no 1.

##### Description

1. Factory management to provide a proper facility to carry out functions as required by ILO Conv. 125 (rat. by El Salvador in 2006). 2. Factory management to identify all legal obligations for employers in relations to workers' trade unions to ensure all obligations are met by factory. 3. a. Factory management should provide comprehensive and objective training on freedom of association as part of its induction training and annual refresher course regarding workers' rights to freedom of association and collective bargaining as well as management's commitment to respecting and recognizing such right. Training should clearly state their commitment to non-retaliation against workers who choose to exercise their FOA rights; special attention should be given to managers and supervisors to ensure they know and understand the Factory's commitment around FOA. 4. Please provide supporting documentation to actions taken to remediate this finding.

##### Planned completion date

02/22/19

##### Company Action Plan Update

adidas December 2019 Update: 1-2. In progress. The factory and the sectional union are conducting monthly meetings. There was a month in where meeting was postponed as management nor the sectional union were able to meet at the proposed time. However, meetings were resumed on the following month. Minutes of the meetings were reviewed during the audit. Information gathered indicates that the relationship between the factory management and them has continued to improve as top management has been addressing issues discussed. However one issue is still pending and that is a supervisor that apparently is preventing the sectional union from expanding by maintaining sectional members isolated from other workers. 3.A.- 4. Pending. No training for FOA has been provided by the factory, the training is pending and according to the factory will be provided on the next couple of months. No supporting documentation has been provided by the factory regarding training on FOA.

## FINDING NO.5

### IMMEDIATE ACTION REQUIRED

#### FINDING TYPE: Grievance System

##### Finding Explanation

1. None of the suggestion boxes in Plants 1 and 2 have paper and pencils for workers to use to write their suggestions and grievances. [ER.25]
2. The suggestion box in the men's restroom in Plant 2 is not locked, and workers use it as a trash receptacle. [ER.25]
3. Factory management only keeps partial records in relation to the Grievance System. Suggestions and grievances submitted verbally via the open door policy are not recorded. As a result, there is no evidence that management follows up on all grievances and communicates the steps taken to resolve the grievances with workers. [ER.2]

##### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.2 and ER.25)

##### Recommendations for Immediate Action

1. Equip all suggestion boxes with paper and pencils so workers are able to write their suggestions/grievances.
2. Lock suggestion box at male restrooms of Plant 02 to avoid it is used to deposit trash.

### COMPANY ACTION PLANS

#### Action Plan no 1.

##### Description

1. a. Pencils will be placed in the suggestion boxes and reviewed every periodically to keep them they are properly equipped and maintained. b. It is recommended to create a Grievance worker/management committee to support proper communications channels, grievance mechanisms and industrial relations in the factory. c. Committee roles and responsibilities should be clearly established. d. Given that Factory has a sectional union, factory management to ensure grievance committee does include union representation and that any additional worker representation is chosen by workers. e. All communication/grievance committee members should be properly trained in order to perform role and function properly. 2. a. It is also recommended to review the current Grievance policies and procedures to ensure procedures articulate regular checks of suggestion boxes, a process for reviewing all received grievances/complaints and how each one will be addressed, as well as the feedback loop to close and communicate back to the person who submitted the grievance. b. Grievance procedures should also include process that tracks all grievances and identifies trends in order to better identify risks. 3. Please provide supporting documentation to actions taken to remediate this finding.

##### Planned completion date

12/11/18

##### Company Action Plan Update

adidas December 2019 Update: 1. a. Pencils will be placed in the suggestion boxes and reviewed every periodically to keep them they are properly equipped and maintained. b. It is recommended to create a Grievance worker/management committee to support proper communications channels, grievance mechanisms and industrial relations in the factory. c. Committee roles and responsibilities should be clearly established. d. Given that Factory has a sectional union, factory management to ensure grievance committee does include union representation and that any additional worker representation is chosen by workers. e. All communication/grievance committee members should be properly trained in order to perform role and function properly. 2. a. It is also recommended to review the current Grievance policies and procedures to ensure procedures articulate regular checks of suggestion boxes, a process for reviewing all received grievances/complaints and how each one will be addressed, as well as the feedback loop to close and communicate back to the person who submitted the grievance. b. Grievance procedures should also include process that tracks all grievances and identifies trends in order to better identify risks.

