

FOND OF

A member of the Fair Wear Foundation



Social Report 2017/2018

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1 Summary: goals & achievements 2017/18

We have been a proud member of the Fair Wear Foundation (FWF) since November 2016. After our second year as a member of the multi-stakeholder initiative, it is time to take stock and look back at our goals from the last year.

In our first year of membership, we got a good view into the working conditions of our suppliers by auditing the majority of said suppliers. Training was provided for those suppliers with the greatest improvement potential in order to educate management and employees on FWF topics.

To round out our glimpse into our suppliers, we conducted five additional audits last year. This brings us up to more than 90% of our suppliers having been audited.

We used the results to create a comprehensive analysis of our suppliers, which we then use to make our purchasing decisions.

Moreover, we focused a great deal on the topic of subcontracting in order to better coordinate this dialog with our suppliers. We were able to persuade our suppliers to use fewer subcontractors in the future. In addition, they have agreed to view any subcontractor with whom they work together as a fixed partner and to work longer with them accordingly. This also gives us more say to positively influence working conditions in these production facilities.

2 Sourcing

2.1 Sourcing strategy & pricing

We focus on long-term relationships with our suppliers, because we are of the opinion that it pays off over the long term. This can only benefit mutual communication, ongoing development processes, and improve working conditions in the future. We have therefore changed very few suppliers since our founding in 2010. The two suppliers with whom we started still make up a majority of our production volume today. They grew with us to a degree, enlarging their production sites and constructing new production sites as needed.

With the expansion of our product palette, we of course had to take on additional suppliers who specialize in the respective new products. We consider a number of factors when choosing new suppliers. In addition to quality, price, and communication, social and ecological topics also play a large role. This allows us to preview existing audit reports, conduct site visits and Health and Safety Checks, or carry out Social Audits ourselves.

Our products are produced in a total of four countries. This split looks as follows:

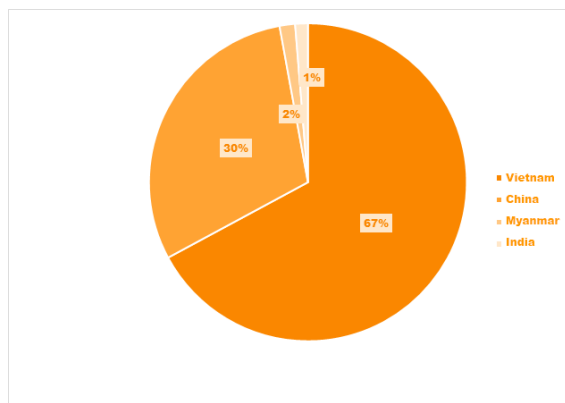


Figure 1: production countries

2.2 Organization of the sourcing department

Our organization is characterized by flat hierarchies. Team leads are responsible for, among other duties, introducing decisions that are to be made together by the team. This ensures their motivation and commitment, and encourages them to take responsibility for their own actions. The past fiscal year saw an organizational change. The Corporate Responsibility area was restructured into our Procurement department. This change allows the CR department to have closer organizational contact to purchasing. Among other things, this means that interactions with the other two Procurement departments can occur at a closer and more cooperative level.

In addition to regular meetings, a regular exchange with management was also introduced in order to discuss overlying strategies and large projects.

