SOCIAL REPORT
for the 2016/17 financial year
1 August 2016 – 31 July 2017
for membership
in Fair Wear Foundation
hessnatur
Ladies and Gentlemen:

Never before has there been such a high output of clothing as in the last year. But can this be called a success? Rather not. It is especially Fast Fashion that has been growing over the last twenty years: Fashion that is produced quickly and to low costs and is mostly made of synthetic fibres that stress environment during production and disposal. And the people who produce the clothing have to pay for this business model. Fast rotating collections and styles imply short-term orders, purchase quantities that can hardly be calculated – and the run for even cheaper alternatives.

hessnatur, however, is committed to “Slow Fashion” – and that means for us: quality, not quantity; long-living natural materials and favourite pieces that can be combined for much longer than one season. And that’s why we have long-term cooperation with our suppliers – partly for decades – and why we have been the first German company to join Fair Wear Foundation. We don’t look away, but take on our responsibility and open up for third party verification. Transparency is our first priority.

For more than four decades, hessnatur has shown how to combine fashion and responsibility. Mindfulness, fairness and slowing down are fundamental values of our doing.

And we are not alone anymore. Promising initiatives have come to life, like the Accord on Fire and Building Safety in Bangladesh, the German Partnership for Sustainable Textiles or the Global Fashion Agenda of Copenhagen Fashion Summit. They all strive for absolutely essential improvements in textile industry.

That is the goal we stand up for, day after day, with our partners and for our customers, and by which we are measured – we want to make a difference with every piece of garment and contribute to more social justice, step by step.

Warm regards,

Vivek Batra
CEO
TABLE OF CONTENTS

1 SUMMARY – WHAT WE HAVE ACHIEVED 6

2 ABOUT HESSNATUR
2.1 Our philosophy 9
2.2 Ecological Standards 10
2.3 Social standards 10
2.4 Our social standards team 12
2.5 Cooperation with Fair Wear Foundation 13

3 PURCHASING STRATEGY AND PRACTICES
3.1 General purchasing strategy 14
3.2 Integrating social standards in purchasing decisions 15
3.3 Collection creation process 16
3.4 Lead times and policy on purchasing practices 16
3.5 "Never out of stock" products 17

4 THE MONITORING SYSTEM FOR SOCIAL STANDARDS
4.1 Information and mutual understanding 18
4.2 Factory checks: audits 20
4.3 Factory checks: visits 21
4.4 Complaints procedure 21
4.5 Training 21
4.6 Data management 21

5 AGENCIES, SUPPLIERS AND PRODUCTION SITES – FACTS AND FIGURES 22

6 MONITORING DURING THE YEAR UNDER REVIEW 24
6.1 Overview about monitoring measures 24
6.2 Situation and measures in low-risk countries 25
6.3 Situation and measures in high-risk countries 29

7 COMPLAINTS
7.1 Complaints System 46
7.2 Complaints in FY 2016/17 46

8 TRAINING & CAPACITY BUILDING
8.1 Supplier Trainings 49
8.1.1 Worker Education Programme 49
8.1.2 WEP Follow-Up on Communication 49
8.1.3 hessnatur Awareness Training 50
8.1.4 In-depth training conducted with another brand 50
8.2 Internal Trainings 52
8.2.1 New employee training 52
8.2.2 FWF communication training 52
8.2.3 Workshop with purchasing 52

9 TRANSPARENCY AND COMMUNICATION
9.1 Communications in print media, online and in the stores 53
9.2 Raising awareness of social standards 54
9.3 Events 54

10 SOCIAL ENGAGEMENT 55
10.1 Stakeholder dialogue 55
10.2 Our projects 56
10.3 The hessnatur Foundation 58

FACTS AND FIGURES 59

KEY INDICATORS ON SOCIAL STANDARDS 59

IMPRINT 60
Cooperation is the base of all our work on social standards. We do not only want to check the situation in the factories, we want to develop solutions and improve working conditions in an effective and sustainable manner. The implementation of corresponding purchasing practices and internal processes, long-term and trusting partnerships with our suppliers and support by sharing best practices are only a few steps we take towards that goal. But personal contact is the key and helps to achieve improvements also in more complex topics.

We are cooperating with partners in Europe, Asia, North Africa and South America. Our manufacturers are experts in their respective fields and most of them have been partners for many years. In the year under review, hessnatur has conducted a high number of supplier checks. 97% of our partners have been audited or visited by now. In low-risk countries, we mostly visit and check our partners ourselves. In high-risk countries such as China or Turkey, we organize audits conducted by a third party, usually the Fair Wear Foundation (FWF). In the year under review, 44 audits and 90 visits were conducted resp. valid.

The monitoring results show a variety of findings which are often typical for the individual production countries. In low-risk countries, visits have shown that working conditions are usually regulated by national law and monitored by local authorities to a relatively high degree if compared to high-risk countries. A few findings which were identified during visits usually relate to Occupational Health & Safety. In high-risk countries, the greatest challenges occur in the areas of freedom of association, living wages and reasonable working hours. They are often conditioned by numerous stakeholders, local law and government practices that make improvement of the given situation a complex and demanding task. In either case, we assess each issue in detail to first understand the root causes. Lasting solutions that make sense for the individual production sites are then developed on eye level with our partners. The implementation of improvements is monitored in a very detailed and consequent manner so that many concrete improvements could be achieved in the year under review, also in more complex areas as overtime and freedom of association.

<table>
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<tr>
<th>MONITORING THRESHOLD IN FY 2016/17</th>
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<tr>
<td><strong>Figure</strong></td>
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<tr>
<td>Amount of production sites</td>
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<td>Percent of FOB* counted towards the monitoring threshold</td>
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* FOB: purchase value

Support of our partners in the implementation of improvements is one of the most important parts of our work. In order to facilitate the development of internal solutions in the factories and to promote internal dialogue, we conduct and arrange trainings for both workers and management in the production sites. The aim is to inform them about their rights and obligations and how to deal with them. Apart from participation in the FWF Worker Education Programme, we have developed our own training program on social standards, the hessnatur Awareness Training, that has been tested and implemented with good results. In addition, we have developed an in-depth training program together with another brand that works with a sequence of comprehensive training sessions that build up on each other. In the year under review, the following trainings were conducted resp. valid:

- 13 partners took part in a Worker Education Programme (WEP) training
- 1 partner participated in a WEP follow-up on communication
- 6 partners participated in the hessnatur Awareness Training
- 1 partner took part in an in-depth training on internal dialogue with several training sessions

In case of problems that cannot be solved internally, workers can turn to FWF as independent partner. If a complaint concerns the regulations of our Code of Labour Practices, hessnatur is informed and we discuss the case with all involved parties. Suitable corrective actions are defined and verified in cooperation with FWF. After a detailed evaluation of the single cases, we have been able to solve and close several complaints already.

In order to raise awareness and develop and establish internal processes, we are also conducting internal trainings. In the year under review, a workshop with the purchasing department on possibilities for a consolidation of amount of production countries was held. In addition, two hessnatur employees responsible for PR and brand communications participated in the FWF workshop “Speaking of Fairness”.

The majority of our 122 production sites have cooperated with us for at least five years.

We have worked with more than 32% percent for a period of ten years or more.

78 of our production sites are situated in EU countries.
The motivation and founding impetus for hessnatur in 1976 was “healthy clothing”. Heinz and Dorothea Hess were looking for baby clothes free of harmful substances for their first child. At that time, natural materials had become all but forgotten in the wake of the tremendous success of synthetic fibres. These fibres had become cheaply available and could be used for any application. By great commitment and a spirit of exploration, suppliers were located who used traditional raw materials without chemical additives. Our success story began with a first natural products catalogue, a story that is still being written today.

Quality-crafted natural materials and modern recycling methods have made hessnatur the brand name for sustainably produced fashion for 40 years. We distribute a range of fashion, home textiles and baby clothing to 28 European countries. The focal point of sales and distribution lies within Germany, Austria and Switzerland, with headquarters in Butzbach (Hesse) and a subsidiary, Hess Natur-Textilien AG, in Switzerland. Distribution channels comprise a catalogue, an on-line shop and stores located in Butzbach, Düsseldorf, Frankfurt, Hamburg and Munich. Our philosophy is based on a holistic approach that respects people and nature in equal measures. In addition to sustainably manufacturing high-quality and long-lasting products, we are committed to transparent communications with customers, suppliers, employees and the public.

Modern, sustainable and fair: when manufacturing our products, we act in the interests of people, animals and the environment. This is our contribution towards making the world a better place. Day after day, we prove that a combination of ecologic, economic and social factors really works – without any sacrifice. From field to wardrobe, we act in a responsible manner: Our fabrics are processed with great attention to detail and under fair working conditions, and they are destined to become a favourite staple in our customers’ wardrobes. We strive to use fewer resources than we grow and to collect, recycle and re-use residual materials. This is our understanding of Slow Fashion.
Responsibility for our products, our environment and people – customers, employees and workers in the production sites that manufacture our articles – is the core of our doing. And translating this responsibility into cooperation with our partners is the daily work of our sustainability experts. Besides new projects and developments, this also includes the setting of standards: the formulation of rules and frameworks for a sustainable production process.

Since the company’s establishment, focus has been on developing new fabrics and innovating in the field of textile fibres. What started with pure natural materials and went on with projects for organic fibre cultivation has become a comprehensive approach for ecological production by now. Today, the entire textile chain is subject to the highest ecological standards, from obtaining raw materials to shipment of the finished products. They are defined in guidelines that were developed in-house and that extend far beyond what is legally required. Compliance with these quality guidelines is monitored, documented and regularly reviewed by our experts as part of the ecological management system.

1. EMPLOYMENT IS FREELY CHOSEN
There shall be no use of forced, including bonded or prison labour (ILO Conventions 27 and 105).

2. THERE IS NO DISCRIMINATION IN EMPLOYMENT
Recruitment, wage policy, admittance to training programmes, employee promotion policy, policies of employment termination, retirement, and any other aspect of the employment relationship shall be based on the principle of equal opportunities, regardless of race, colour, sex, religion, political affiliation, union membership, nationality, social origin, disabilities or handicaps (ILO Conventions 100 and 111).

3. NO EXPLOITATION OF CHILD LABOUR
There shall be no use of child labour. The age for admission to employment shall not be less than the age of completion of compulsory schooling and, in any case, not less than 15 years” (ILO Convention 138). There shall be no forms of slavery or practices similar to slavery, such as the sale and trafficking of children, debt bondage and servitude and forced or compulsory labour. [...] Children [in the age of 15-18] shall not perform work which, by its nature or the circumstances in which it is carried out, is likely to harm their health, safety or morals.” (ILO Convention 182).

