

Changan Ford Motor Company Chongqing Plant October 10, 2006

Background

In May 2003 at the Centennial Shareholders meeting, Ford Motor Company announced the development of Ford's Code of Basic Working Conditions as part of its commitment to corporate citizenship and making the world a better place. The plan is to make Ford a leader in human rights practices and to differentiate the company on social issues for potential business benefits (see attachment for a copy of the Code).

Assessment of Ford Motor Company owned and operated facilities began in 2004. In 2006, Sustainable Business Strategies and Purchasing Strategy selected sites based on supply chain impact, emerging issues, plant employee representation and the views of thought-leaders, non-government organizations and human rights activists.

Located in the city of Chongqing, the plant produces the Ford Fiesta, Mondeo, Focus, Mazda 3 and Volvo S40. The plant employs 5,281 people (4,065 hourly employees and 1,216 salaried employees).

The 800 mu facility is able to produce about 125,000 units per year on 2 shifts. Production in 2005 was 60,000 units on 2 shifts.

The plant is fully unionized with members belonging to Changan Ford Mazda Automobile Company. A review of recent press and media regarding human rights issues at the plant did not reveal any issues of concern.

The Assessment Process

Step 1: Prior to the Assessment:

David Berdish, Manager of Social Responsibility and Organizational Learning sent a copy of the Human Rights Code of Working Conditions and a communication letter to Frank Chuang, explaining:

- Background, descriptions, commitments and the expectations of the assessment (explicitly stating desire not to replicate but to ensure consistency across all operations)
- A streamlined pre-assessment checklist, focused on gathering information regarding management systems and past compliance issues at the facility.

On July 3, 2006, David Berdish of Sustainable Business Strategies interviewed Frank Chuang at Changan Ford. Interview questions centered around 1) whether the documents were the best for verifying the Code and if they were easily accessible; 2) whether plant management saw value in conducting the human rights assessment given that Ford already audits many practices covered by the Code through existing means; and 3) how Sustainable Business Strategies could best conduct the assessment without burdening facilities with additional work.

The interviews confirmed that the documentation is the appropriate documentation for verifying compliance with the Code. However, the interviews also revealed that there are several processes currently implemented by different departments within Ford to audit compliance with various aspects of the Code.

A summary of the interview questions and answers are as follows:

0. In your opinion, what is the greatest value-add of conducting human rights assessments at Ford's owned and operated facilities?

The assessment is in line with the Company's strategy for leadership on corporate citizenship. Also the assessment will help to ensure the joint venture (JV) owned and operated facilities are aware of to comply with the code

1. When you look at the code, and imagine using it to assess current practice at Ford facilities, what are the greatest areas of non-compliance that you might predict?

Grievances / complaints are not fitting yet; however, we establish mature trust at the earliest stage. For example, we have established communication channels to ensure employees' voices and concerns can be heard through Town Hall meeting, Hot Line, Suggestion Box, Nature Work Group (NWG) and even Pulse Survey has been adopted. We have also rolled out meeting regulation to ensure regular monthly & quarterly communications within all levels of every function. Administration Department is auditing the status of various levels' meeting.

Overtime might be an issue. Based on Labor Law of People's Republic of China (PRC), the overtime working hours should be not exceeded by 36 hours per month or not exceeded by 10 hours at regular working days. CFMA takes employees' overtime as a whole year average and has ever sent memo. To the Government and get approved. Also, CFMA and its Union get consensus when employees' overtime is controlled.

2. How do you think management, workers, and employee representatives at Ford facilities will view these assessments?

Same answer as Question#1

3. To help us understand any unique conditions at your facility, please describe how you meet each of the seven facets of the Code of Basic Working Conditions. Please speak to the policy/law that you follow and the process you use to ensure that the policy is being correctly implemented.