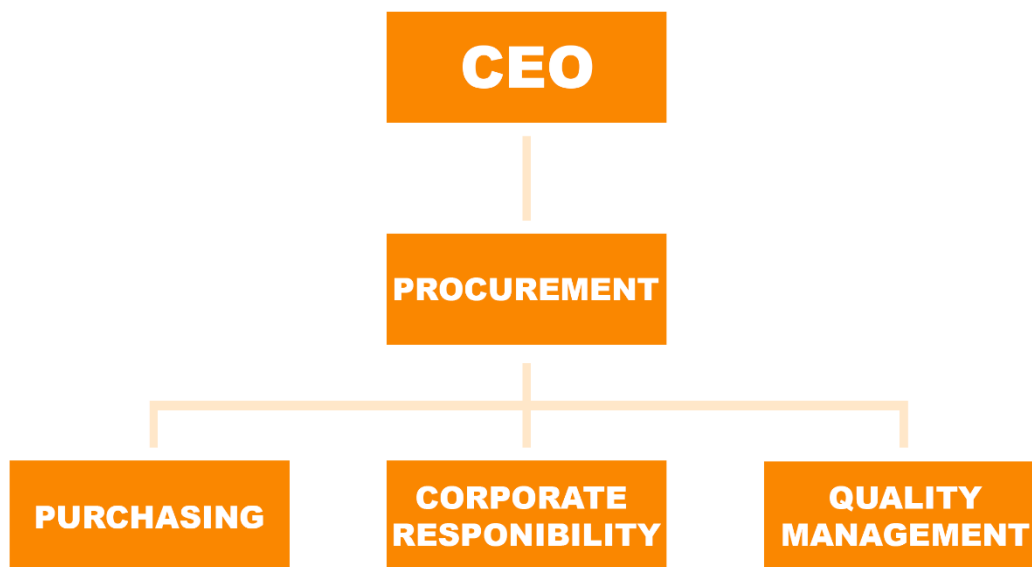


Figure 2: organizational structure

2.3 Production cycle

Because we combine seven brands under our core brand that serves various markets, we cannot depict any one production cycle. For our two strongest brands in terms of sales, ergobag and satch, it looks as follows:



Figure 3: production cycle

Depending on the brand and collection frequency, this production cycle repeats up to twice per year.

There are between three and six delivery deadlines for an order, depending on the brand, which are spread over 12 months. At the beginning of the order cycle, our suppliers receive a forecast that specifies the respective planned quantities for every delivery deadline. This enables suppliers to plan their capacity over the long term. These figures are subject to small changes throughout the year.

Furthermore, we work with our suppliers to better structure production planning via constant discussion. Among other things, we have pushed our largest order deadline forward one month in order to give our suppliers more time during production.

We try to introduce our other brands gradually according to the same production cycle while they are still in the process of development and growth. On one hand to simplify internal structures and processes, and on the other to further unburden our suppliers.

2.4 Supplier relations

We work very closely with our suppliers as a rule. Our designers, product developers, purchasers, logisticians, as well as quality managers and the CR team regularly visit our production sites. This allows us to further strengthen our close partnerships with suppliers as well as to understand their everyday problems and challenges and meet these head on.

There was a change to producers within Myanmar in the last fiscal year. We dropped one producer that we had acquired just one year previous. Because of communication problems, production delays, quality defects, and, last but not least, problems with working conditions, we decided, together with the producer, to move our production to another factory. This factory belongs to the same company, but was entirely new. Nevertheless, we decided to conduct an audit before the first order in order to determine any possible safety risks.

As a rule, we accept new suppliers according to a defined procedure. The Procurement team, consisting of Purchasing, Quality Management, and Corporate Responsibility, is responsible for this. First, we request basic information such as capacity, minimum order quantities, lead times, quality procedures, as well as working conditions. The Procurement team evaluates and discusses this information. As soon as the three teams approve a supplier, we test and price samples and conduct an audit. After this is complete, our Procurement team goes back to the table and decides whether to accept this supplier into our portfolio.

2.5 Integration of monitoring activities and sourcing decisions

In order to make our sourcing decisions more transparent within teams as well as for our suppliers, we created a supplier evaluation tool during the last fiscal year. Here, we evaluate our suppliers quarterly based on their communication, quality, production delays, and working conditions. The working conditions item also includes the treatment of subcontractors, transparency, and follow-up with CAP (corrective action plans) in addition to the audit results. We make a portion of our sourcing decisions based on the overall rating achieved by suppliers. Working conditions are thus proactively drawn into this process, and we promote improvement throughout our supply chain over the long term.