4. FREEDOM OF ASSOCIATION AND THE RIGHT TO COLLECTIVE BARGAINING
The right of all workers to form and join trade unions and bargain collectively shall be recognized (ILO Conventions 87 and 98). The company shall, in those situations in which the right to freedom of association and collective bargaining are restricted under law, facilitate parallel means of independent and free association and bargaining for all workers. Workers’ representatives shall not be the subject of discrimination and shall have access to all workplaces necessary to carry out their representation functions (ILO Convention 135 and Recommendation 143).

5. PAYMENT OF A LIVING WAGE
Wages and benefits paid for a standard working week shall meet at least legal or industry minimum standards and always be sufficient to meet basic needs of workers and their families and to provide some discretionary income (ILO Conventions 24 and 131). Deductions from wages for disciplinary measures shall not be permitted nor shall any deductions from wages not provided for by national law be permitted. Deductions shall never constitute an amount that will lead the employee to receive less than the minimum wage. Employees shall be adequately and clearly informed about the specifications of their wages including wage rates and pay periods.

6. NO EXCESSIVE WORKING HOURS
Hours of work shall comply with applicable laws and industry standards. In any event, workers shall not work on a regular basis be required to work in excess of 68 hours per week and shall be provided with at least one day off for every seven-day period. Overtime shall be voluntary, shall not exceed 12 hours per week, shall not be demanded on a regular basis and shall always be compensated at a premium rate (ILO Convention 1).

7. SAFE AND HEALTHY WORKING CONDITIONS
A safe and hygienic working environment shall be provided, and best occupational health and safety practice shall be promoted, bearing in mind the prevailing knowledge of the industry and of any specific hazards. Appropriate attention shall be paid to occupational hazards specific to this branch of the industry and assure that a safe and hygienic work environment is provided for. Effective regulations shall be implemented to prevent accidents and minimise health risks as much as possible following (ILO Convention 155). Physical abuse, threats of physical abuse, unlawful punishments or discipline, sexual and other harassment, and intimidation by the employer is strictly prohibited.

8. LEGALLY-BINDING EMPLOYMENT RELATIONSHIP
Obligations to employees under labour or social security laws and regulations arising from the regular employment relationship shall not be avoided through the use of labour-only contracting arrangements, or through apprenticeship schemes where there is no real intent to impart skills or provide regular employment. Younger workers shall be given the opportunity to participate in education and training programmes.

2.2 Ecological Standards

As part of our industry association work and as a founding member of the International Association of Natural Textile Industry (IVN, see naturtextil.com), we worked on the development of the Global Organic Textile Standard (GOTS) in 2002. We are certified and authorised to market GOTS-certified products by the independent Ecocert IMO GmbH.

Our ecological and social requirements are closely connected and can only be viewed in a holistic manner. This already starts with fibre cultivation. Based on the strict guidelines for certified organic farming, farmers forgo the use of pesticides and additional chemicals. Natural pest control methods additionally support and retain soil fertility, which in turn ensures a subsistence base for farmers’ families over the long-term. The preferred use of materials from certified organic farming/certified organic animal husbandry thus creates the foundation for significantly improved living conditions for the farmers. This example shows how closely associated and linked ecological and social responsibility can be.

In addition to their environmental benefits, our ecological standards have a positive effect on occupational safety and worker’s health in production sites along the entire textile chain. Auxiliary materials used in conventional textiles production may be harmful to the health of people who come into contact with them. Workers are often exposed to toxic, mutagenic, carcinogenic or other substances that are harmful to health through skin contact or their presence in the air. These substances may also enter the body as a result of disposing wastewater in rivers, ground water and soil and finally by means of food consumption. It is often the case that workers are unaware of the far-reaching consequences. Our guideline prohibits harmful substances so that workers are protected from the outset.

2.3 Social Standards

The requirements for socially responsible production are defined in the Fair Wear Foundation (FWF) Code of Labour Practices that we have adopted. The eight core labour standards are based on the conventions of the International Labour Organization (ILO) and the UN’s Declaration on Human Rights. They expressly regulate working conditions at our production sites.
2.4 Our social standards team

In order to ensure compliance with social standards at the production sites, we developed a monitoring system that is firmly integrated into the company’s processes. Further details are described in chapter 4. The Corporate Social Responsibility (CSR) department, under the direction of Kristin Heckmann, is responsible for implementation and monitoring of social and ecological standards. It is part of an organizational unit together with purchasing, disposition and technology, headed by Helmut Schädler.

Within the CSR department, Kristin Heckmann and Elisabeth Schmidt are responsible for monitoring social standards and providing support to suppliers and production sites.

2.5 Cooperation with Fair Wear Foundation

Fair Wear Foundation (FWF) is an international organization with its headquarters in the Netherlands. Its objectives are to improve working conditions at clothing manufacturers and to promote collective social responsibility. Companies that join FWF commit to implement and monitor social standards at their production sites. As the first German brand, we joined FWF in 2005.

The special thing about FWF: It is a “Multi-Stakeholder Organisation”, meaning that all groups involved in clothing manufacturing are represented as members: Non-governmental organizations (NGO’s), labour unions, trade associations, manufacturers and retailers. This ensures the broadest possible participation of all stakeholders in the process of improving working conditions at clothing manufacturers. In addition, implementation of social standards at German members is supported by a national, so-called multi-stakeholder committee, in order to integrate German advocacy groups. The Campaign for Clean Clothing (CCC), IG Metall and other German member companies are represented in addition to FWF and us.

FWF has developed its own social standards that are based on the conventions of the International Labour Organization (ILO) and the UN’s Declaration on Human Rights and that we adopted. In the case of differences or contradictions between the FWF standards and local laws, the respectively more stringent standards apply. The social standards and the requirements for their implementation are summarised in the FWF Code of Labour Practices. FWF members formally commit to this code and to having compliance with it audited by FWF.

The principles of the FWF Code of Labour Practices are:
- Brands and producers share the work of improving social standards.
- Labour standards conform to the widely-accepted ILO conventions and the UN’s Universal Declaration of Human Rights.
- Implementing the standards is seen as a process that may take many years.
- Local entities are included in auditing and corrective measures.
- Implementation of the Code of Labour Practices on the part of members is independently reviewed (“external assessment” or “verification”).

Audits, Trainings and complaints system

Audits, i.e. on-site inspections, are performed by local FWF-trained audit teams from the relevant production country. They are an integral component of the monitoring system for social standards at hessnatur (please see chapter 4.2 for more details). They permit cultural and regional particularities to be taken into consideration. Communication is made easier and trust is greater compared to dealing with people from another country.

In many cases, workers know very little about their rights and obligations. FWF provides information on these topics at its Worker Education Programme (WEP) training sessions. A neutral complaint system enables workers to speak with knowledgeable local contact persons in the event of problems.

Reporting and Evaluation of Member Brands

FWF does more than audit production sites. Each member must report progress or shortcomings in the yearly social report. Next to that, FWF evaluates work on the part of member companies related to social standards in an annual Brand Performance Check, which is published online. Likewise, reports on each complaint received via the FWF hotline are publicly available on the FWF website.
3 PURCHASING STRATEGY AND PRACTICES

3.1 General purchasing strategy

Created with CSR and purchasing team on equal terms

Our purchasing strategy is the internal understanding of how we want to cooperate with our partners. It is the base for integrating our social and ecological standards into purchasing decisions. We strive for good purchasing practices which allow our partners to fulfil our social standards. Likewise, the choice of production countries is very important for our work on social standards. Our sourcing strategy sets the framework for these subjects. It was hence defined involving the purchasing and Corporate Social Responsibility (CSR) teams on equal terms, together with our management board.

Shared responsibility with our partners

Our social and ecological standards apply to each supplier, regardless of the sourcing country. Applying them in practice is a responsibility that we share with our partners, and therefore we also solve problems together. If needed, we support with training or know-how. We strive for fair business relationships where profit is not gained at the expense of our partners.

Countries

Our broad product range with a large variety of materials is produced under highest social and ecological standards. This can only be done in close cooperation with our partners, who are true experts in their fields (e.g. special materials or treatments like laser for jeans). In that light, we carefully assessed where our production shall take place.

- The result is a clear focus on production in Europe as well as on countries and regions representing the source of special materials and/or centre of expertise. For example, silk, hemp and cashmere come from China and the highest expertise in manufacturing these fibres can be found there, too.
- Cooperation with partners from countries with very high risks shall only be started in combination with a social project.

Leverage

To prevent risks which may result from a too strong dependence on each other, one supplier should never produce more than 30 percent of one product range. Similarly, we should never have more than 30 percent of a supplier’s production.

Long-term partnership

We strive to build up and enhance long-term partnerships. In case of offers with equal quality and similar prices, long-term partners shall be preferred.

3.2 Integrating social standards in purchasing decisions

Implementing our purchasing strategy is a common daily task of the CSR and purchasing departments. The close internal cooperation also includes the following aspects:

Process of selecting new partners

Although it is always our objective to work with our partners on a long-term basis, it is sometimes necessary to move to a new manufacturer. This may be based on the high quality standards we demand, technical requirements or changes in the product range for example.

New partners are selected with great care, and a large number of preconditions must be fulfilled before we decide to start a new cooperation. Purchasing is responsible for finding a new supplier who might be a good fit for us. However, a company can only become a new partner if assessed and approved by our CSR team. A process flow agreed between purchasing and CSR is established for this procedure. As a general rule, new suppliers are visited by our employees at the beginning of collaboration. A review is conducted as to whether they and their production sites are able to satisfy our qualitative, ecological and social requirements. Once checked and approved by the CSR department, production can start.

Supplier guideline

The supplier guideline is the reference work for each partner. Our requirements are defined in this guideline in detail, be they ecological criteria, delivery requirements, purchasing conditions or social standards. The supplier guideline must be signed by each supplier. No signature, no cooperation!

Cross-departmental supplier evaluation

Our suppliers are evaluated twice each year during the main seasons. Various departments such as purchasing, technology, financial accounting and CSR take part. Collaboration with each partner is evaluated on a comprehensive basis: Was quality acceptable? Was delivery on time? Were there difficulties related to working conditions, for example complaints from workers at the producer or incidents following on-site inspections? Finally, all departments decide on an equally-weighted basis as to whether collaboration with a partner should be expanded or curtailed.

