

FOND OF

A member of the Fair Wear Foundation



Social Report 2018/2019



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1 Summary: goals & achievements 2018/19

Sustainability is a long-term goal for our organization. We have realized that this means commitment to a process rather than to an actual target. However, we try to set ourselves new goals every year to identify how far we have come on this path.

In our last financial year, our company has grown a lot. In terms of turnover as well as in manpower, number of products and number of brands. For the first time since the foundation of our organization, we have included other products to our portfolio than backpacks. With our new brand *funktion schnitt*, we now also offer basic apparel products and our brand *affenzahn* has launched their first edition of shoes.

Despite the onboarding of the new suppliers that came with this expansion, we focused once again on shortening the tail end of our supply chain. The first positive results from our two-year efforts can already be seen in a reduction of our supplier base.

Furthermore, our focus was on improving our forecasting in order to give our suppliers the possibility to improve their production planning. Due to a range of new tools that we implemented, we could see big improvements in this field.

We also wanted to relieve our suppliers with the burden of double auditing. Therefore we proactively got involved with the Better Work Vietnam initiative. Some of our factories are already partners of Better Work and we encouraged them to stay within the program. A great advantage that we see within this program is that Better Work focuses on training programs and gives advice on topics such as collective bargaining, which we found to be one of the high-risk topics in Vietnam. With the help of these Better Work audits, we kept our monitoring threshold above 90% benchmark, now ranging at about 95%.

2 Sourcing

2.1 Sourcing strategy & pricing

We are of the opinion that long-term supplier relationships pay off in the long term. Therefore, we try to carefully select our suppliers and work with them for many years. 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 most of our production volume today. They grew together with us, enlarging their production sites and constructing new production sites as needed.

With the expansion of our product range, we of course had to take on additional suppliers who specialize in these respective new products. We consider several factors when choosing new suppliers. In addition to quality, price, and communication, social and ecological topics also play a major role. This allows us to preview existing audit reports, conduct on-site visits and health and safety checks, or carry out social audits ourselves.

Our products are produced in a total of five countries. The split can be seen in figure 1 showing that most of our production still takes place in Vietnam and China.