3 Coherent system for monitoring and remediation

We view insight into the exact working conditions of our suppliers to be the basis for our work. It is only with the results we obtain here that we can begin to work on specific topics with our suppliers. This year, we managed to audit all of our direct suppliers for the first time. We will attempt to continue this in the future and, depending on the urgency, audit suppliers every once to three years.

In addition to the FWF Social Audits, our monitoring system also includes a supplier self-evaluation, regular discussions of working conditions, as well as the completion of checklists. We also attempt to include our sub-suppliers as well as our direct suppliers in our monitoring system. We therefore also created an additional checklist that we use to conduct this evaluation, in addition to the regular Health and Safety Checks. In addition, we create corrective action plans (CAPs) for these checklists, which we follow strictly.

Our supplier overview for the 2017/18 fiscal year looks as follows:

Production sites	Country	Share in FO	visited	audited
INS	Vietnam	7.62%	x	x
Subsupplier 1	Vietnam	0.12%	x	
VIVA	Vietnam	7.13%		x
Subsupplier 2	Vietnam	0.03%	x	
Subsupplier 3	Vietnam	0.09%	x	
Starry	China	26.79%		x
Subsupplier 4	China	0.37%	x	
Subsupplier 5	China	0.16%	x	
Subsupplier 6	China	0.62%	x	x
Subsupplier 7	China	0.20%	x	x
Subsupplier 8	China	0.06%	x	
Subsupplier 9	China	0.12%	x	
Subsupplier 10	China	0.30%	x	
Subsupplier 11	China	1.25%	x	
Subsupplier 12	China	0.16%	x	
Oli Tex Myanmar	Myanmar	0.64%	x	x
Noa Tex	Myanmar	0.94%	x	x
ASG	Vietnam	46.04%		x
Subsupplier 13	Vietnam	0.40%	x	
Subsupplier 14	Vietnam	0.00%	x	
Subsupplier 15	Vietnam	0.98%	x	x
Subsupplier 16	Vietnam	0.46%	x	x
Subsupplier 17	Vietnam	0.58%	x	
Subsupplier 18	Vietnam	0.00%	x	
Subsupplier 19	Vietnam	0.65%	x	
Subsupplier 20	Vietnam	0.30%	x	
Subsupplier 21	Vietnam	0.86%	x	
Pungkook	Vietnam	1.85%	x	x
Trident	India	1.28%		

Figure 4: suppliers overview

3.1 Suppliers in Vietnam

In Vietnam, we obtain products and product parts from a total of 16 different production sites. We have direct business relationships with four of the 16 suppliers, while the remaining twelve are sub-suppliers. In the meantime, we audited all of our suppliers with direct business relationships. Among the ranks of sub-suppliers, a sewing subcontractor and a textile printing plant have been audited so far in Vietnam. The remaining sub-suppliers were visited by our Corporate Responsibility team in the last two years. In addition, we conducted Health and Safety Checks and explained the FWF to management.

A majority of the results obtained from the audit in Vietnam concern the labor standards: “Payment of a Living Wage”, “Appropriate Working Hours”, “Safe and Healthy Working Conditions” and “Freedom of Association and Right to Collective Bargaining”. The topic of “Payment of a Living Wage” will continue to be a key focus of the audits in the future.