Planning of monitoring measures

A new work plan for the monitoring of social standards is prepared at the start of every financial year. The plan lists when and how which partner is to be monitored, visited and informed of social standards. The plan is coordinated with purchasing in all cases. In this context, we take care to ensure that both management and workers at a partner find the time to familiarize themselves with the social standards in depth.

Veto right

The CSR department works closely and cooperatively with the purchasing department in order to ensure compliance with the social standards at the suppliers and their production sites. In the event of a breach of our standards contrary to agreement, the CSR department has the right and obligation to call attention to this and stop orders if appropriate.
3.3 Collection creation process

For more than five years now, the collection creation process at Hessnatur has been subject to continuous optimisation, from product development to merchandise shipping. The objective is to coordinate all activities associated with the process of creating a collection to the greatest extent possible in order to ensure that collections are completed and shipped on time. Many departments work hand in hand as part of this process: Company executive management, category management, design, CSR, purchasing and technology.

The master schedule shown below is an important control instrument for ensuring that the process for creating a collection runs efficiently and smoothly. It includes clearly defined milestone dates and tasks and thus establishes responsibility, commitment and transparency in the day-to-day work of all departments concerned. The actual status is discussed at weekly meetings and corrective measures may, if necessary, be initiated at an early stage so that scheduled deadlines can be met. This is associated with the continuous improvement of internal processes in order to not only reduce extreme workloads and duplication of effort at peak periods but also to establish a high degree of scheduling certainty for maximum customer satisfaction.

### MASTER SCHEDULE OF THE COLLECTION CREATION PROCESS

<table>
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<tr>
<th>Milestone</th>
<th>Time frame</th>
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<tr>
<td>Collection development</td>
<td>February to March/April</td>
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<tr>
<td>Evaluation of individual suppliers</td>
<td>February</td>
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<tr>
<td>Design presentations</td>
<td>April</td>
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<tr>
<td>Initial sample fitting/ Initial sample evaluation</td>
<td>May to July</td>
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<tr>
<td>Final product selection</td>
<td>June/July</td>
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<td>Order approval for the entire season</td>
<td>August</td>
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<tr>
<td>Photo and catalogue production</td>
<td>August to December</td>
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<tr>
<td>Merchandise shipment</td>
<td>November/December</td>
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<td>Catalogue shipment</td>
<td>Mid-January</td>
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As already described above, we are member of Fair Wear Foundation (FWF). FWF has a clear approach on the improvement of working conditions with specific roles for members and the organization itself. This means:

- We ensure that social standards at our production sites are implemented and monitored.
- FWF reviews our work and conducts audits at the production sites on our behalf.
- A neutral complaint desk offers workers in the production sites additional security.

In order to fulfil our part of the work, we have developed our own monitoring system for social standards. This has a clear focal point: the production steps after material production, in our case this usually refers to sewing. In contrast to the preliminary production stages such as spinning, weaving or dyeing, sewing has hardly been automated to date. A lot of manual work is needed, often subject to great time and cost pressure – facts that often cause poor working conditions. This is why the hessnatur monitoring concentrates on factories that perform production steps after fabric manufacturing in particular: cutting and sewing, but also washing of ready-made clothing. Additionally, production of shoes and accessories is within the scope of our monitoring.

## 4 THE TEXTILE CHAIN USING A T-SHIRT AS EXAMPLE

### 1. ORGANIC COTTON CULTIVATION
For organic production, the seeds come from certified organic farms, where special care is given to crop rotation, the use of natural fertilizers and natural pest control as well as the retention of social structures.

### 2. YARN
When producing yarn, care is taken to ensure that there is absolutely no contamination with conventional fibres. The desired result is primarily achieved by mechanical and thermal methods. Operational policies are subject to the strict hessnatur standards.

### 3. CLOTH
During the production process, yarns are protected against abrasion and tearing using natural sizing agents. In addition, recycling systems are used so that all waste water passes through a two-stage treatment facility at the least.

### 4. PROCESSING
In accordance with hessnatur guidelines, only Oeko-tex is used for bleaching, colours without heavy metals are used for dyeing and a water-based printing process is used. The characteristics of the cloth are optimised subject to adherence to the highest ecological standards, for example through calenders.

### 5. PRODUCTION
This production phase is subject to great time and wage pressure. As a result, people work under appalling conditions at many producers. By contrast, hessnatur is in close contact with production sites and advocates for continuous improvement in working conditions in cooperation with FWF.

### 6. TRANSPORT
For hessnatur, the focal point for production lies within Europe. Chemical conservation is not used thanks to the hessnatur guidelines. Short distances and environmentally friendly packaging complete the final step for the product on its way to the customer.

### 4.1 Information and mutual understanding
Mutual understanding is the basis for working on social standards with our partners. This is why information to the suppliers is the first step we take for jointly implementing social standards at the production sites. New partners are informed with particular care. In addition to the standards themselves, all suppliers and production sites receive extra information about the hessnatur monitoring system and the respective requirements they have to meet. Questions are clarified in the course of direct discussions with the hessnatur Corporate Responsibility team. At the same time, the suppliers have to deliver comprehensive information regarding the production sites via questionnaires, photos and other documentation (e.g. number of employees, implementation status of the social standards, etc.). This information forms the planning for monitoring measures.

The hessnatur monitoring system for social standards consists of the following interrelated modules:

- Communication of standards, possibilities for implementation and the monitoring system to the partners in a comprehensive manner.
- Written confirmation from the partners that the social standards have been accepted and are being adhered to.
- Regular performance of audits.
- Conducting training sessions and seminars in the production countries.
- Implementation of the FWF complaints procedure in the production sites.
- Administration and analysis of data from the monitoring system.

### 4.2 Core elements of the monitoring system for social standards

#### HESSNATUR

- Independent verification
- Yearly assessment of hessnatur
- Local auditing of production sites
- Worker & management trainings (hessnatur Awareness Programme)
- Supplier seminars
- Training of local audit teams
- Topic-specific projects
- Multi-stakeholder exchange

#### COMPLAINT SYSTEM

- Internal monitoring
- Information, advice & support for suppliers
- Factory inspections
- Development of new systems & innovations
- Organisation of social projects in production countries
- Worker & management trainings (hessnatur Awareness Programme)
- Supplier seminars
- Review of complaints & development of solutions by FWF & hessnatur

#### FWF

- Self-monitoring at production sites
- Neutral local contact person
- Contact point for workers if they have problems at the production site
- Review of complaints & development of solutions by FWF & hessnatur

In addition, every production site receives a version of the social standards in the local language – the FWF Worker Information Sheet. The sheet also contains the local contact for complaints which can be placed to the FWF complaints hotline. The worker info sheet must be posted in the factory in well-visible places in order to provide information to workers. We check this and monitor compliance either by visiting the production site or via photo documentation.

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2-4 High degree of automation and little manual work / 5 Low degree of automation and a lot of manual work.
4.2 Factory checks: audits

Audits – or factory inspections – are an important part of the hessnatur monitoring system. As “snapshots” of the current state of working conditions in the factories, they are the basis for intensive further work on social standards.

The audits usually have four main elements:
- management interview
- control of workplace safety
- documents check
- worker interviews

Usually, audits begin with an interview of the company management about working conditions and management systems on-site. Health and safety at the workplace is assessed during an inspection of the company’s facilities that includes fire safety, first aid measures, protective equipment for the workers, sanitary arrangements etc. The documents check covers employment contracts, payroll statements, insurance documents and working hours among others. Further information is collected during worker interviews. Combined, the results give a comprehensive picture of the working conditions in the factory, which is described in an audit report.

This picture also shows where there is a need for improvement. Following an audit, a so-called “Corrective Action Plan” (CAP) is prepared on the basis of the audit report. The CAP lists the improvement measures that need to be implemented in the factory. As part of this process, individual solutions for the single factories are developed, together with the production site. The CAP includes a clearly defined schedule that sets out explicit time frames for implementing and finishing the individual measures. We agree with our partners on the corrective actions and support their implementation. The suppliers regularly report on the status of implementation and document their progress. In addition, follow-up inspections are conducted on-site, either through an FWF audit team or by our employees.

We plan and schedule most audits at the beginning of a new financial year. Additionally, inspections may be initiated in case of certain issues at a factory, for example when a worker files a complaint via the FWF complaints hotline.

We usually work with local FWF audit teams as the FWF audit approach is very comprehensive and includes also off-site interviews with workers (see box to the left). In countries where there is no FWF audit team, we authorize other independent organizations to conduct audits based on our distinct audit criteria. If social audits by internationally recognized and independent organizations have already been conducted, we collect and assess the existing documents. If they meet our criteria for sufficient audits, we integrate them in our further work on social standards at the production site. This can avoid duplicate audits and saves costs and time for all parties.

In addition there are so-called “Verification Audits”. These audits are planned by FWF and not by us. FWF choses the production site. The aim is to examine not only the implementation of the social standards in the factory, but also our work.

Complete implementation of the social standards in a factory is a process that may take many months to years, depending on prevailing conditions in the respective production country and the time and effort for implementing the single measures. We provide help and support for our partners’ work on social standards, to improve the situation in the production sites and to ensure fair working conditions. Cooperation with a partner is only terminated if this is not successful or in the case of severe violations of the hessnatur social standards.

4.3 Factory checks: visits

We regularly visit our partners. Our social standards experts examine production sites closely on these occasions. They discuss audit results, develop individual solutions for complex issues or verify implemented improvements. Personal visits are also essential for gaining in-depth knowledge of the local situation and for being able to develop meaningful improvements. But also other teams such as purchasing or design frequently visit suppliers and production sites and support the social standards team where applicable. Because personal contact creates the foundation for mutual trust, a good working relationship and awareness of good working conditions.

4.4 Complaints procedure

We promote internal complaint processes at producers as well as dialogue between management and workers. Beyond that the FWF complaint system is an additional tool for ensuring compliance with our social standards. It provides workers at our production sites with the possibility to turn to a neutral contact outside of the company in case of a problem. The system is presented in detail in chapter 7.

4.5 Training

The training of suppliers, management and workers likewise, is another important part of the hessnatur monitoring system: Increased awareness of our social standards and the rights and duties of workers and management facilitate good working conditions. It is our aim to enable production sites to find individual solutions for current problems. This is why the focal point of our training activities lies on the promotion of internal communication. Details about our training concepts and activities can be found in chapter 8.