## FINDING NO.6



## IMMEDIATE ACTION REQUIRED

### FINDING TYPE: Health & Safety

#### Finding Explanation

1. The alarm system in Plant 2 does not sound when one of the alarm buttons is activated. [HSE.1, HSE.5]
2. The factory does not have a Health License as required by law. [HSE.1, HSE.4]

#### Local Law or Code Requirement

General Regulations on Prevention of Workplace Risks, Article 117; Health Code, Articles 101 and 109(c); FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.1, HSE.4, and HSE.5)

#### Recommendations for Immediate Action

1. Repair or replace the broken alarm button in Plant 2.
2. Obtain a Health License.

## COMPANY ACTION PLANS

### Action Plan no 1.

#### Description

1. a. The manual alarm was repaired the same day of the audit, due to the fact that it was found damaged, it will be reviewed monthly, starting from January 2019. b. It is recommended that Varsity strengthens its current Health and Safety committee to ensure it is fully trained, equipped and empowered to who will be responsible for monthly walkthroughs to assess Factory's working conditions and potential hazards (i.e., ergonomics, personal protective equipment, chemical management, etc.). 2. i. All internal health and safety inspections should be scheduled and consistently executed. ii. Maintain records and clear action plans, with assigned management oversight, to help ensure any potential risks to working conditions are proactively assessed and mitigated. 3. Factory management to prioritize and complete all steps needed to receive the Health License. Please provide an accurate timeline for when the health license will be able to be closed. 4. Please provide supporting documentation to actions taken to remediate this finding.

#### Planned completion date

12/11/18

#### Company Action Plan Update

adidas December 2019 Update: 1.a. Complete. The Factory has conducted monthly inspections to verify proper functioning of the alarm. b. In progress. Currently the Factory is providing required training hours required by regulation ("Decreto 254: Ley General de Prevencion de Riesgos en los Lugares de Trabajo"). The HSE department is responsible for providing trainings regarding on HSE topics. The factory considers that with the legal required training, the committee is fully able to perform functions. PC will conduct a training review during next visit to ensure all HSE Committee members have received all necessary training in order to understand and perform their functions. 2. Complete. Weekly audits are conducted and issues that have been found are being remediated. 3-4. In progress. The required documents have been filed and the inspection by the Ministry of Health will be done on 18/11/2019 per document emitted by the authorities which was reviewed on the audit. Will send update once they have a response from the audit.

## FINDING NO.7

## IMMEDIATE ACTION REQUIRED

### FINDING TYPE: Health & Safety

#### Finding Explanation

1. One worker who handles an adhesive chemical in the "Posicionado" Department was provided gloves that are not the correct size. The gloves were so big that the worker opted not to wear them. Another worker who handles chemicals in the same department was not provided gloves at all. [HSE.1, HSE.7]

2. There are no eyewash stations in the Rhinestone, Embroidery, or "Posicionado" Departments where workers handle chemicals. [HSE.1, HSE.6]
3. Workers in the Rhinestone, Embroidery, Stain-Removal, and "Posicionado" Departments store their water bottles next to chemical containers, posing a risk of contamination. [HSE.9, HSE.23]
4. The Material Safety Data Sheets (MSDS) for the cleaner used in the Rhinestone Department and the adhesive used in the Embroidery Department are not available in those work areas. [HSE.10]

#### Local Law or Code Requirement

General Regulations on Risk Prevention at the Workplace, Articles 90.3, 91.1, 91.2, 221, 228, and 229 (section c); FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.1, HSE.6, HSE.7, HSE.9, HSE.10, and HSE.23)

#### Recommendations for Immediate Action

1. Provide all workers in the "Posicionado" Department who handle chemical with gloves. Replace any gloves that are the incorrect size.
2. Install eyewash stations in the Rhinestone, Embroidery, and "Posicionado" Departments.
3. Train workers in the Rhinestone, Embroidery, Stain-Removal, and "Posicionado" Departments on the safety risks on storing drinking water containers next to chemical containers. Monitor to ensure that there is no risk of contamination.
4. Make the MSDS available wherever chemicals are used and stored, including in the Rhinestone and Embroidery Departments.