- Child labor: We don't use child labors. Strictly adhere to PRC Labor Law. This also adheres to CFMA Work Rule.
- Compensations: Wage payment is described as soon as confirmed to hire after final interview. And, overall compensations / benefits are introduced during the interviews. Adhere to PRC Standard Labor Law. Salary structure (for salaried employees) is determined by annual salary survey outcomes which benchmarked auto industry in China and wage structure (for Hourly employees) is determined by annual survey outcomes which benchmarked auto industry in Chongqing area. CFMA's compensation and benefit regulations are reviewed and approved by its Executive Committee.
- Forced Labor: We don't use forced labor, adhere to PRC Labor Law. Company policy prohibits employing forced labor.
- Freedom of Association: All employees are encouraged to join the Union at his / her free will. Meeting between Union and the Company are held regularly.
- Harassment and Discrimination: Zero Tolerance and Diversity are conducted on new hire orientations. And, the Company policy also strictly prohibits the sexual harassment and discrimination. Employee may claim any case regarding to sexual harassment through established channels like Hot Line.
- Health and Safety: The Ford Production System, FPS includes SHARP conducted at CFMA. Ford's auditing team comes to CFMA periodically to coach, facilitate and assess logs and tracking injuries, regular meetings for addressing health and safety issues on weekly Executive Committee meeting. However, if Ford's FPS team can not come to audit CFMA for some reasons, we still conduct self auditing based on Ford FPS criteria. We have reached level 5 in SHARP (self auditing) and are preparing to reach level 6 (Ford FPS Auditing) this year.

4. Where documents are housed?

- Employee contract on HR's Office
- Salary structure of salaried and hourly on C&B Dep't
- Group agreement between HR and Union on HR and Union Offices
- Town hall meeting / opinion survey question and issues on HR and Mfg offices
- SHARP scorecards on Safety Dep't

5. What would you suggest is most important for corporate governance to keep in mind in order to make this effort successful (both in terms of gathering information and creating a sense of partnership and shared purpose with the facilities)?

Develop a simple and straight forward self-assessment form exclusively for Joint Venture to fill out.

7. Any other words of wisdom/advice?

NA

Step 2: Site Visit

On August 29th, 2006 a verification review was performed at the CFMA plant in Chongqing. This review was performed by Yuan Na, the Supply Chain Sustainability Manager for China. The intent was to provide an external view of the previously conducted CFMA internal audit and share experiences in the working conditions area.

A number of different functions were inspected reviewed during the review. HR policies and procedures, Social Insurance, Wages and Benefits as well as a range of Health and Safety related issues.

The results of the review showed that the CFMA plant in Chongqing is in compliance in every area that was reviewed. Chinese workplace requirements were met in all aspects that were reviewed. In a few areas such as Health and Safety, Chinese Labor Standards were exceeded.

The management team at CFMA Chongqing was professional and actively engaged during the assessment. They are justifiably proud of the hard work put in to maintaining this high level of compliance.

- *Wages*: The local Chongqing minimum wage is 580RMB per month beginning in Sep 1, 2006. Normal CFMA workers' wage are about 1000RMB including overtime premium as well as an annual bonus. This is well within the legal limit
 - The factory implements three types of wage payment practices:
 - Office staff has a salary structure that is determined by an annual salary survey outcome which benchmarked in the auto industry in China; the employees have a signed contract for 3 years
 - Workers. Workers have signed contract with the factory directly, the salary is determined by the annual survey outcomes which benchmarked auto industry in Chongqing area; the factory signed two years contract with three months probation period. Usually the salary including the basic salary, bonus, position allowance for workers engaged in the painting position and so on; overtime premium (the overtime premium was paid based on the China law requirement); shift allowance (RMB 5 per shift) and meal allowance RMB 7 per meal; the social insurance (including pension insurance, medical insurance, unemployment insurance and housing paid by individual) and the tax will be deducted from salary. The basic salary are various per the experience and education. The lowest basic salary for a new worker without any experience is RMB 689 per month which was higher than the Chongqing minimum wage of RMB 580 per month
 - Contract workers (employed by the agent and agent sent to factory).The factory pays the service fee to agent and agent pays a salary to the employees. Usually the salary is RMB 6 per hour. The overtime premium is RMB 9 for overtime in normal days, RMB 12 for overtime in weekend and 18 for overtime in the statutory holiday. The social insurance is provided to these employees and this has confirmed by the interviewed workers
 - Wages are paid through the bank transfer on 14th every month, and the workers will received the paid notice with detail information; in addition, the factory intranet provides and additional method for the employee to check the status of deposits.