4.6 Data management

In the course of our work, we receive a large quantity of data: factory details, confirmations, corrective action plans and documentation of undertaken measures, if only to name a few. This data, which we treat confidentially, is collected, managed and analyzed using the “OSCA®” computer system that was developed in collaboration with the Setlog company specifically for working with social standards.

For example, “OSCA®” allows automatic import and export of CAPs as well as the automatic evaluation of implementation status. The corrective actions also may be filtered, e.g. by country or standard, for making important analyses. An automatic time calculation function supports the monitoring of implementation measures resulting from audits or visits as well as the scheduling of new measures. Overview functions for recent changes or missing information ensure increased quality of available data and allow better planning.
AGENCIES, SUPPLIERS AND PRODUCTION SITES – FACTS AND FIGURES

Strong, long-term partnerships are the basis for our collaboration with agencies, suppliers and production sites: The majority of the 122 production sites have been our partners for at least five years. With 32 percent of them, we have cooperated for a period of even ten years or more. Not only is this a fundamental part of our philosophy, but also, our manufacturers are generally true specialists for processing specific fibres such as silk or for specific product groups: Knitted jumpers for example, hosiery or jackets and coats. A high degree of ecological and manufacturing expertise is built up over many years. This is why skill and quality are more important for us than the lowest price. Specific details such as the countries that our partners are located in are given below.

Agencies
In the year under review, we cooperated with local agencies in Turkey, Italy, Thailand and Peru. They organize and supervise production on our behalf in the sourcing countries and are important points of contact for the suppliers. In addition, the agents work particularly close with our relevant employees from purchasing, quality assurance and Corporate Social Responsibility (CSR).

The majority of our 122 production sites have cooperated with us for at least five years.

We have worked with more than 32 percent for a period of ten years or more.

Suppliers deliver ready-for-sale products and bring them to account at hessnatur. In many cases, our suppliers manufacture the finished goods themselves in their own companies. In other cases, manufacturing is done by external partners, which sell their products or services to the supplier. Many of our suppliers are also performing earlier production stages, such as fabric production or spinning in-house.

Production Sites
Production sites or manufacturers are the companies who actually manufacture our products; in our supply chains this usually refers to sewing. The following overviews show the number of manufacturers per country and the share of our main sourcing countries in our purchasing value. Figures are based on production sites with purchasing value in the year under review. With Lithuania and Germany among the countries with highest purchasing value, 58% of our total purchasing value was paid to production sites in the European Union.

### NUMBER OF PRODUCTION SITES PER COUNTRY, AS OF 31/07/2017

<table>
<thead>
<tr>
<th>EU countries</th>
<th>Number of production sites</th>
<th>Non-EU countries</th>
<th>Number of production sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>2</td>
<td>Albania</td>
<td>1</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>4</td>
<td>Bahrain</td>
<td>1</td>
</tr>
<tr>
<td>Croatia</td>
<td>2</td>
<td>Belarus</td>
<td>1</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>5</td>
<td>Bosnia and Herzegovina</td>
<td>2</td>
</tr>
<tr>
<td>Germany</td>
<td>19</td>
<td>China</td>
<td>9</td>
</tr>
<tr>
<td>Hungary</td>
<td>7</td>
<td>India</td>
<td>1</td>
</tr>
<tr>
<td>Italy</td>
<td>9</td>
<td>Macedonia</td>
<td>3</td>
</tr>
<tr>
<td>Lithuania</td>
<td>10</td>
<td>Morocco</td>
<td>1</td>
</tr>
<tr>
<td>Poland</td>
<td>5</td>
<td>Nepal</td>
<td>3</td>
</tr>
<tr>
<td>Portugal</td>
<td>6</td>
<td>Peru</td>
<td>4</td>
</tr>
<tr>
<td>Romania</td>
<td>6</td>
<td>Thailand</td>
<td>2</td>
</tr>
<tr>
<td>Slovakia</td>
<td>2</td>
<td>Tunisia</td>
<td>2</td>
</tr>
<tr>
<td>Spain</td>
<td>1</td>
<td>Turkey</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Total 78</td>
<td>Total 64</td>
<td></td>
</tr>
</tbody>
</table>

### OUR TOP THREE SOURCING COUNTRIES BY SHARE IN THE TOTAL PURCHASING VALUE OF FY 2016/17

1. Lithuania 17%
2. Germany 14%
3. Turkey 13%
**6 MONITORING DURING THE YEAR UNDER REVIEW**

### 6.1 Overview about monitoring measures

In line with our monitoring system (see chapter 4), we coordinate and conduct audits, trainings and factory visits. The underlying aim in doing so is to assess and improve working conditions in our individual production sites.

Intensity and focus of monitoring measures depend on the individual production countries. Fair Wear Foundation (FWF) distinguishes between low-risk countries and high-risk countries. In this context, risk relates to compliance with local law and international standards. In the so-called low-risk countries, compliance with laws and standards is generally well regulated and monitored by legislative authorities. These countries include the member states of the European Union with the exception of Bulgaria and Romania. In high-risk countries by contrast, there is often a discrepancy between existing laws and standards and compliance with them. Accordingly, there is an increased need to work on social standards in the respective production sites.

The following table provides an overview of our production sites in high- and low-risk countries that received payments for delivered goods during the year under review (those payments are called purchase value or freight on board, “FOB”). To be eligible for the category “Good” according to the applicable FWF Brand Performance Check Guide, at least 80 percent of the purchase value must originate from production sites who:  
- are audited in case they are located in a high-risk country or
- fulfil the relevant monitoring requirements in case they are located in a low-risk country.

A requirement to be ranked in the highest category “Leader” is to fulfil the above criteria for at least 90 percent of the purchase value.*

### DISTRIBUTION OF PURCHASING VALUE IN FY 2016/17

<table>
<thead>
<tr>
<th>Figure</th>
<th>Low-risk countries</th>
<th>High-risk countries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of production sites</td>
<td>68</td>
<td>54</td>
<td>122</td>
</tr>
<tr>
<td>Percent of FOB</td>
<td>53%</td>
<td>47%</td>
<td>100%</td>
</tr>
<tr>
<td>Percent of FOB counted towards the monitoring threshold</td>
<td>51%</td>
<td>46%</td>
<td>97%</td>
</tr>
</tbody>
</table>

The above figures show that 97 percent of total purchase value was paid to production sites where the monitoring requirements for low-risk countries are fulfilled or which are audited in case of partners located in high-risk countries. The following chapters report in more detail on monitoring activities in the year under review.

*For more details, see the FWF Brand Performance Check Guideline Version 4 for financial years starting from 1 January 2016 onwards.

### 6.2 Situation and measures in low-risk countries

A comparatively large share of our production takes place in European low-risk countries. This generally supports short ways within the supply chain and sustains tradition and know-how in nearby countries. But we also focus on Europe due to important social standards aspects: Wages and living standards in low-risk countries are generally higher in comparison to high-risk countries. Likewise, better (legal) mechanisms for social security exist and are actually implemented in practice.

Just as all hessnatur production sites, companies in low-risk countries must confirm our Code of Labour Practices and provide detailed information regarding social standards on a regular basis. Also, they are required to post the FWF Worker Info Sheet in local language. Strong partnerships with many of our production sites in low-risk countries grew over more than ten years. We know our partners personally and meet them on multiple occasions. Due to our high ecological standards, many of our production sites are certified according to Global Organic Textile Standard (GOTS). The standard includes ecological and social criteria. Compliance to all criteria is assessed in audits that involve a factory tour, document checks and worker interviews. The GOTS audit and certification have to be renewed every year. Several production sites in low-risk countries therefore implemented corrective actions before obtaining the certification.

In the year under review, many production sites in low-risk countries were visited, especially by the social standards team. During each visit, working conditions and FWF membership were discussed. In addition, the FWF health and safety checklists were completed in many cases. Several times, the hessnatur Basic Check for low-risk countries was conducted, including document checks of pay slips or contracts among other things. Whenever a need for improvements is identified during visits or in existing social audits, findings are followed up, also in cooperation with other brands.

The below table shows production sites in low-risk countries and the number of visits per country.

### PRODUCTION SITES IN LOW-RISK COUNTRIES IN FY 2016/17 AND NUMBER OF VISITS*

<table>
<thead>
<tr>
<th>Country</th>
<th>Production sites</th>
<th>Visited production sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Croatia</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Germany</td>
<td>19</td>
<td>13</td>
</tr>
<tr>
<td>Hungary</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Italy</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Lithuania</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Poland</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Portugal</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Slovakia</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Spain</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total amount</strong></td>
<td><strong>48</strong></td>
<td><strong>92</strong></td>
</tr>
</tbody>
</table>

* In case of several visits to one production site, only the most recent one is counted.
The following activities give an impression of our work:

**Germany and Austria**

With more than 14 percent of purchase value, Germany remains one of our main three sourcing countries. Also, we have two partners in neighboring Austria. Our production sites in the two countries manufacture various types of products, such as beddings, woolen underwear, shoes or baby articles made of boiled wool. Most of them are smaller companies who employ around 50 people; some employ less than ten. Often they are family-owned with a lot of expert knowledge gained in several generations. Many have been partners from our early days on - we cooperate with most of them since more than ten years already. The majority is GOTS-certified as well. Next to earlier visits, we visited fourteen of our German and Austrian companies during the last three years. The visits again confirmed high social standards and profound management systems in both countries. Some examples:

One German partner visited in the year under review manufactures woven home textiles for us in a company that the family leads in the fifth generation. The company is GOTS-certified and social standards are posted. A collective bargaining agreement regulates wage payments and defines a system for wage increases. Governmental institutions regularly check requirements for fire safety, fire drills are conducted at regular intervals and there are five trained first-aiders. Also, the company just renovated the floor, making it more ergonomic for standing workers.

An Austrian production site manufactures shoes for us. The company is family-owned and managed in the fourth generation. After receiving the raw material, all production processes are performed in-house. In some of their products, the company also uses post-consumer recycling material. The new production site was built by the company according to the highest standards, including a sprinkler system as well as a ventilation and dust filter system. Working hours are recorded via time clock cards and, in response to workers' requests, the time schedule was changed to provide a free Friday every second week. Wages are paid above the Collective Bargaining Agreement that applies in the company. Additionally, wages are increased every year.