Sourcing countries

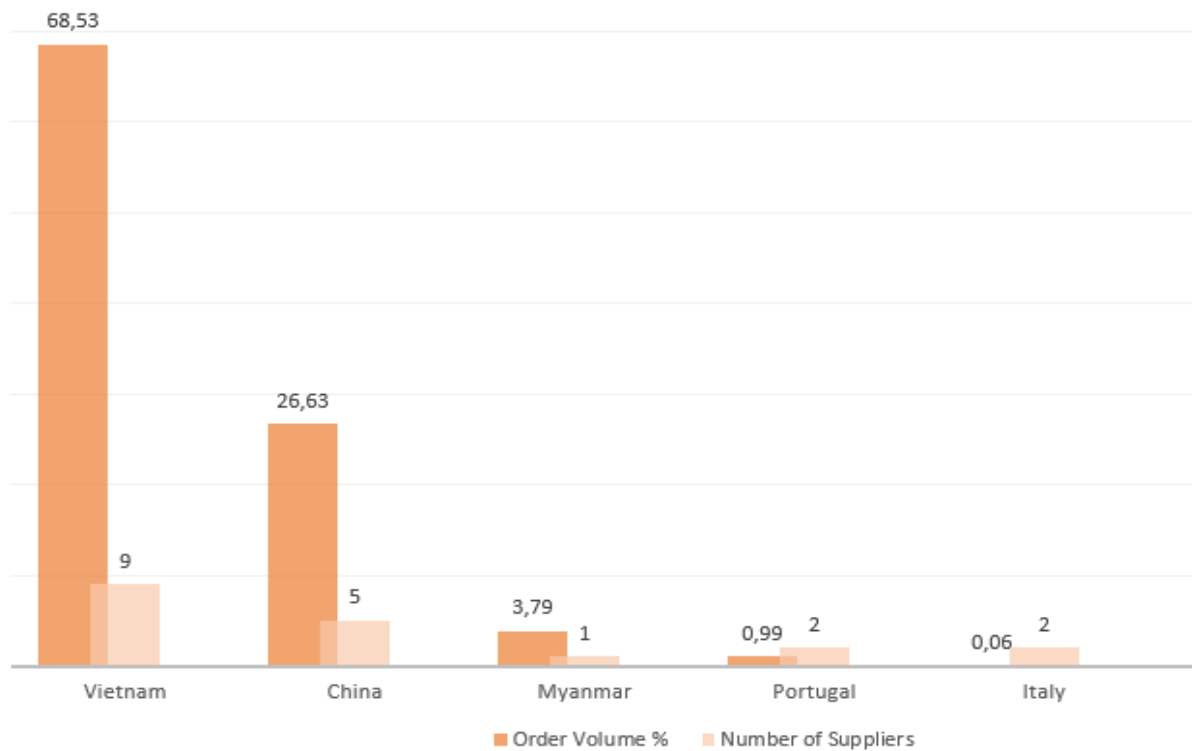


Figure 1: Production countries

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.

Two years ago, there was an organizational change. The corporate responsibility (CR) area was restructured into our procurement department. This change allows the CR department to have closer organizational contact to the purchasing team. Among other things, this means that interactions with the other two procurement departments (purchasing and quality) can occur at a closer and more cooperative level (see figure 2).

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

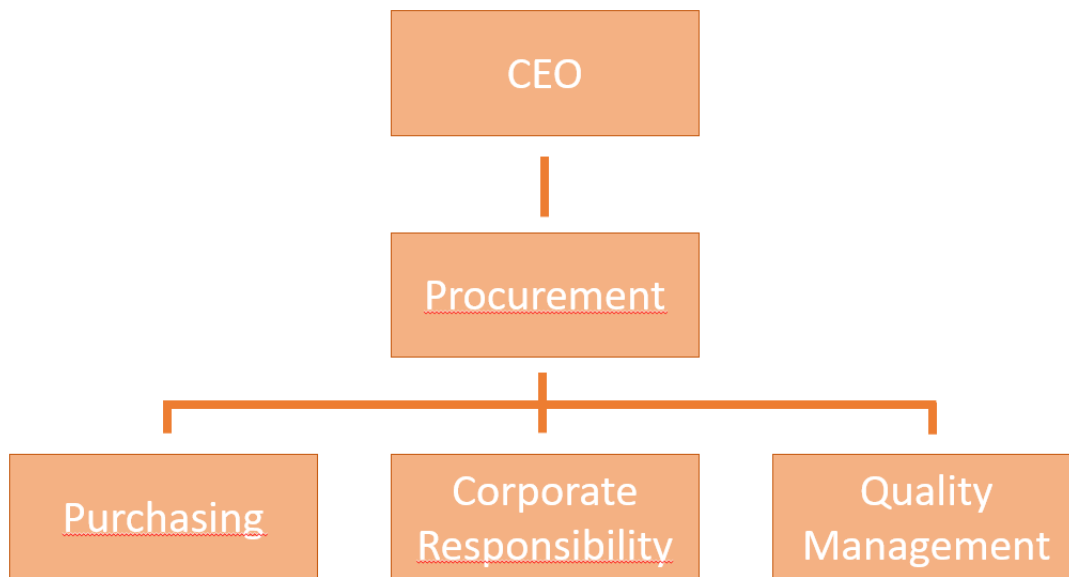


Figure 2: Organizational structure

2.3 Production cycle

Since we combine seven brands under our core brand that serve various markets, we can only depict one production cycle. Thus, we present the production cycle for our two strongest brands in terms of sales, *ergobag* and *satch*. The overall development and production cycle looks as follows (figure 3):