## COMPANY ACTION PLANS

### Action Plan no 1.

#### Description

1. a. The gloves were delivered on the same day of the audit appropriate to the size; this requirement will be included in the safety inspection procedure and checklist exact dates to be determined. b. It is recommended that Varsity strengthens its current Health and Safety committee to ensure it is fully trained, equipped and empowered to who will be responsible for monthly walk throughs to assess Factory's working conditions and potential hazards (i.e., ergonomics, personal protective equipment, chemical management, etc.). 2. The eye wash station was installed the same day of the audit. However, i. All internal health and safety inspections should be scheduled and consistently executed. ii. Maintain records and clear action plans, with assigned management oversight, to help ensure any potential risks to working conditions are proactively assessed and mitigated. 3. Please provide supporting documentation to actions taken to remediate this finding. 4. a. Factory indicated that no chemicals should be stored in this area, as such, internal checks will verify that no chemicals are stored in this specific factory area. b. Included in the EHS annual training suggested above, please ensure to expand upon chemical management training to cover storage of drinking water.

#### Planned completion date

12/11/18

#### Company Action Plan Update

adidas December 2019 Update: 1.a. Complete. Review of gloves has been added to internal checklist. b. In progress. Currently the Factory is providing required training hours required by regulation ("Decreto 254: Ley General de Prevencion de Riesgos en los Lugares de Trabajo"). The HSE department is responsible for providing trainings regarding on HSE topics. The factory considers that with the legal required training, the committee is fully able to perform functions. PC will conduct a training review during next visit to ensure all HSE Committee members have received all necessary training in order to understand and perform their functions. 2.i-ii. Complete. Inspections are done by the factory on a weekly basis. They include the review of the eyewash station. Checklists of inspections and recording were verified. Indicate if you verified the records are maintained as per original remediation. 3. In progress. Factory has amended its HSE inspection checklist, scheduled daily checklists. Next audit to continue to verify implementation of HSE inspections and recording to ensure chemical storage/maintenance. 4a Completed and ongoing. Factory is verifying proper chemical storage through daily inspections. Implementation and effectiveness of daily inspections were verified in the audit. b. Completed. Factory has provided training to workers on proper chemical storage in April 2019.

## FINDING NO.8

## IMMEDIATE ACTION REQUIRED

## FINDING TYPE: Health & Safety



### Finding Explanation

1. Assessors observed a mechanic in Plant 2 who was not wearing safety boots. This worker had not been provided with safety boots. [HSE.1, HSE.7]
2. The factory does not regularly inspect the condition of the workers' chairs and around 50% of the interviewed workers from the Sewing Department told assessors that the chairs used by sewing operators are not replaced when needed. They mentioned specific examples of workers falling out of their chairs because they were broken. Assessors did not observe any broken or otherwise unsafe chairs during their factory tour. [HSE.1, HSE.14]
3. Workers who lift heavy loads (e.g. warehouse workers and packers) are not trained on safe lifting techniques. In addition, management does not inform these workers of the maximum weight they can lift manually, as required by law. The workers are provided with lifting belts. [ER.1, HSE.1, HSE.17]
4. The occupational risk analysis performed by management did not identify the risk of repetitive-motion stress and injuries for workers in certain positions (e.g. sewing operators, packers, and heat transfer operators). As a result, the factory does not take steps to reduce the risk of repetitive-motion stress and injuries as legally required, such as regularly rotating jobs. [HSE.1, HSE.17]
5. Three workers in the Packing Department of Plant 2 who work standing up do not have anti-fatigue floor mats. [HSE.1, HSE.17]

### Local Law or Code Requirement

General Regulations on Prevention of Workplace Risks, Articles 81, 82, 179(c), and 180.3; General Law on Prevention of Workplace Risks, Articles 8.2, 20 and 30; FLA Workplace Code (Employment Relationship Benchmark ER.1; Health, Safety & Environment Benchmarks HSE.1, HSE.7, HSE.14, and HSE.17)

### Recommendations for Immediate Action

1. Provide safety boots to all mechanics.
2. Regularly inspect workers' chairs. Repair or replace broken chairs immediately.
3. Train the relevant workers on safe lifting techniques and the maximum load that can be lifted manually.