**Lithuania**

With a share of around 17 percent, Lithuania is the country with the highest purchase value in the year under review. Our Lithuanian production sites mainly manufacture jersey articles, but also woolen garments, woolen blankets or linen products. Close cooperation with several of our Lithuanian partners grew over more than ten years already. In addition to frequent visits by several departments, eight of ten production sites in Lithuania were visited by our social standards manager in the year under review. The factory floors and relevant documents were inspected and the FWF Health and Safety Checklist was completed. Some health and safety issues were identified and are followed-up. Beyond that, several partners implemented best practice examples. They are mostly well structured companies including clear systems for safety management and wage calculations. At many of them, specifically announced CSR managers take care of social and environmental standards.

One company has set up specifically strong systems for managing health and safety and improving working conditions. For example, workers’ suggestions for increased productivity are rewarded and a project is on-going to determine suitable wages in relation to industry benchmarks as a basis for internal wage adjustments. Also, a social audit by another FWF-member brand took place earlier. We supported the follow-up on corrective actions in close collaboration with that brand and checked status on some findings on-site. A few additional aspects were raised and are already improved. As an example, signs on Personal Protective Equipment have been posted and gloves provided in the stain removal section.

The visit at another partner again confirmed exemplary working conditions: there is a very clear system on wage calculation including bonuses for high productivity, workers do not work more than eight hours a day and short physical exercise is provided – we were invited to participate when it took place during our visit. Modern machinery and a detailed health and safety management system provide good conditions for health and safety at work and are an important basis for achieving high productivity.
Poland and Czech Republic

Our Polish and Czech partners produce knitwear, jeans, towels and socks. Following several visits in the past years, three of them have been visited by our head of CSR in the year under review. One of them is a Polish family-run knitwear company that has been our partner for almost 20 years. The average wage in the company is approximately double the legal minimum wage of the country. A company in Czech Republic pays wages according to a Collective Bargaining Agreement. When visiting their small modern office, they proudly told us about their GOTS certification, as well as the regular trainings on health and fire safety. And free coffee in the company’s own kitchene, next to a birthday cake for every worker.

Christoph is working in a denim laundry in Poland.

Hungary

Our production sites in Hungary mainly produce baby bodies, shoes, woven garments and carpets. They are smaller production sites where less than 50 people work in a familiar atmosphere. Two companies, including a new partner, were visited by our social standards manager in the year under review. The Basic Check for low-risk countries was conducted in both facilities. A few smaller issues were detected and have already been improved. For example, smoke detectors have been installed in a storage room and eye shields were installed at overlock machines. Also, relevant documents such as pay rolls were inspected. Above all, we discussed social standards in general, the collaboration with us and what could be done to support the production sites. Our expert for ecological standards of leather products and colleagues from design and techics visited two other partners. They also completed the FWF Health and Safety Checklist and discussed their impression with our social standards manager.

Summary

The larger share of our production is done in low-risk countries. With most of the production sites, strong partnerships and personal relationships grew over years. Recent visits to our partners in low-risk countries confirmed that working conditions are usually regulated by national law and monitored by local authorities to a relatively high degree if compared to high-risk countries. Next to that, many of our GOTS certified partners were audited and took corrective actions to obtain the certificate. Mostly, clear and transparent systems for wage calculation exist, some companies raise wages yearly. Wages are based on Collective Bargaining Agreements in several production sites. However, a few health and safety issues were found. We initiated and verified several corrective actions already; others are being followed up.

6.3 Situation and measures in high-risk countries

The below figure provides an overview of monitoring activities at production sites in high-risk countries with purchase value in the year under review.

<table>
<thead>
<tr>
<th>Country</th>
<th>Production sites</th>
<th>Audits</th>
<th>Trainings</th>
<th>Visits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>7</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Bahrain</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Belarus</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>China</td>
<td>9</td>
<td>1</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>India</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Macedonia</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Morocco</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Nepal</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Peru</td>
<td>4</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Romania</td>
<td>6</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Thailand</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Tunisia</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Turkey</td>
<td>13</td>
<td>12</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Total 54 44 20 38

The following tables show the specific challenges with regard to the eight core labour standards in the individual high-risk countries. The evaluations are based on the most recent audit in each case (as of 31/07/2017). In the case of multiple production sites in one country, the average of the results of all relevant audits is indicated.

<table>
<thead>
<tr>
<th>Country</th>
<th>Audits/Trainings/Visits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>1/1/2</td>
</tr>
<tr>
<td>Bahrain</td>
<td>0/0/0</td>
</tr>
<tr>
<td>Belarus</td>
<td>1/0/0</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>2/2/2</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>0/0/0</td>
</tr>
<tr>
<td>China</td>
<td>1/0/0</td>
</tr>
<tr>
<td>India</td>
<td>0/0/0</td>
</tr>
<tr>
<td>Macedonia</td>
<td>1/0/0</td>
</tr>
<tr>
<td>Morocco</td>
<td>0/0/0</td>
</tr>
<tr>
<td>Nepal</td>
<td>0/0/0</td>
</tr>
<tr>
<td>Peru</td>
<td>0/0/0</td>
</tr>
<tr>
<td>Romania</td>
<td>2/2/2</td>
</tr>
<tr>
<td>Thailand</td>
<td>2/2/2</td>
</tr>
<tr>
<td>Tunisia</td>
<td>2/2/1</td>
</tr>
<tr>
<td>Turkey</td>
<td>4/1/1</td>
</tr>
<tr>
<td>Vietnam</td>
<td>0/0/1</td>
</tr>
</tbody>
</table>

The percentages shown under implementation status indicate how many of the findings from the last audit have been resolved or improved to date. In case of multiple production sites in one country the average figure for implementation status for all relevant audits is shown. Given that the number and scope of the findings, as well as the amount of time needed for implementation of the corrective measures, may vary greatly, this value cannot be used as a comparison of countries against each other or for an annual comparison. For example, if a production site has not resolved a smaller finding, it would have an implementation level of 0 percent; however it would be at a significantly better level than a producer with ten grave findings of which 50 percent had been resolved to date. If a production site that previously had an implementation level of 100 percent is audited again, this does not mean that no new findings are made. This shows that work on social standards is a constant and ongoing process.

Improvements that have been achieved are described in summary for each country and give an impression of our progress.

Measures such as trainings or visits by our employees in the last three years (excluding the year under review) are likewise shown by country.
Cooperation with a new manufacturer of jersey articles in Albania was started during the year under review. The company had just opened and was visited by our social standards manager together with another FWF member brand. A basic check was conducted during the visit to get an overall impression of working conditions. Some non-compliances were identified during the basic check and discussed with factory management. The audit that was then conducted on behalf of both brands revealed that some issues were improved already. However, major difficulties with regard to transparency and cooperation of factory management occurred during the audit. Therefore, after discussing the case with the involved parties, it was decided to terminate cooperation with the factory.

Our partner in Bahrain makes bed linens and was audited prior to starting production in the previous financial year. The audit results highlight challenges in particular in the areas of freedom of association and wages as well as some smaller issues related to occupational safety. Several steps have been taken since then: Electrical wiring, emergency exits signs and chemical storage were brought up to standard. Also, the company started a safety awareness campaign. Safety standards and Personal Protective Equipment were discussed with workers from different departments and workers were invited to suggest possibilities for improvement. In addition, the existing committee for occupational safety was expanded to cover social issues that are now addressed by worker representatives from all cultural groups of workers. The committee meets every three months and internal dialogue has become increasingly active. As an example, worker representatives mentioned noise and other issues within the dormitory, problems which were taken up by management. In the audit, overtime was found to be excessive longer ago, but fine during the year of the audit. Hence, increased attention was paid to the issue during the continuous exchange with our partner. Overtime showed to be excessive again in the year under review and measures to reduce it are currently developed together with the production site.

Our production site in Belarus has been manufacturing jersey products for us for more than five years already. The company has been audited on our behalf and visited by our head of CSR in the previous financial year. The CSR manager at the factory’s parent company is specifically responsible for social standards in all branches and supported the implementation of numerous improvements. For example, battery powered emergency lights were installed, fire extinguishers with low pressure were fixed and an additional extinguisher is now available in the canteen. The audit also revealed that there was no clear system to ensure that piece-rate paid workers earn the minimum wage. In the year under review, a policy to ensure that piece-rate paid workers earn the minimum wage was set up and respective processes were verified. A very positive aspect confirmed by the audit is that most workers already receive payments above living wages based on the Asia Floor Wage for a 40-hour week. In addition, the partner attended the hessnatur Awareness Training in the previous financial year.
They are small to medium sized companies, family-run and located in smaller city or village areas. One of the production sites had undergone an external audit already, revealing good results. The other partner was audited on our behalf in the year under review.

Two smaller production sites in Bosnia and Herzegovina manufacture underwear and tights for us. They are small to medium sized companies, family-run and located in smaller city or village areas. One of the production sites had undergone an external audit already, revealing good results. The other partner was audited on our behalf in the year under review.

Both companies have been visited by our social standards manager in the year under review, to verify corrective actions taken and to agree on further steps. Since then, many improvements were implemented, particularly in the area of health and safety. Next to that, the hessnatur Awareness training was finalized also for Bosnia, so that both production sites could participate during the year under review. One of them also benefits of our “Never Out of Stock” system that guarantees orders for specific products for several seasons. The company confirmed that the system allows them to plan production on a constant level over the year.

**MANY IMPROVEMENTS IN BOSNIA AND HERZEGOVINA**

- One production site took several steps regarding fire safety in particular. They improved fire markings for emergency exit routes, attached fire extinguishers to the wall and conducted tests of the functionality of smoke detectors.
- At the other company, also dyeing takes place, involving several substances that need careful handling. The company employs less than 50 workers and several processes are little formalized. The audit especially revealed the lack of a systematic chemical management system.
- Following our visit, Material Safety Data Sheets for all chemicals were collected. Based on that, necessary measures for handling and storage were identified, listed and communicated to the relevant workers. At the same production site, more specific health and safety trainings were given and another worker was officially trained and certified in first aid. A risk assessment was completed for all departments. It identifies the specific risks of each position and allows taking preventive steps in a more systematic manner. Also, a few formal mistakes in the working contracts were corrected.
- The hessnatur Awareness Trainings conducted in both production sites invited participants to reflect and discuss what good working conditions mean to them. Also, internal dialogue was discussed. The trainings show that workers at both companies experience their working atmosphere and general internal communication with the manager families as open and friendly. At one company, workers suggested to implement structures for more systemized and regular internal dialogue, which will be discussed as a next step.