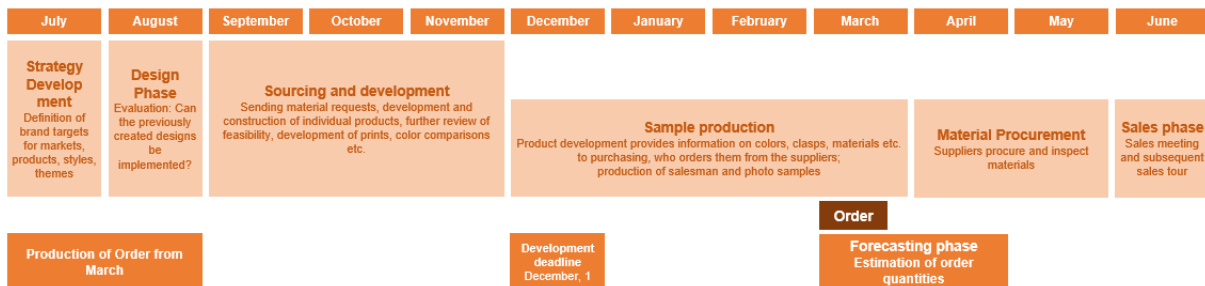


Figure 3: Production cycle

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

There are between two and six delivery dates 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 date. This enables suppliers to plan their capacity over the long term. These figures are subject to some changes throughout the year.

Through constant discussions with our suppliers, we try to better structure the production planning. However, we have realized that there is no one-fits-all solution to this challenge. Therefore, we do not solely do the planning on our own, but proactively involve them in fixing delivery dates and deadlines. Among other things, we have added more delivery deadlines in

order to allow our suppliers continuous production and thus improve their planning and productivity.

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.

During the last financial year, we did not change any of our suppliers. However, we had to onboard a couple of new suppliers due to the expansion of our product portfolio.

We acquired and incorporated the brand *funktion schnitt*, into the FOND OF universe. This meant getting to know their already existing supply chain. The CR team visited the majority of their suppliers to talk about our sustainability approach and to talk about the FWF Code of Labor Practices (CoLP).

For another new supplier, who is the producer of the first shoes in our portfolio, the process was completely different. While looking for possible suppliers, we only considered the ones that were very open about their production, working conditions and the ones that are willing to work with open costing. Furthermore, we checked existing audit results prior to a first order. This allowed us to become partner of a supplier who is willing to work towards better working conditions together with us.

Usually, 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, gather audit reports and visit the supplier. After this is complete, our procurement team goes back to the table and decides whether to add 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 have created a supplier evaluation tool. Here, we evaluate our suppliers on a quarterly basis on their communication, quality, production delays, and working conditions. The working conditions item also includes the treatment of subcontractors, transparency, and follow-up of 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. During the past financial year, we have improved this tool by also adding data on wages that are being paid at the suppliers. Even though we are still in the process of improving data quality and follow-up, this allows us to push suppliers towards paying higher wages.

3 Coherent system for monitoring and remediation

We consider insight into the exact working conditions of our suppliers to be the basis for our work. It is only with the results we obtain from social audits that we can begin to work on specific topics with our suppliers. This year was the first time that we also purchased products

from so-called low-risk countries (Portugal, Italy). This means that lower monitoring requirements are needed in these countries. However, we did not meet all of them as we had initially planned to. For all our suppliers in high risk countries, we had either audited them ourselves or had gathered existing audit reports and followed up on them. Our aim is to keep this in the future and extend our monitoring threshold to the full 100%.

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. In order to get deeper understanding and better possibilities to improvement, we use an own-created checklist to conduct evaluations at subcontractors, in addition to the regular health and safety checks.

Our supplier overview for the 2017/18 fiscal year looks can be seen in figure 4.

