

Final Assembly Supplier Audit Report

February 2007

Summary

In the summer of 2006, we were concerned by reports in the press alleging poor working and living conditions at one of our iPod final assembly suppliers in China. In response, we conducted a thorough audit of the facility and worked closely with the supplier to correct any practices or incidents that did not conform to our Supplier Code of Conduct.

This audit and the actions that followed have improved the working and living conditions at this facility. The housing conditions are better, pay practices are clearer, and employee benefits have expanded in the areas of educational programs and recreational options. Also, this supplier has incorporated the lessons learned into the design of new facilities.

Immediately after this audit, we expanded our compliance activities and completed audits of all Mac and iPod final assembly manufacturers in 2006. As you will see below, we found the suppliers to be in compliance with our Code in many of the areas audited but we also found areas that did not meet our expectations. In every case we have worked with the suppliers to implement needed changes.

Below is a summary of the findings and corrective actions from our 2006 audits of final assembly suppliers.

Audit Process

Third-party experts carried out comprehensive audits that covered working and living conditions including wages, work hours, health and safety and other practices at these facilities. The auditors reviewed thousands of records, interviewed over 500 employees and conducted rigorous physical inspections of 11 factories plus supporting facilities, such as dining halls and dormitories.

Upon the completion of the audits, we analyzed every finding in detail, provided the results to each supplier, and requested corrective action plans. We then sent a team of Apple senior managers and third-party experts to meet with each supplier and perform a thorough review of the corrective actions as well as the management systems used to prevent recurrence of these issues. Next, Apple executives met with executives from each of supplier to review the corrective action plans. Finally, our third party experts conducted follow-up physical inspections to verify that actions had been implemented to address any health or safety issues.

Labor Standards

Our audits found no incidents of child labor at any audited facility. In addition, our audits found no incidents of forced, bonded, indentured or prison labor at any facility.

Discrimination

The audits found no cases of discrimination based on race, color, gender, sexual orientation, ethnicity, disability, religion, political affiliation, union membership, national origin or marital status. We did, however, find two cases of hiring discrimination.

In one case, a supplier limited the maximum age of candidates for assembly positions. Although age limits are permitted under local laws, age discrimination is not allowed under our Supplier Code of Conduct. The supplier has ended this practice.

In the other case, a supplier had a policy against hiring candidates infected with Hepatitis B. After our audit, the supplier ceased this practice. Based on this finding, we have strengthened our Supplier Code of Conduct to prohibit medical testing as a discriminatory practice except where legally required or necessary for workplace safety.

Freedom of Association

Our audits found no cases where our suppliers had restricted rights to lawful freedom of association.

Employee Treatment

To evaluate how workers are treated, we interviewed over 500 randomly selected employees. In all of these interviews we took steps to protect the identity of the workers, and we conducted some of the interviews away from the factories to ensure that employees felt comfortable talking without fear of retribution.

The overwhelming majority of employees interviewed were pleased with the work environment and how they were treated. We also heard a lot of positive comments about amenities offered by these suppliers, including educational opportunities, the quality of food in dining halls, Internet access, recreational options such as gymnasiums and sports leagues, talent shows, TV rooms and movies. The most common complaint we heard was about long lines – specifically the lines for bus transportation to get to work, the lines to badge in and out of work areas and the lines at the cafeterias.

During the interviews, we explicitly asked employees if they had ever witnessed any inappropriate discipline or harsh treatment. About 2% of the interviewed employees reported that some workers were required to stand in a corner or do pushups, which are methods of discipline that Apple does not tolerate.

Each of the suppliers has agreed to cease these practices and has confirmed that it has taken action to implement new systems and processes to educate their employees and management to prevent further incidents. For example, one supplier has developed animated videos and role-playing exercises to raise awareness of acceptable and unacceptable behaviors, and has deployed this program throughout the employee population.

Our audit also revealed that three of the suppliers used wage deductions as a disciplinary measure. Although this practice is permitted under applicable laws, and

there was no prohibition of disciplinary fines in Apple's Supplier Code of Conduct at the time of the audit, we find this practice to be unacceptable. All of the audited suppliers have committed to end this practice and we have amended our Code to prohibit this practice in the future.