Our Bulgarian production sites mainly manufacture light woven products for us, two of them are sewing facilities and two others perform washing and finishing processes.

The company where the main part of our production in Bulgaria takes place has been visited by our employees on many occasions already, including the participation of our head of CSR during the FWF audit. The local FWF team itself called it the best audit that they had ever conducted in Bulgaria. The employees, who have mostly been employed in the company for many years, likewise confirm the particularly good working conditions. The three measures identified as necessary during the audit primarily relate to formalities and have already been implemented to a large extent. There are now rules for the regular meetings of the works council and concrete conclusions on the physical capability of workers to perform their jobs upon recruitment. Likewise, concrete conclusions about the physical capability of current workers will be issued after the next regular health check for all workers.

**EXEMPLARY WORKING CONDITIONS IN BULGARIA**

- Democratically elected worker representatives address worker complaints and interests and regularly meet with management in order to discuss problems and to develop measures for improvement.
- The majority of workers receive wages that are above the comparison value for living wages.*
- An on-site canteen offers fresh, inexpensive meals.
- The production site has a social fund that provides support to workers in financial distress due to emergencies such as hospital stays.

* The applicable comparison value is the value applied to a four-member family by the Institute for Social and Trade Union Research (2014).
Our partners in China manufacture a variety of different articles for us. Many are experts for specific natural fibres such as silk, hemp or cashmere. Since these fibres are cultivated in the country, a lot of know-how and expertise was developed over time. Many special techniques and styles have been continuously improved with our Chinese partners for several years.

The primary problems at the Chinese production sites relate to the issues of freedom of association and working hours. As a result of the state-controlled labour union, it is difficult to ensure freedom to collectively bargain on the part of the workers. In order to promote good internal communications nonetheless, Worker Education Programme (WEP) trainings were held at most Chinese partners by now. In addition to rights and obligations on the part of the workers and those of management, the trainings also emphasise internal communications channels and complaint mechanisms. Another factory organized a small training about the FWF Code of Labour Practices and complaints procedure, which was held by own staff.

Furthermore, all companies were visited in the last three years, including three visits to partners where cooperation started during the year under review. Where overtime proved to be an issue, specific root causes and measures for improving the situation were discussed on-site. Following that, one production site took several steps in the year under review, which improved the overtime situation significantly: A room that was previously used for storing items which are not needed for the production process was now turned into additional production area. Hence, more staff could be employed. Also, workers were trained to gain more skills so that different tasks can now be assigned to them. This helps avoiding overtime, since more staff is available to perform the tasks needed at a certain point of time.

Our Indian partner has been manufacturing scarfs for us for several years. A FWF audit took place in early 2014, following a visit by our head of CSR where concrete measures were discussed on-site. Numerous improvements took place since then, for example first responders were trained and a separate room for storing chemicals was installed. In addition, an FWF WEP training was held that was expanded at the partner’s request to include more detailed aspects related to occupational safety. Worker representatives were elected following the training and an Internal Complaints Committee (ICC) was established. FWF provided training to the committee members regarding their duties. Over time, workers spoke up more and more and the manager described many concrete benefits resulting from the enhanced dialogue.

The audit expired in the year under review; however the local FWF team is in contact with the factory on numerous occasions to discuss current issues with regard to social standards. But also, the factory owner is invited to report on his experiences and to show best practice examples of implementation, such as the ICC. A new audit is planned for the following year.
Our Macedonian partners produce jersey and woven products for us, two of them for more than five years. All of them were visited in the year under review.

Two of the production sites were audited in the previous financial year. The corrective action plans were discussed with the management of both companies on-site by our social standards manager. Many specific improvements took place already.

The third production site is a new partner and was visited together with another FWF member sourcing in the same company in the year under review. A Basic Check was done to get a first impression of working conditions. A few issues that shall be improved with regard to health and safety were identified and discussed with management. A FWF audit took place already; however, the audit documents were not finished by the time of writing this report. Respective findings and measures will be described in the next social report.

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### Important Steps Taken in Macedonia

- A worker representative was elected in May 2016. She is in regular contact with management and takes up concerns, complaints and suggestions by workers. As an example, temperature settings were changed in response to workers demand.
- Payments below the minimum wage were discovered at one production site during a holiday month. This was the result of a computational error. Amounts still owed to the employees were calculated, reviewed by hessnatur and promptly compensated by means of additional paid holiday leave.
- A FWF WEP training took place in one production site. A translator was engaged for the training in order to take the different language skills of the participants into account.
- Smoke detectors were installed in a building that had no fire alarm system before and electrical wiring was fixed.
In the workshops of our partner project New SADLE in Nepal, people cured of leprosy work side by side with healthy people to produce shawls for us (New SADLE = New Skills and Development Learning Experience). The project is aimed at the reintegration of the former sick people who are often outcasts because of their disease (see chapter 10.2 for more information). We support New SADLE by providing know-how, donations and most importantly by placing orders. During the year under review, new types of scarves were developed together and purchased from New SADLE.

The project was visited in 2014 involving a pilot of the hessnatur Awareness Training. New SADLE is registered at the World Fair Trade Organization (WFTO) as a Guaranteed Fair Trade Organization. The certificate was obtained after completing a self-assessment and passing the WFTO monitoring audit. As part of their internal monitoring system verified by WFTO, New SADLE carefully chose and assessed working conditions at the two other production sites involved in our production.

**Living Wages at New SADLE**

New SADLE arranges health care and education for its members, and hence, generally takes over several of their living costs. Next to that, the organization calculated the costs of decent living and ensured that respective wages and allowances are paid to its members. The general wage is earned for many different kinds of jobs within the organization, such as weaving our scarves. Allowances paid in addition to the general wage cover for example expenses for housing, children, pension, clothing and travels.

Our partners in Peru produce Alpaca wool clothing and accessories for us, two of them for more than ten years. They were audited earlier and visited by our head of CSR. The hessnatur agency in Peru is regularly on-site and provides local support for implementing corrective measures. Many Peruvian partners participated in a “Day of Social Standards” held during the 2013/2014 financial year, where training was provided covering the eight core labour standards and complaint mechanisms. Also, participants exchanged their own experiences about improving working conditions.

Two new audits were conducted recently. Findings primarily concern clear wage calculation systems, overtime and health and safety. Both corrective action plans have been discussed with the production sites. Several improvements concerning health and safety were realized since then. For example, signs about the duty to use Personal Protective Equipment and drinking water tests are now posted. Also, a strong management system for chemicals has been set up, where requirements for handling and storing are assessed based on the respective Material Safety Data Sheets. Further improvements will be followed-up in close cooperation with our local agency and partners.
A variety of products is sourced from partners in Romania, such as carpets, underwear, knitted and woven products. Four of our Romanian partners perform the main manufacturing processes such as knitting, weaving or sewing, two others are washing facilities.

Two companies have been visited by our social standards manager in the year under review. Both were audited in 2016 and several improvements could be verified on-site. For example, one production site trained two workers in first aid. Also they got an industrial vacuum cleaner for better air quality in the smaller building. The other company ran new elections of worker representatives. A new Collective Bargaining Agreement was signed and the internal policies were updated accordingly. Additionally, a new and more experienced mechanic was hired to improve the maintenance of machines. A professional assessment to evaluate workers performance is now conducted on a yearly basis.

The third production site is regularly visited by our employees, for example by our social standards team, purchasing or design. It was just recently re-audited. Several improvements since the earlier audit were verified. For example, there are more first aid boxes and more workers trained in first aid now. Also, the auditors received feedback that the WEP training conducted prior to the audit lead to more awareness on social standards among workers. Remaining topics will be assessed together with the production site. Further improvements will be reported in the next year.

We have been working with our partners in Thailand for more than five years. They are located near Bangkok and manufacture knitted products for us.

Both production sites have been visited by our head of CSR in the previous financial year and have been audited by FWF. One partner implemented almost all corrective actions listed in the CAP already. For example, documents such as employment contracts or wage statements were translated into Burmese, since several migrant workers from Myanmar are employed in the company. Complaint processes were developed and posted next to complaint boxes. New worker representatives were elected and a social committee now meets regularly including a representative from Myanmar. Minutes of the issues discussed are kept.

The other company was re-audited in the year under review. The corrective action plan was discussed in detail and some improvements were already implemented. For example, drinking water tests were conducted and further Personal Protective Equipment was provided to workers.

In addition to that, both production sites participated in the hessnatur Awareness Training where Thai and Burmese workers were trained together in small groups.
Two partners in Tunisia manufacture and wash jeans for us. At both of them, we collaborate with other FWF member brands with regard to social standards. We visited both companies prior to starting production. FWF audits were conducted in both facilities, too – one in the year under review.

Several improvements were implemented, including increased awareness on social standards after trainings, improved health and safety issues and important steps with regard to wages. Further trainings and visits are planned for the coming year.

**WAGES AND TRAININGS IN TUNISIA**

- The audit of the washing unit showed that most workers earn wages above the living wage benchmark collected from local stakeholders.* Also, the company set up a living wage calculation which underlines that the wages paid in the company are high enough to cover the estimated living costs.
- Discrepancies in calculating wages at the sewing partner were clarified in detail. Identified mistakes were corrected.
- The responsible person for social standards at the washing unit held small training sessions to inform workers of one company about FWF, the Code of Labour Practices and the complaints procedure. This was done in the individual departments when posting the FWF Worker Info Sheet in several places in the company.
- A WEP training was conducted at the other production site. During the training, workers described a good atmosphere and good working conditions in the company. According to the company and the training report, workers and management highly appreciated the training and asked to expand it. They particularly mentioned the details provided on local laws as beneficial.

* The applicable comparison value is an estimate collected from different stakeholders as part of the 2015 FWF Country Study data collection.

Our Turkish partners produce a variety of goods for us, including beddings, knitted and jersey products. Our local agency is regularly on-site and strongly supports the production sites regarding issues on social standards next to questions related to the production process.

Overall, Turkey remains a country with many challenges regarding social standards. This particularly refers to the areas of freedom of association, wages, overtime and contracts. Additionally, there are risks considering the working conditions of Syrian refugees. In response to that, working conditions at our Turkish partners are monitored in a specifically detailed manner: Very close partnerships were developed after visiting them on a regular basis for many years. The year under review showed that this is key to lasting achievements: Significant improvements in the more complex areas of overtime and internal dialogue were implemented in collaboration with other brands. Next to that, our Turkish partners participated in a survey that specifically increased awareness on the existing opportunities and risks related to the employment of Syrian refugees. Further measures such as new audits and trainings are planned for the following year.