Supplier	Country	Share of FOND OF invest	Audited	Visited
ASG Global	Vietnam	36,98%	✓	✓
ASG Vina	Vietnam	7,91%	✓	✓
Subsupplier 1	Vietnam	1,30%		
Subsupplier 2	Vietnam	1,27%	✓	✓
Subsupplier 3	Vietnam	2,81%		✓
Starry	China	20,21%	✓	✓
Subsupplier 1	China	0,68%		✓
Subsupplier 2	China	0,33%	✓	
Subsupplier 3	China	0,15%		✓
Subsupplier 4	China	0,95%	✓	✓
Subsupplier 5	China	3,80%		
VIVA	Vietnam	11,58%	✓	✓
Noa-TEX	Myanmar	3,80%	✓	✓
INS	Vietnam	3,19%	✓	✓
Pungkook	Vietnam	2,67%	✓	✓
Haksan	Vietnam	0,82%	✓	✓
Marzim	Portugal	0,73%	Low Risk Country	✓
Supplier	China	0,51%	✓	
Castro & Silva	Portugal	0,18%	Low Risk Country	✓
Younited Nature	Portugal	0,08%	Low Risk Country	
Copy	Italien	0,04%	Low Risk Country	✓
Gioia	Italien	0,02%	Low Risk Country	✓

Figure 4: Suppliers overview

3.1 Suppliers in Vietnam

In Vietnam, we obtain products and product parts from a total of nine different production sites (see figure 4). We have direct business relationships with six of these nine suppliers, while the remaining three are sub-suppliers. By now, we have conducted full audits at all our direct suppliers. Among the ranks of sub-suppliers, only one sewing subcontractor has been audited so far in Vietnam. The remaining sub-suppliers, however, have been visited by our CR team within the last two years. In addition, we conducted health and safety checks and explained the FWF membership to factory management.

A majority of the results obtained from all our audits 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 “Freedom of Association” was identified as one of the major issues within Vietnam, since the setup of a completely independent union seems to be almost impossible at all production locations. Therefore, we pushed one of our suppliers to take part in a multi-company collective bargaining agreement program, which will start this year. The project is initiated by FWF in cooperation with Dutch trade union CNV internationaal. Another step to address this issue was to push our suppliers to work with the UN Better Work Vietnam program.

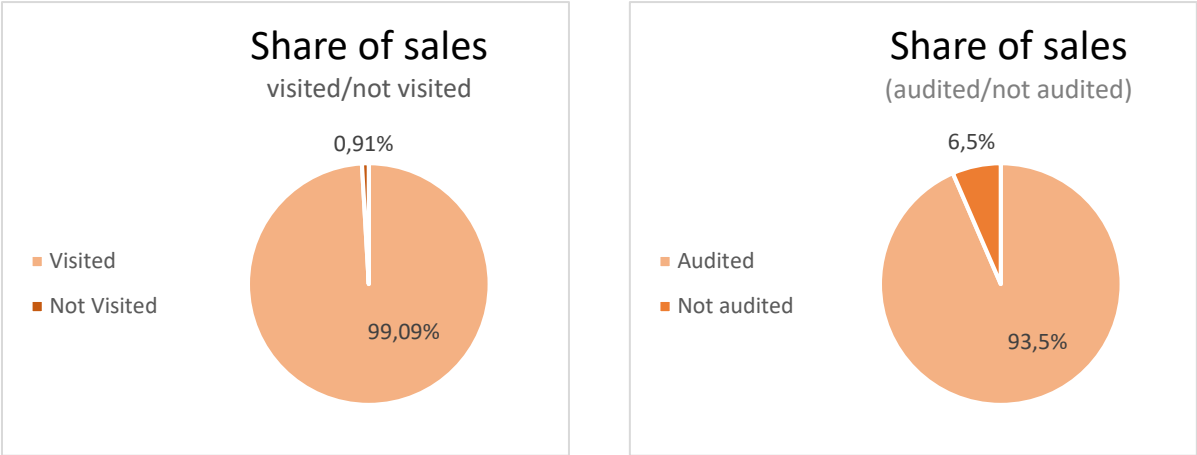


Figure 5: Share of sales – visits & audits in percentage

3.2 Suppliers in China (Starry)

In China, we only have one supplier with whom we work directly. This supplier owns a total of seven factories, out of which three are making products for us (see figure 4). We conducted a social audit at their main factory in the 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 working times still represent a great challenge. We will conduct another audit in the upcoming financial year and are hoping to see improvements to this regard. This supplier is also the only one with whom we do not have “open costing”, meaning we have no insight into the exact cost structure of the products.