- Based on the wage slip provide by the factory, the basic salary is RMB698 to RMB869. Salary received is RMB927 to RMB1329 after adding the overtime premium, bonus, allowance and deducted the individual tax, social insurance paid by individual.
- *Working Hours:* Working hours at Changan Ford are from 8:30 – 12:00 (5 minutes as break); 12:45-17:15 (10 minutes as break) for office staff; for workers including the contract workers, there are two shifts; day shift from 7:30- 4:15; Middle shift from 14:15- 1:00 pm; 5-10 minutes break for every shift. All the working hours will be recorded by the time scan which will be as the base to calculate wage; in addition, the supervisor of the workshop will record the attendance and ask leave record. If there is any conflict in the working hours, two records will be compared. Three workers attendance sheets that were reviewed (May to July, 2006) confirm this.

There is an approval of excess overtime issued by the local Chongqing government and CFMA – the comprehensive calculation working hours system in the factory which indicated that the fist line workers and relevant technical staff are in the system of the comprehensive working hours in the yearly round. The validity date of the local government approval from is Aug 2004 to Aug 2005, there is no latest approval reviewed on site. Jack Jia – the HR manager - indicated that the overtime is calculated in monthly. CFMA is considering applying year-round overtime exemption this year

The interviewed workers confirmed this.

The employees work 5 days per week and 8 hours per day, and overtime in accordance with the government order requirement. Workers will get the rest and the equipment maintained during the low season – (2006, January and February is low season). Overtime is recorded in the attendance sheet which is used as the base to calculate the overtime premium.

The workers have right to refuse overtime. Overtime should be approved in advance. This also confirmed by the interviewed workers.

- *Benefits:* The factory provided the required benefits required by the national law. Contract employees benefits are provided by the contracting agent. Social insurance including the pension insurance, medical insurance, unemployment insurance is provided to workers.
 - Employees were provided the paid statutory holidays, such as the Labor Day, National Day, Spring Festival, and New Years Day (total 10 days) - this is confirmed by the document review and the workers interview.
 - There is a paid annual leave for workers, various from 5- 15 days depend on the service length of the factory. Paid maternity leave is provided to female employees, wedding and bereavement leave provided to the employees as well
 - In addition, the paid job-injured leave and illness have been implemented in the factory
- *Health and Safety:* There is a continuous employee training regarding the health and safety beginning the as soon as the employee starts working at the factory.
 - The fresh workers will receive orientation training with 5 days including the factory introduction, health and safety, quality control and the production process. After that on job training will be provided after the worker has been in the workshop for a period of time.
 - There is a specified department responsible for the health and safety issue including the training, audit and follow up and so on. All the issues identified in the review will be recorded and followed up. The SHARP system is used in the factory and used to set safety targets.
 - The workers are equipped with the relevant personnel protective equipment (PPE), such as the earplug, goggles, masks, gloves. As a visitor, the inspector is required to wear earplug and goggles during site visit.
 - Posters are displayed in the workshop reminding employees to wear relevant PPE in designed area.
 - The chemical containers stored in the designed area with MSDS (material safety data sheet) in local language.

- The fire fighting equipments installed in the designed area with good condition. The exit signage, emergency lighting installed in the designed area;
 - There are appointed fire fighter in every workshop. The fire drill and evacuation drill conducted twice per year. – Missing evacuation plan in some designed area during the site observation.
 - The trained first aid in factory and the emergency person are responsible for the emergency issue
- *Other Issues and Closing Comments per Audit:*
 - Personnel recruit process: the majority of the employees from the local and basic requirement are the graduation from the high school. Male workers are the major part. There is no accommodation available due to most employees are local; shuttle bus used for the employees in the days shift and night shift.
 - The employees are required to have a health examination when hired. The examination fee will be paid by the factory.
 - There is written policy regarding the harassment and the discrimination, Zero tolerance for the harassment and discrimination.
 - No Child labor employed in factory for the requirement age is 18 years old. This is an area that needs to be strengthened. CFMA needs to have a written policy regarding Young / Child Workers.
 - There are many ways for workers to make suggestions, file complaints or submit ideas, such as the suggestion box, regular meeting between the management and workers. The factory intranet also enables employees to raise suggestions. There is an appointed person responsible for dealing with issues that are raised and following them up to ensure closure. In addition, there is a union and most employees are members of the union and they can make their voice heard by using the union channel.
 - CFMA needs to improve its already strong policies regarding Young / Child Workers by adding a clearly worded policy referencing Article 9 of Provisions on Implementation of China Labor law.
 - While CFMA has no issues related to Young / Child workers, local enforcement of these laws is not strong and therefore CFMA would be well served to bolster its policies strictly as a preventative measure.
 - CFMA is far advanced in the working conditions area. The combination of solidly executed policies and a well trained staff has led to a comprehensive and well run working conditions program.