Compensation

We discovered an issue with the calculation of overtime pay at one supplier. The overtime pay structure used by this supplier was complex and resulted in less overtime premium than required under applicable regulations. This supplier has changed their policies and procedures to ensure that employees are paid the appropriate premium for every hour of overtime worked.

Working Hours

Apple's Code of Conduct sets a maximum of 60 work hours per week and requires at least one day of rest per seven-day week under normal work conditions. We examined hundreds of records from each supplier across multiple shifts of several production lines and found that employees on average had worked more than 60-hours per week 38% of the time, and 29% of employees had worked more than six consecutive days without a day off. The results were largely consistent across the audited suppliers and were similar to the overtime levels at the supplier we reported on last summer.

We have worked with each of the audited suppliers to develop management systems to limit overtime hours and ensure that employees have at least one day of rest in a seven-day week under normal work conditions. These suppliers are also implementing new systems and training programs to ensure that workers voluntarily consent to working overtime and are aware that they have the right to refuse overtime without penalty.

Working and Living Conditions

The final assembly of Mac and iPod products involves a number of individual operations - some of which are automated and others in which workers perform various tasks, ranging from basic installation of parts to operation of sophisticated test and inspection equipment. Assembly work is done in clean, well-lit and air-conditioned assembly line settings and the employees interviewed were generally pleased with working conditions.

Our audits also reviewed the living conditions in dormitories and dining halls. All of the dormitories, common areas, dining facilities and other living conditions were in conformance with our Supplier Code of Conduct.

We feel strongly that good conditions in dormitories and dining facilities are critical to a healthy work/life environment and, therefore, have worked closely with our suppliers to encourage improvements to living conditions over and above the requirements in our Code.

For example, we found that the quality and amenities available in the living areas at one of our suppliers lagged behind our other final assembly suppliers despite meeting our Supplier Code of Conduct. Since our audit, this supplier re-modeled dormitories to

increase personal space, built new recreational facilities and added new security and counseling services for dorm residents. The physical improvements have also been incorporated into plans for new construction.

Health and Safety

Our Code outlines detailed expectations in several areas of health and safety protection including occupational safety, industrial hygiene, occupational health and management practices. Our audits found the suppliers to be in compliance with the majority of the health and safety areas audited. Each supplier had health and safety programs staffed with trained personnel as well as medical facilities to respond to occupational injuries or illnesses. We also observed fire preparedness drills involving hundreds of employees.

Notwithstanding these strengths, our audits also found key health and safety deficiencies that needed correction. We found blocked or improperly installed emergency exits, issues with the placement of or inspection of fire extinguishers, wiring that was not in the proper protective conduit, and incidents of improper storage and documentation of chemicals. In addition, none of the audited suppliers met the local code requiring handrails on both sides of stairwells over 1.2 meters wide.

In the area of hearing protection, we found compliance in the audited assembly areas. However, in some utility areas, such as freezer or compressor rooms, workers were not provided adequate hearing protection or were not wearing the hearing protection provided to them. We also found that while respiratory protection masks had been provided for employees when needed, in some cases the workers were wearing the wrong type of mask for the job they were performing.

All of the health and safety the issues identified by these audits have been corrected and the solutions have been verified by our third-party expert.

Moving Forward

Monitoring compliance of social responsibility is an ongoing process. Since no single audit and corrective action plan will ensure sustained conformance, we will conduct follow-up audits of these suppliers and work with them on building awareness and capabilities. We have also incorporated social responsibility updates into our business reviews with them. In addition, we are expanding our monitoring program beyond final assemblers to other suppliers deeper in our supply chain.

We expect all of our suppliers to adhere to the principles in our Supplier Code of Conduct and when we discover deficiencies we will require corrective actions with a focus on prevention and systemic solutions. In cases where a supplier's efforts in this area do not meet our expectations, their contracts will be terminated.

Apple is committed to the highest standard of social responsibility in everything we do. We are dedicated to ensuring that working conditions are safe, the environment is protected, and employees are treated with respect and dignity wherever Apple products are made.