## COMPANY ACTION PLANS

### Action Plan no 1.

#### Description

1. a. The boots for mechanics were provided on the same date of the audit and a procedure will be worked out to eliminate this situation. Procedure will be drafted by March 1st 2019 b. It is recommended that Varsity strengthens its current Health and Safety committee to ensure it is fully trained, equipped and empowered to conduct periodic internal checks on the Factory's working conditions and potential hazards (i.e., ergonomics, personal protective equipment, chemical management, etc.). 2. a. Chairs with metal base have been purchased to minimize the risk of breakage of chairs, 120 chairs were purchased, the chairs were provided to workers in December 2018. Factory management will work on a procedure and checklist of periodic inspection of chairs for its timely replacement, which includes workers being able to notify about any damage to them; However, it has never been reported that a worker has fallen from a chair due to malfunction. b. All internal health and safety inspections should be scheduled and consistently executed. c. Maintain records and clear action plans, with assigned management oversight, to help ensure any potential risks to working conditions are proactively assessed and mitigated. 3. Factory management to schedule and provide training on proper lifting techniques to all workers responsible for lifting heavy objects as part of their functions. Training should be provided upon hire and at least once annually thereafter. 4. a. It is recommended that a formal ergonomic assessment is conducted for the entire facility. b. Included in the EHS annual training suggested above, please ensure that ergonomics and proper lifting techniques are included and well documented in this training. 5. Ergonomic rugs were placed on staff the same day of the audit; and it will be included in the occupational safety checklist for this area and all that needed, exact dates to be determined. 6. Please provide supporting documentation to actions taken to remediate this finding.

#### Planned completion date

12/11/18

#### Company Action Plan Update

adidas December 2019 Update: 1.a. In progress. The HSE procedure was verified and reviewed, however, the checklist has not been completed as per original remediation plan. It is not possible to identify prevention steps on the checklist used for verifications. b. Completed. i. It was verified by the interviews with employees that wages or incentives were not affected for workers that participate on the HSE committee so they can fulfill HSE duties without fear of losing wages. ii. Completed. It was verified that workers on the HSE committee have the necessary knowledge to perform their functions. 2.a. Completed. Chairs have

been included on the verification checklist. b-c. Completed. Internal health and safety inspections are scheduled and constantly executed. The factory maintains records and clear action plans, with assigned management oversight, to help ensure any potential risks to working conditions are proactively assessed and mitigated. 3. Completed and ongoing. Factory has provided training on proper lifting techniques to all workers responsible for lifting heavy objects as part of their functions. 4. In progress. The ergonomic assessment was conducted by the own factory the HSE department. At the moment they only have assessed the sewing dept, however the factory mentions that they are starting with other areas. b. Pending. Ergonomics training has not been included and documented. Proper lifting techniques training are included and documented. 5. Completed. The factory has included in the occupational safety checklist the ergonomic mats.

## FINDING NO.9

### SUSTAINABLE IMPROVEMENT REQUIRED

#### FINDING TYPE: Training (Macro)

##### Finding Explanation

1. The orientation training provided to new workers only focuses on Health & Safety. The following Employment Functions are not explained to workers in depth: Recruitment, Hiring & Personnel Development; Compensation; Hours of Work; Termination & Retrenchment; Industrial Relations; Grievance System; Workplace Conduct & Discipline; and Environmental Protection. Management provides new workers with an employee handbook and briefly explains the content of the handbook to the workers. [ER.1, ER.15]

2. Around 35% of workers have not received ongoing training on the following Employment Functions in the past 12 months: Recruitment, Hiring & Personnel Development; Compensation; Hours of Work; Termination & Retrenchment; Industrial Relations; Workplace Conduct & Discipline; Grievance System; and Environmental Protection. [ER.1, ER.15, ER.25, ER.28]

##### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.15, ER.25, and ER.28)

### COMPANY ACTION PLANS

#### Action Plan no 1.

##### Description

1. Factory management to designate a responsible staff to oversee and implement the Factory's training program to ensure all workers receive induction training (upon hire) and subsequent annual refresher training on all factory policies and procedures. 2. Induction/annual refresher training should provide comprehensive information related to all factory policies and procedures; factory to ensure both types of trainings include missing components as highlighted by the FLA: Recruitment, Hiring & Personnel Development; Compensation; Hours of Work; Termination & Retrenchment; Industrial Relations; Grievance System; Workplace Conduct & Discipline; and Environmental Protection. 3. It is recommended that Varsity create and maintain an annual, in-depth training schedule/calendar (including an onboarding program) to cover entire workforce. 4. It is recommended to maintain all training records (i.e., attendance sheets, training PowerPoint files). 5. It is recommended that Varsity develop a method to assess the level of knowledge retained after each training session, to assess the effectiveness of each training.

##### Planned completion date

12/21/18

##### Company Action Plan Update

adidas December 2019 Update: 1. Completed. The factory has designated a responsible staff to oversee and implement the Factory's training program to ensure all workers receive induction training (upon hire) and subsequent annual refresher training on all factory policies and procedures. 2-3. In progress. Trainings presentations were reviewed. Recruitment, Hiring & Personnel Development; Compensation; Hours of Work; Termination & Retrenchment; Industrial Relations; Grievance System; Workplace Conduct & Discipline; and Environmental Protection. The trainings were provided by the supervisors and are given according to the factory planning or scheduling. Trainings for workers on these policies and procedures are scheduled for November 2019. To be reviewed during next audit. 4. In progress. The factory has maintained training records attendance sheets and training PowerPoint files of trainings conducted in 2019. 5. In progress. i. Completed. New quiz format reviewed, questions were changed to assess the level of understanding of the content presented to the employees. ii. Ongoing. There is no clear procedure on how to proceed if workers demonstrate a low level of understanding.

### IMMEDIATE ACTION REQUIRED

#### FINDING TYPE: Compensation

##### Finding Explanation

1. Neither the factory's payroll nor the workers' pay slips reflect the night work performed during peak production periods. As a result, assessors were not able to determine whether these workers were correctly compensated for all hours of work (e.g. payment of night work premium and overtime premium). During worker interviews, no workers alleged nonpayment and no evidence of nonpayment or underpayment was collected. [ER.18, C.1, C.5, C.7, C.13, C.15, C.16]

##### Local Law or Code Requirement

Labor Code of the Republic of El Salvador, Articles 168 and 169; FLA Workplace Code (Employment Relationship Benchmark ER.18; Compensation Benchmarks C.1, C.5, C.7, C.13, C.15, and C.16)

##### Recommendations for Immediate Action

1. Record all payments made to workers in internal payroll documents and on workers' pay slips. Ensure that night work hours and night work premium is reflected in the payroll and pay slips.

### COMPANY ACTION PLANS

#### Action Plan no 1.

##### Description

Factory Special Note: The Factory's time recording system does not recognize hours of work that fall outside of their usual schedule. As a result, the factory relied on sign in sheet to record these hours of work. All hours (regular and OT) were paid in accordance to the law. Moving forward, factory management has been urged to ensure time recording system is reconfigured so it is able to record all hours of work. 1. Factory management to designate a responsible person to: a. Assess internal system to ensure recognition of all shifts and hours of work within your working hours and payroll records, including paystubs. It is not recommended to maintain manual records. b. Please create a formal hours of work recording process and system, with clear and maintained records. Please refer to the assessor's confirmation on all noted "velada" included under Hours of Work code provision of this report. 2. Please share documentation of a clear reflection of all regular and overtime hours.

##### Company Action Plan Update

adidas December 2019 Update: 1.a-b. Complete. The payroll software was reviewed and updated to include extraordinary schedules, and it is working correctly. The factory is no longer using additional hours of work records.