**IN-DEPTH MEASURES AND IMPORTANT ACHIEVEMENTS IN TURKEY**

- We keep very regular and close contact with our Turkish suppliers. Also, in the year under review, our social standards manager visited many production sites and subcontractors frequently. Existing corrective action plans and the situation with regard to the employment of Syrian workers were discussed in detail. Worker representatives were consulted on several occasions.
- Important achievements including the reduction of overtime were verified externally: As part of a larger project for increased worker satisfaction, the shift systems of two production sites were rearranged so that there are generally less working hours on weekends and less overtime hours in total.
- Each complaint received was analysed in detail. Measures to address root causes were agreed upon on-site and implemented, so that five complaints from Turkey could be closed in the year under review.
- Our regular data update on social standards was expanded to include further aspects about the employment of Syrian Refugees. The new questionnaires had to be completed by all Turkish production sites in the year under review.
- A WEP Follow-Up on communication was conducted at a Turkish partner for the first time. As a result, new elections are planned, to highlight awareness on worker representation and strengthen internal communication.
At the beginning of cooperation in the previous year, we visited our Vietnamese production site for shoes and discussed social standards with the local management. A representative of the company participated in the 2015 FWF Social Compliance seminar in Hanoi and reported that she appreciated the exchange on how to improve working conditions in the local context.

In the year under review, our partner has been audited by FWF for the first time. The most complex issues were found in the areas of Freedom of Association and Living Wages. The CAP was already discussed with the production site and improvements are being worked on.

The year under review showed that the greatest challenges remain in the areas of freedom of association, living wages and reasonable working hours: Respective findings often occur in specific countries and backgrounds influenced by several stakeholders, local law and government practices. Hence, implementing improvements that last and that make sense in the local context is complex as well. Findings about contracts often show smaller formal errors. But sometimes, they also relate to country-specific issues which are difficult to be solved as such. Health and safety aspects keep coming up as well. However, they can usually be resolved in the short to medium term. The issue of discrimination is generally difficult to measure and hence requires heightened awareness as well.

We discuss each finding with our partners in detail, to first understand the situation precisely. Improvements that are possible in the short term are monitored in a consequent and detailed manner. Root causes for more complex issues are carefully analysed, to be able to develop holistic and lasting solutions together with our partners. The year under review has shown that personal contact and long-term partnership remain an important basis of our work on social standards: With time, significant improvements were achieved in many areas. Also major improvements in more difficult topics such as internal dialogue and overtime were implemented. Additionally, collaboration with other brands proved to be a great benefit.

We assume responsibility together with our partners and will continue to support them wherever possible to achieve further improvements of working conditions in the coming year: Trust and long-term collaboration will be strengthened by many on-site visits, where we will monitor improvements, but also learn from our partners and share our experience on best practices with them. As management and workers on-site are the ones to best define and promote suitable measures for their individual companies, awareness on social standards and internal dialogue will be increased in further trainings, including new concepts. Other complex topics will be addressed in innovative projects, which will be developed in collaboration with several stakeholders.
7 COMPLAINTS

7.1 Complaints System

The Fair Wear Foundation (FWF) complaints procedure allows workers at our production sites to contact an independent party in case of work-related problems. The contact persons for the workers are local complaint handlers, who are chosen and trained by FWF. Their contact details are shown on the FWF Worker Info Sheets, which have to be posted well-visible and in local language at all Hessnatur production sites at the beginning of cooperation. Additionally, factory managers and workers are informed about the complaints system during social audits and trainings as well as factory visits by our social standards team or by the FWF contact person itself.

When receiving a new complaint, the FWF complaints handler assesses whether the complaint concerns the regulations of our Code of Labour Practices. If so, FWF’s head office and we are informed. We analyse each case in detail, including discussions with all involved parties and usually also on-site visits. Afterwards, suitable corrective actions are defined and verified in cooperation with FWF who publicly reports about each complaint.

7.2 Complaints in FY 2016/17

Factory A, Turkey
1 and 2: about excessive overtime, received in FY 2016/17, status: closed

Two workers at a Turkish production site complained about excessive overtime, claiming e.g. that they worked more than six consecutive working days over a longer period. There were complaints about excessive overtime at the same facility in the previous year. Solving those, many corrective actions were taken, including a significant reduction in workforce turnover and a rearrangement of the shift system in most departments. Also, the company participated in the Hessnatur Awareness Training. Considering the given situation, we initiated an overtime analysis at the soonest, to assess the complaintant’s claims. The evaluation showed that the measures taken earlier led to a significant reduction of overtime, so that it is now within the given limits and in production in place to manage and control overtime. Additionally, the training and another factory visit in June 2017 have shown that working conditions in the factory generally improved after previous complaints, audits and trainings:

- A functional worker representation was established.
- A more transparent wage calculation system has been set up.
- The option to develop skills and earn more salary after trainings is now provided.
- A significant reduction of turnover in the workforce was achieved.

Since the workers complained anonymously, there was no option to reach out to them to further assess the subject and the complaint was closed.

Factory B, Turkey
3: about lack of Freedom of Association and late registration to social security, received in FY 2013/14, status: cooperation terminated

Another complaint was received from Turkey following an audit during FY 2013/14. It claimed restriction in the right of freedom of association and unfair dismissal due to membership in a labour union. As part of the follow-up, no unlawful conduct was found in relation to the dismissal. However, communications between workers and management appeared to be problematic, so that the factory was asked to participate in a Worker Education Programme training (see also chapter 8.5). The two complaints described below followed.

4 and 5: about excessive overtime and other issues, received in FY 2016/17, status: cooperation terminated

Following a FWF verification audit during FY 2015/16, two workers at the same production site submitted complaints related to excessive overtime and work on Sundays, discrimination in wage policies and delayed registration for social insurance. In cooperation with two other FWF members sourcing there, numerous discussions and factory visits took place to clarify the situation and define corrective actions. The discussion regarding the complaints turned out to be difficult. As no plausible readiness to improve the situation with regard to overtime was shown over an appropriate time frame, we had to terminate the cooperation.

Factory C, Turkey
6 and 7: about day labourers, late payment and other issues, received in FY 2016/17, status: closed

Following an FWF audit, a group of workers at a Turkish partner complained about unlawful employment of day labourers, delayed payments and other issues. The complaint was followed by several other individual complaints on the same subject and other issues, such as late registration for social security. A FWF investigation took place to assess the situation. Several on-site visits by our social standards manager took place, to understand each aspect in detail and to agree on corrective actions.

Factory D, Turkey
8: about unfair dismissal, received in FY 2014/15, status: closed

Another complaint from Turkey was received in FY 2014/15 about unfair dismissal. The investigation of the case did not show any unlawful actions related to the dismissal. However, several complaints were received from the same factory in the past. Together, the complaints give the impression that there is a general problem of communication between workers and management. For that reason, the findings from the most recent FWF audit were discussed in 2016 on-site, focussing on corrective actions around the issue of internal dialogue. We also had a meeting with the worker representatives. In 2017, a new employee responsible for audits, management systems and social standards joined the company. She participated in the FWF seminar in February in Istanbul right after she started. Many improvements with regard to communication and follow-up on corrective actions could be verified in another on-site visit: for example, a social committee including worker representatives that meets monthly has been established. Additionally, information about FWF is now clearly included in the orientation folder and training for new workers. The complaint was closed. But internal communication will remain a focus in our future work on improving social standards in the production site.
Factory E, Romania
9: about stress at work, non-transparent overtime records and pay slip, received in FY 2016/17, status: closed

A worker at a Romanian production site complained about stress at work as well as non-transparent systems of time recording and wage calculation. The audit that took place shortly after the complaint, several in-depth discussions with factory management and owner and an on-site visit by our social standards manager showed that there is no excessive overtime. A recent case of overtime within the given limits showed that workers were asked one week in advance if they could perform overtime hours on the respective Saturday. In case they wanted to work overtime they could sign up for it in writing in a list posted in the factory. The achieved productivity bonuses of workers represent overtime hours, annual leaves and bonuses. The complaint was closed and the subject of overtime within the given limits showed that workers were asked one week in advance if they could perform overtime hours on the respective Saturday. In case they wanted to work overtime they could sign up for it in writing in a list posted in the factory. The achieved productivity bonuses of workers represent overtime hours, annual leaves and bonuses. The complaint was closed and the subject of overtime within the given limits showed that workers were asked one week in advance if they could perform overtime hours on the respective Saturday. In case they wanted to work overtime they could sign up for it in writing in a list posted in the factory.

The complaint received during the year under review show that workers are becoming increasingly aware of their rights and the existence of the complaints procedure. Also, it is noticeable that complaints are received after FWF audits in particular and that several issues claimed by complainants in the year under review could not be confirmed after assessing the case. However, it is clear that existing communication mechanisms are not always functioning sufficiently in order to address problems and potential solutions internally: the complaints procedure is intended to offer workers increased security, however it is only supposed to be used when internal efforts to resolve the situation have failed. We are aware of this and strengthen internal dialogue through specific trainings. Improving communication is also a crucial point of our work during CAP follow-up, particularly at Turkish factories.

Conclusion
Complaints received during the year under review show that workers are becoming increasingly aware of their rights and the existence of the complaints procedure. Also, it is noticeable that complaints are received after FWF audits in particular and that several issues claimed by complainants in the year under review could not be confirmed after assessing the case. However, it is clear that existing communication mechanisms are not always functioning sufficiently in order to address problems and potential solutions internally: the complaints procedure is intended to offer workers increased security, however it is only supposed to be used when internal efforts to resolve the situation have failed. We are aware of this and strengthen internal dialogue through specific trainings. Improving communication is also a crucial point of our work during CAP follow-up, particularly at Turkish factories.

9 complaints from Turkey and from Romania were dealt with in the year under review.

5 of these complaints came in new through the FWF complaint hotline during the year under review.

6 complaints were solved and closed during the year under review.

8.1 Supplier Trainings

8.1.1 Worker Education Programme

The Worker Education Programme (WEP) was developed by FWF during the 2011/12 financial year. Its purpose is to increase awareness of social standards at the factories. Additionally, both workers and management are informed about their rights and obligations and how to deal with them. As is the case with the audits, WEP trainings are performed by qualified trainers from FWF who know the local languages and customs. In addition to the core labour standards, the FWF complaints procedure, internal communication mechanisms and opportunities to improve them are part of the training. As we understand it, an external complaint should only be the last step, when a problem cannot be solved without the help of a third party. What needs to be supported in particular are good internal communications and a trustworthy internal complaint system.