Besides their main factory, the supplier uses another two of their own factories and three sub-suppliers to fulfill all our orders. Two of these sub-suppliers have been audited, already while the remaining ones have been visited by FOND OF staff. Amongst all these suppliers, the labor standards of “Payment of a Living Wage” and “Appropriate Working Hours” remain the greatest problem areas.

For another supplier that we used to purchase umbrellas, we did not have the opportunity to visit them so far. However, we gathered general information and audit reports on social compliance.

3.3 Suppliers in Myanmar

Currently, we are working with only one supplier in Myanmar. This factory also belongs to our supplier in China, which is why we started producing there in the first place. Before starting production at that supplier, we conducted a social audit. We had planned to conduct another audit at that supplier during the last financial year, but we had struggle to convince our partner to have this audit carried out. By now, we have not concluded, but we are of the opinion that we cannot work together with a supplier where working conditions are kept undisclosed.

3.4 Suppliers in Portugal

In Portugal, we are working together with three suppliers. Two of these work for our brand *funktion schnitt*. The *funktion schnitt*, team has been working with them for several years, already. During a visit to check on their efforts to comply with FWF CoLP, several topics regarding labor conditions had been discussed. Even though Portugal is ranked as a low-risk country, it seems that “payment of a living wage” remains the most challenging labor standard. The third Portuguese supplier supplied us with crawling shoes for our brand *affenzahn*. Unfortunately, we did not have the opportunity to visit this supplier, so far.

3.5 Suppliers in Italy

In Italy, we work together with another two suppliers for our brand *funktion schnitt*. So far, they have neither been audited nor visited by CR staff. However, the designer of the brand has visited them during the past year.

4 Complaints handling

The Fair Wear Foundation provides a complaint system for the suppliers of its member companies. At the beginning of our membership, this meant that we requested all our suppliers to hang up a worker information sheet in their factories. This sheet explains the essential rights that workers have and the complaint hotline of the FWF. Workers can make anonymous reports over this hotline and relate to a local FWF partner in order to make a complaint. This complaint will then be checked by FWF and if admitted, it will be handed over 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 the past fiscal year, we received one complaint from a subcontractor of our Chinese supplier. The nature of this complaint was that the complainant had not received his salary after quitting his job earlier on. After reaching out to FWF and checking local regulations it was made clear to the factory that this is not in line with Chinese law. As consequence, the factory paid the complainant his remaining salary and the case could be closed.

5 Training and capacity building

5.1 Activities to inform staff

For employees who work directly with our suppliers (product and quality management, design, procurement), there are extra onboarding sessions and the day to day exchange with the CR team is very close 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 team meetings, internal communication channels, and social media. Especially for our sales staff, we developed a workshop explaining the meanings of our newly achieved FWF leader status. This enables the sales force to promote FWF topics to our retailers and customers. Activities to inform suppliers

5.2 Activities to inform Suppliers

At the beginning of our membership, we sent all our suppliers the FWF - CoLP, thus informing them of our FWF membership. Same counts for factories that we started working with after becoming a member. The worker information sheets are included with the CoLP, which suppliers are to hang up in all their factories. During audits and on-site visits, we regularly check whether they are really hung 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.

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 supply 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 the six core building blocks upon which we focus at FOND OF. Transparency is thus a key value that we follow. Therefore, we also disclose the names and addresses of direct suppliers and also offer to inform about details of subcontractors and tier-two suppliers on request.

This is also the reason 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 the Dutch Trade Union CNVI. Although, we are not a member, we are also in regular contact with German Textiles Partnership and the

German Society for International Cooperation in order to stay up to date regarding news and developments in the political field.

The country studies provided by FWF are of great assistance in informing our suppliers as well as our employees of potential risks in respective countries. In addition, information from stakeholder surveys, conducted during the FWF audit, was used as an information source. Furthermore, we use the ITUC global rights index to get information on certain countries.

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

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