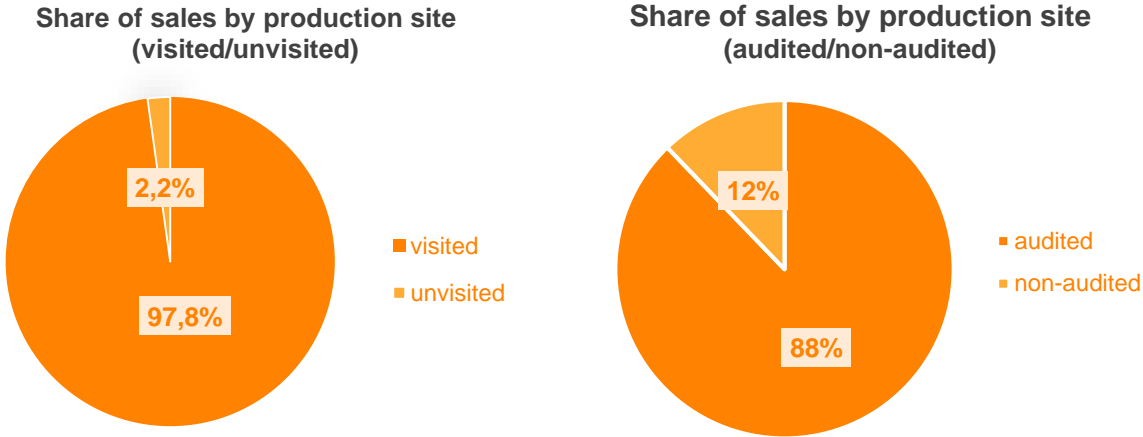


Figure 5: Share of sales – visits & audits in percentage

3.2 Suppliers in China (Starry)

In China, we only have one supplier with whom we work directly. We conducted a Social Audit of them in the past 2016/17 fiscal year. The findings largely concerned the four labor standards of “Payment of a Living Wage”, “Appropriate Working Hours”, “Safe and Healthy Working Conditions” and “Freedom of Association and Right to Collective Bargaining”. The large lack of transparency with respect to wages and work times represent a great challenge. This supplier is also the only one with whom we do not have “open costing”, which is to say we have no insight into the exact cost structure of the products.

The supplier is working with nine other sub-suppliers, and we agreed in the last fiscal year that only four will be used for us. These were all visited last year by the Quality and CR team. All made a very good impression during the Health and Safety Checks conducted. In addition, two sub-suppliers were audited by FWF. The exact audit results are still pending, however.

In their self-evaluations, the sub-suppliers identified the labor standards of “Payment of a Living Wage” and “Appropriate Working Hours” as the greatest problem areas.

3.3 Suppliers in India (Trident Export)

We stopped working with our only supplier in India during the past fiscal year. The reasons for this were, among other things, that deliveries would arrive late (if at all), there was no transparency over the supply chain, and communication was very slow. If this were not enough, there was an attempt to bribe the auditors during a planned audit. Additionally, the brand that had been produced in India has been taken off the market

3.4 Suppliers in Myanmar

We stopped working with one supplier in Myanmar as well. We could no longer keep this supplier on due to problems with working conditions and maintaining delivery times.

Instead, we brought on new supplier that now handles the products of the other. We had an audit conducted there before production began in order to clear up any potential issues in advance. This audit was satisfactory overall. Only certain smaller issues on the topic of safe working conditions had to be pursued. This year we are planning to conduct a second audit in order to determine how the working conditions have developed.

4 Complaints handling

The Fair Wear Foundation provides a complaint system for the suppliers of its member companies. At the beginning of our membership, we requested that all of our suppliers hang up a worker information sheet in their factories. This sheet explains to workers their rights. The complaint hotline of FWF is also listed there. Workers can make anonymous reports over this hotline and are connected with a local FWF partner in order to make a complaint. This complaint will then be sent to us. On our local site visits, we regularly check whether the worker information sheets are hung up and visible to all employees. We also encourage our suppliers to include information on FWF and the complaint hotline during the orientation programs for new employees in particular.

In the past fiscal year, we received two complaints from the factory in Myanmar with whom we now no longer work.

The Fair Wear Foundation received the first complaint in October of 2017. The union leader reported that she had been dismissed effective immediately. Even after reporting the situation to the local arbitration board, the factory refused to provide clarification.

The findings of the Fair Wear Foundation showed the following: The employee had been accused by management of taking off for one day of vacation but not appearing for work for an additional two days. In addition, she retroactively edited the vacation request to show three days of vacation instead of one.

The employee, however, reported that her vacation request had been signed by her superiors in accordance with the rules for such, because the production manager himself was off for vacation during this time. After her dismissal, she not only made a complaint to the complaint hotline, she also contacted the local arbitration board.

