

EXHIBIT 16

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Foxconn Labor Disputes Disrupt iPhone Output for 2nd Time

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Foxconn Technology Group, the assembler of [Apple Inc. \(AAPL\)](#) iPhones, had to stop production for the second time in as many weeks after factory-line workers at one of its plants protested against increased pressure.

Foxconn employs more than 1 million workers in [China](#) and has suffered in the past three years from suicides, riots and strikes. To improve working conditions, Chairman Terry Gou raised pay and allowed inspections by outside observers. The [employees](#), who work as many as 12 hours a day, say the difficulties of meeting Apple's demands for quality and abuse from guards set off the latest incidents.

One of the company's factories in Zhengzhou, China, lost two shifts on Oct. 5 after workers became frustrated trying to prevent scratching on the casings of the [iPhone 5](#), according to two people familiar with the matter. A dispute occurred between the production and quality teams at the factory, the company said. Some 3,000 to 4,000 people who walked off the job at the plant, have since returned to work, according to advocacy group [China Labor Watch](#).

"What happens in Foxconn's factories shows that it needs to improve working conditions and its handling of worker relations," said Wang Xiangqian, former professor at the China Institute of Industrial Relations who helps the government coordinate labor relations. "Foxconn may have put more focus on efficiency and discipline, which is not wrong, and may have overlooked employees' feelings as human beings."

“Overly Strict”

Shares of Foxconn flagship [Hon Hai Precision Industry Co. \(2317\)](#) fell 1.9 percent to NT\$88.70 in Taipei today, trimming the year- to-date gain to 18 percent. Apple shares fell 1.3 percent to 499 euros in German trading.

Employees were made to work through a holiday week and subject to “overly strict” product-quality demands without adequate training, China Labor Watch said in a press release dated Oct. 5. The

walkout was the result of demands placed by Apple on its manufacturer to improve the quality of the iPhone 5 after customers complained that the company's latest handset had scratches, it said.

Steve Dowling, a spokesman for Apple, declined to comment on the stoppages at the Zhengzhou plant. Foxconn confirmed incidents occurred Oct. 1 and Oct. 2, and declined to comment on the events Oct. 5.

"These were isolated incidents and were immediately addressed and measures taken, including providing additional staff for the lines in question," the company said in an e-mailed statement about the earlier events.

Last month, a brawl involving 2,000 workers at a Foxconn plant in northern China's Taiyuan last month halted production. The fracas left more than 40 hospitalized and brought security teams wearing riot helmets and wielding plastic shields into the Taiyuan plant, which employs 79,000 people.

Designed in California

Cupertino, California-based Apple designs its products in the U.S. and relies on Foxconn to manufacture them in mass and on time. Apple, the world's most valuable company, sold 5 million iPhone 5 models in its first three days on sale last month. The pressure to deliver is felt by the workers.

"Every job is tagged to time, there are targets on how many things must be completed within an hour," said Xie Xiaogang, 22, who worked at Foxconn's Shenzhen plant and was transferred to Taiyuan in June this year. "You don't have much time to relax. In this environment, many people cannot take it."

That entails a steady turnover of workers who need to be replaced. The requirements to be a Foxconn worker are minimal, said a recruiter lingering outside the Taiyuan facility's gates to coax passers-by and people alighting at the bus stop to sign up for employment. The minimum age requirement is 16, good health and some secondary school education, according to Hao Yaya, a 22-year-old recruiter who has been on the job for a year.

"Blind Eye"

"We're looking for people willing to work," he said. With some workers leaving after a day's experience, turnover rates are high and that necessitates constant recruitment, Hao said. There are signs seeking workers at various shop fronts near the Taiyuan factory, and fliers are stuck on lamp

posts around the area to entice people to work at Foxconn.

Foxconn has also improved the working conditions of its employees after at least 10 suicides in 2010.

Apple Chief Executive Officer [Tim Cook](#) brought his company into the Washington-based Fair Labor Association in January, leading to the [inspections](#), after the suicides highlighted conditions at the supplier. Cook has pledged not to turn a “blind eye” to problems in a supply chain that includes competitor [Samsung Electronics Co. \(005930\)](#) The group’s other members include [Nestle SA \(NESN\)](#) and [Nike Inc. \(NKE\)](#)

Foxconn’s Measures

In August, the FLA said Foxconn had cut working hours and improved safety at a faster pace than scheduled. The changes are among 284 made by Foxconn this year after audits at three plants of the Taiwan-based company logged more than 50 breaches of Chinese regulations, the group said.

Foxconn is ahead of its 15-month schedule for upgrading conditions and meeting FLA mandates, with 76 more items due for completion by July 1, the group said.

“Ever since the suicides at the Shenzhen plant threw the spotlight on that facility, Foxconn has done a lot of effort to improve the situation there,” said [Geoffrey Crothall](#), a director at rights group China Labor Bulletin. “Shenzhen is very much a flagship facility, yet they’re simply recreating the old management style and problems in other places, such as Taiyuan, where workers are required simply to obey their managers without question.”

Workers in Taiyuan say they live in crowded dormitories, some without air conditioning, there are not enough face masks on the assembly line to protect against fumes and they have very strict supervisors.

No Freedom

“We don’t have much freedom, we can’t come and go as we like, even if we have done all our work,” said Zhang Penghui, 26, who has worked at the Taiyuan plant for four months. “The rules don’t seem reasonable. The top management might have the right idea, but by the time it comes down to our supervisors, things have changed.”

The workers also generally earn less than they would at auto manufacturers. The base salary at Foxconn in Taiyuan is about 1,800 [yuan](#) (\$285) per month, with workers able to almost double that amount through overtime work and bonuses, according to Hao.

In contrast, [BYD Co. \(1211\)](#), the Chinese carmaker backed by [Warren Buffett](#), pays its 69,000 employees an average of 2,366 yuan a month, according to its latest annual report. At [Guangzhou Automobile Group Co. \(2238\)](#) the figure is 2,298 yuan, according to its annual report.

Among the 120,924 [job openings](#) at automakers in China, 58 percent offered a monthly salary of 2,000 yuan to 4,000 yuan, with almost half of those fetching between 3,000 and 4,000 yuan a month, according to [job592.com](#), a recruiting website.

Automotive Factories

“Qualifications to work at auto factories are higher than that at Foxconn in general and that’s reflected in auto factory workers’ compensation,” said Johnny Wong, an analyst at Yuanta Securities Co. in [Hong Kong](#). “Assembly workers at Foxconn are doing the exactly same kind of movement every second, while their counterparts at auto assemblies do more complicated work and enjoy more freedom.”

The higher pay does not buy carmakers complete labor peace. [Honda Motor Co. \(7267\)](#) closed two plants in Guangzhou, [Guangdong province](#), in May 2010. It also shut factories in Guangzhou and Wuhan, Hubei province, on May 26 after 1,850 workers at a parts-making unit went on strike to seek higher wages.

Foxconn margins place constraints on wage increases. Hon Hai had an operating margin of [1.1 percent](#) in the year ended December, according to data compiled by Bloomberg. In contrast, Apple had an [operating margin](#) of 31 percent in the fiscal year ended September 2011.

“These strikes might send a signal to Apple that it has to set aside a bigger portion of its profit to satisfying these assembly plant workers,” said Daniel Chang, an analyst with Macquarie Securities Ltd. in Taipei. “Apple needs Foxconn as it’s the only company out there that has the capacity and ability to amass such a big number of workers to do assembling work. For Apple, Foxconn is pretty much irreplaceable.”

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