Step 3: Leadership

- Changan Ford Mazda Automobile (CFMA) operates its business with ethical, legal and profitable. We commit to building healthier relationships with our employees and meanwhile enriching the lives of our employees, their families and communities. During the record drought period in late August 2006, CFMA complied with local government requests to reschedule the production shifts so as to enabling the power can be transferred to communities. Meanwhile, the CFMA Union also aroused the money donation activity to help ease endangered areas of Chongqing city.
- At CFMA, we dedicate ourselves to environmental sustainability. We have aligned our strategies with this mission by Ford supporting organizations that develops innovate solutions to the environment challenges imposed by industry. We are working closely with Ford experts and strictly comply with national standard in the environment sector.
- CFMA is facing triple growth compared with 2005 in terms of production volume and sales volume. The stress of employees is inevitable; however, we are still committed to giving employees a work-life balance environment. For example, through advocacy of the Union, our sub-union units regularly host activities, like mountain climbing, hiking etc. to ease the tension from the loadings. May 2006 the CFMA celebrate its 5th anniversary by organizing a series of activities, like tree plantings, singing contest, test drive / test ride, tug of war, etc. Apart from these activities, CFMA strictly follows the local government enforced regulation on over time.
- Corporate Social Responsibilities programs build relationships. The programs provide a friendly environment for employees, their families, communities, media, government bodies, dealers and suppliers to interact with each other and have hands on experience in “making every day exciting”. The programs also build trust and show the community and employees we care and have interest in their

lives.

- CFMA is strongly committed to and values diversity. We educate our employees to recognize and appreciate unique individual regardless of their nationalities, gender, age, culture, ethnicity, type of employment. Also, we recruit people based on their professional skills and the needs of the company. No other criteria have ever been considered. Meanwhile, the promotion opportunities of employees are decided by their performances and leadership.
- At CFMA we recruit talents cross the country. We also provide scholarship to 5 distinguished universities in China at current stage to encourage students with outstanding academic performance join us after their graduations. Meanwhile, at every summer session, CFMA provides a number of practical training opportunities to those college students who are earning our scholarship. By doing so, they will adapt to CFMA earlier and enable them a shorter learning curve once join CFMA.
- 2005 Chongqing Top Ten Foreign Investment Enterprises (2006)
- Observing Contract and Valuing Credit Unit in Jingkai Park, Chongqing New North Zone, of Year 2004 (2005)
- Advanced Unit for Employment Promotion of Persons Who Have Changed from Agricultural to Non-agricultural Status in Economic and Technical Development Zone of Year 2004 (2005)
- Top 10 Advanced Enterprise of Year 2004 (2005)
- Chongqing "Top 10" Foreign Investment Enterprises of Year 2003-2004 (2004)
- Key Enterprises in Contact and Service (2004)
- National May 1st Labor Medal (2004)
- Honest Tax-paying Advanced Unit of Year 2003 (2004)
- Advanced Tax Unit of Year 2003 (2004)
- Advanced Unit for Book Building and Survey of Enterprise Quality of Year 2003 (2003)
- Advanced Enterprise in Chongqing Economic and Technical Development Zone of Year 2003 (2003)
- Key Construction Goal Rating Advanced Unit of Year 2001 (2002)
- Foreign Investment & Advanced Technology Enterprise (2001)

Conclusions

In Sustainable Business Strategies, there are no major areas of concern. The plant management team at our joint ventures in Chongqing plant operations has committed to lead for working condition continuous improvement without compromise.

The next steps include the release of this report to global manufacturing and then further dialogue with ICCR and/or other Human Rights stakeholders on most value-added follow-up. This report will be published in our website:

[http://www.ford.com/en/company/about/sustainability/default.htm?source=rt&referrer=company default](http://www.ford.com/en/company/about/sustainability/default.htm?source=rt&referrer=company_default)