After FOND OF and the Fair Wear Foundation informed the factory of the complaint, management agreed to arrange a second meeting with the employee and the local arbitration board. Following this discussion, the employee was rehired to her old position and department because there was no proof of manipulation of the vacation request. During the entire process, the local representatives of the FWF were in close contact with the employee.

In the end, this led to continued talks between the factory management, FOND OF, the FWF, and the union leader, where all parties agreed to the following:

- From now on, there would be a monthly meeting between factory management and the labor union in order to promote continued dialog

- In order to reinforce the role of the union leader, his/her position and area of responsibility would be posted in notice
- Channels to make complaints are to be strengthened considerably

An additional complaint was submitted to the FWF, after which the factory was subjected to training on working conditions. During such, the FWF became aware that employees did not understand how their wages were calculated and had the feeling they were being paid below minimum wage.

At a meeting between FOND OF, the FWF, the labor union, and the supplier management, it was discovered that all employees receive the minimum wage as a rule, but that the calculation of the wage was so complicated and non-transparent that it was difficult for employees to follow it. In order to improve the situation, all partners agreed to simplify the wage calculation on one hand, and to slightly increase wages on the other.

5 Training and capacity building

5.1 Activities to inform staff

Our internal onboarding process includes a CR training that will inform new employees of our CR activities. Extensive information on our FWF membership will also be provided: How do we generally work with our suppliers and how do we, together with FWF, improve working conditions at our suppliers?

For employees who work directly with our suppliers (Product and Quality Management, Design, Procurement), there is a very close exchange with the CR team in order to keep all participants informed of current topics.

In addition, employees can register for the workshop "FWF - Our Colleagues in the Far East" as part of the internal training program. This program provides even more insight into working conditions and the improvement of such.

Finally, the entire staff is informed of our FWF activities via regular meetings, the newsletter, and social media.

5.2 Activities to inform suppliers

At the beginning of our membership, we sent all of our suppliers the FWF - CoLP (Code of Labor Practices), thus informing them of our FWF membership. Then we called certain suppliers in order to explain things and answer any questions. The worker information sheets were included with the CoLP, which suppliers are to hang up in all of their factories. During audits and on-site visits, we regularly check whether they are actually hanging up.

During these regular supplier visits, suppliers are provided with more exact information on the eight labor standards and the FWF approach.

Due to a lack of language skills, we largely rely on the FWF's workplace education programs (WEP) and other training when communicating with workers. Last year, we conducted a WEP at our two most important suppliers in cooperation with the FWF. Because they produce a majority of our products, it was important for us to begin here. Furthermore, we provided training at our - now former - supplier in Myanmar, because we saw the greatest need there in this regard.

6 Transparency & communication

We announced our membership with the Fair Wear Foundation in December 2016 at the awarding of the Germany Sustainability Award, which we received for the sustainability-oriented management of our supplier chain.

We make use of press reports, as well as posts on Facebook, Instagram, Twitter, and our website, specifically in the area of CR in order to inform the public about our corporate responsibility efforts. Corporate Responsibility is one of the six core building blocks upon which we focus at FOND OF. Transparency is thus a key value that we follow.

This is also the reason that we publish the complaints from our factories that we received over the FWF complaint helpline. We communicate openly on what happens at our factories and how problems can be solved in cooperation with FWF. By communicating things that still need to be improved upon, we thus motivate ourselves to work on the best solutions for workers in Asia.

7 Stakeholder engagement

Through our membership with FWF, we have had the chance to come into contact with multiple stakeholders. This has enabled us to establish contact with the Clean Clothes Campaign as well as the International Labor Organization (ILO), and SEQUA at the annual FWF stakeholder meeting.

The country studies provided by FWF are of great assistance in informing our suppliers as well as our employees of potential risks. In addition, information from stakeholder surveys, conducted during the FWF audit, was used as an information source.

We are happy to receive questions on the report via email: cr@fondof.de.

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