Hessnatur partners participated in the first test runs which showed that often willingness to improve certain aspects was not lacking, but rather knowledge on the part of all attendees. Several additional production sites have taken part in WEP trainings since then, including a Tunisian partner, who attended during the year under review. Training reports and feedback from attendees confirm the positive effects of the training on awareness of social standards. Additional trainings are planned for the following year for just this reason.

8.1.2 WEP Follow-Up on Communication

The FWF WEP Follow-Up on Communication is a new training concept, which was introduced by FWF in the year under review. It is intended for production sites who completed the WEP training before. The objective of the training is to strengthen a company’s ability to achieve improvements of working conditions themselves by means of worker-management dialogue such as effective complaint mechanisms. The goal is that at the end of the training each production site should have established functioning communication standards and an internal grievance mechanism managed by workers and management together.

13 partners took part in a WEP training valid during the year under review.

During the year under review, one of our Turkish partners was the first of our production sites to participate in the training. The production site had already participated in a WEP training and several FWF supplier seminars. Also we are cooperating on the implementation of CAPs after FWF audits since several years. But after receiving several complaints we saw the need to further improve internal dialogue. As an outcome of the training, the factory will run a new election of worker representatives, to raise awareness on this existing communication channel and to elect workers who better represent the whole workforce (e.g. with regard to department or gender).
8.1.3 Hessnatur Awareness Training

A comprehensive training concept for factories was developed by hessnatur as part of a master’s thesis in the field of adult education. The concept includes an Awareness Training for workers and management at the production sites, as well as icons related to the eight core labour standards to provide a better illustration of the standards on posters and in training materials.

Similar to WEP trainings, both workers and management receive training by local trainers with experience in the field of social standards. The trainings cover our eight core labour standards, mutual rights and obligations as well as communication mechanisms for improving working conditions. Particular emphasis is placed on raising awareness by means of interactive group exercises, discussions, and case studies: Scenarios between management and employees are depicted. The participants themselves then develop solutions based on the individual conditions and communication channels in their production site.

We worked with experts and stakeholders such as WFW or the International Labour Organisation (ILO) from the outset when developing the concept. In addition, the materials were then reviewed and supplemented by training experts. The Awareness Training was first implemented in Nepal as a pilot project. Our head of CSR and the master’s student were also on-site themselves. Thereafter, the concept was modified to integrate experiences from the first run and further training sessions were held in Thailand and Belarus. Two production sites in Bosnia and Herzegovina participated during the year under review. We ourselves learned a lot with and from the other brand. The whole process created a very open and trusting relationship between us, strengthened long-term partnership and stimulated further common activities on social standards.

6 production sites have attended the Hessnatur Awareness Training to date.

8.1.4 In-depth training conducted with another brand

Background

A new in-depth training was developed and conducted in cooperation with a non-FWF member brand during the year under review. A WEP training was planned and agreed upon with WFW in response to an earlier complaint around the issue of social dialogue at one of our partners. When working on the complaint case, close collaboration with the other brand was developed. That brand also planned to conduct their dialogue-based programme set with several in-depth sessions on specific topics, including effective communication and collaboration of different hierarchical levels within the factory, based on a Code of Labour Practices similar to ours. We agreed to develop a common training concept, to reduce efforts for the factory and to address and improve the specific situation after the past complaints in a deeper manner.

Significant Impact:

The training reports and our discussion with trainers both describe impressions gained from workers, worker representatives and management in each training session. They show concrete in-depth improvements of internal communication, worker representation and working conditions at the factory - for example:

- New democratic elections were held. The worker representatives now meet with management every month and they are assigned one hour per week to talk with workers, consult among each other and to prepare their monthly meetings with management.
- During the meetings of worker representatives and management, participants feel comfortable and openly share their opinions. There were trainings specifically on open and efficient communication and on how to actively include all participants of the meeting, which is taken up in current practices. The HR Manager has a positive attitude towards workers and worker representatives. The management takes up their suggestions and there are many examples where concrete actions were taken as a response (e.g. a changed shift system, better food in the canteen). The meetings are well structured and documented and the results are communicated to the workers.

- The factory has established an incentive system on the bases of seniority and skills. Workers who have been working in the factory at least for three years and who can use more than one machine receive an additional bonus. Management provides workers with on-the-job training so they can improve their skills and earn more via the new incentive scheme.

Also, the overall atmosphere in the factory improved; there is a better understanding of worker representatives’ role in the factory and a strong involvement of workers and their perspectives in decision making and continuous improvement processes.

We ourselves learned a lot with and from the other brand. The whole process created a very open and trusting relationship between us, strengthened long-term partnership and stimulated further common activities on social standards.
8.2 Internal Trainings

8.2.1 New employee training

Each new employee at hessnatur receives training via a training package. The concept comprises the four pillars “Getting to know the customers”, “Getting to know the textile chain”, “Getting to know the hessnatur brand” and “Getting to know the departments”.

New employees are familiarized with the fundamental values of hessnatur under the topic “Getting to know the brand”. This includes facts and figures, the history of hessnatur since its foundation and the values that set the company apart. The ecological and social standards of hessnatur and the specific manner in which they are implemented are presented in detail. In addition, a hessnatur expert for social standards specifically describes the eight core labour standards, membership in FWF and the hessnatur monitoring system for social standards.

In the year under review, the new employee training has been conducted twice, in February and March 2017. Additionally, a refresher course was held for staff members from the social media department, customer service and shop assistants.

8.2.2 FWF communication training

In May, two members of the hessnatur communication department took part in the FWF workshop “Speaking of fairness”. By connecting the member brands’ communication experts, the workshop aimed at sharing experiences and best practices and developing common solutions for talking about social standards. Critical cases and how to deal with them were discussed, and a basic concept for an information flyer was developed.

8.2.3 Workshop with purchasing

Another workshop with our social standards manager and four purchasing experts took place during the year under review. Following a recommendation made by FWF in the last Brand Performance Check, opportunities for further consolidation of our supplier base were explored. Next to that, preferences for sourcing countries based on social standards aspects were discussed. Experience on using the FWF Health and Safety checklist was shared. Also, the process for approving new suppliers was detailed.

9 TRANSPARENCY AND COMMUNICATION

9.1 Communications in print media, online and in the stores

Store concept

The hessnatur sustainable approach is also clearly on display in the stores. Two stores opened in Frankfurt and Düsseldorf in 2014, based on the new concept. In this context, both of these locations may primarily be distinguished from locations that were opened earlier by store construction and modern, transparent customer communications.

A world map unites the social projects that we stand for and information leaflets provide an overview of the stages in the textile chain and the special features that distinguish us from other brands. Prior to opening, the new store teams receive extensive training on the social and environmental standards at hessnatur and cooperation with FWF for purposes of improving working conditions in clothing production around the world.

Communications in catalogue and online shop

Our catalogue offers the opportunity to communicate worthwhile information on ecological and social topics to customers in addition to products on offer. The catalogue is still printed on recycled paper in a print run of more than 500,000 copies. However, the trend is clearly moving in the direction of electronic media. We take differing demands on the part of the customer into consideration by means of bespoke customer communications. Readers of the print catalogue regularly find editorial content related to specific materials or production projects, for example our participation in the organic cotton and fair trade project “Slow Fashion Container” of Helvetas or special features of the hessnatur jeans production.

Overview of core competences on the company website

We publish information about our philosophy, standards and projects on our company website, in German as well as in English. Readers can quickly find information about the company, materials and fabrics, social standards and ecological guidelines under the headers “People & Values”, “Responsibility & Transparency” and “Projects & Innovations”.

The company website plays a role in social and ecological standards. Links are provided to the hessnatur social report, the FWF website and the Brand Performance Check in order to provide as much transparency as possible. Collaboration with FWF, the hessnatur monitoring system for social standards, the video on the “FWF formula” and additional videos with an Indian supplier on the effect of the WEP training are included in addition to the eight core labour standards.

Social media and newsletter

Social media have created an entirely new foundation for customer communications in recent years. The direct path to the company was never easier for interested people. Facebook, Twitter, Pinterest or YouTube are extensively integrated into hessnatur communications for precisely this reason. A lively exchange is held in real time that includes recommendations, remarks and comments. The hessnatur magazine provides regular reports on clothing, styling tips, insider promotions or initiatives such as the Fashion Revolution Day. Tips and suggestions around a sustainable lifestyle complement the magazine’s content. After registering an e-mail address in advance, customers receive our newsletter on a weekly basis, including style recommendations, news or event tips. We also communicate directly with bloggers ever more frequently.

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<table>
<thead>
<tr>
<th>GETTING TO KNOW the customers</th>
<th>GETTING TO KNOW the textile chain</th>
<th>GETTING TO KNOW the hessnatur brand</th>
<th>GETTING TO KNOW the departments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Observing customer service</td>
<td>Processes in the textile value chain, guidelines, distinction to conventional production, etc.</td>
<td>Company values and vision, strategy, social standards, brand fundamentals and sustainability concept</td>
<td>Introduction to all departments: Key responsibilities, contact persons and interfaces, etc.</td>
</tr>
</tbody>
</table>

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9.2 Raising awareness of social standards

Fashion Revolution Day
More than 1,000 textile workers lost their lives during the collapse of the Rana Plaza factory building in the vicinity of Dhaka, Bangladesh, in 2013. More than 2,000 people were so severely injured that they can no longer work to this day. These figures once again show that a revolution in the fashion industry is essential. We participate in the global initiative Fashion Revolution Day each year on April 24th for just this reason.

In the year under review, hessnatur has supported the initiative with a whole week of comprehensive information about fashion and its production, production sites, projects and materials both in our stores and in social media. Among others, we presented our Selvedge Denim Project in Bangladesh and long-term partners like our producer of baby clothes and underwear in Southern Germany.

Calls were made for participation in all social media. On the day of the event, everyone was able to call attention to the respective origin of their clothing by wearing it inside-out and thus make a statement. Our stores also took part: On Fashion Revolution Day, shop assistants (and display dummies) wear their clothes inside-out. Postcards and posters are on display in order to draw the customers’ attention to Fashion Revolution Day and the origin of their own clothes.

Based on the theme “Who made my clothes?” we also introduced workers from production sites e.g. in Italy, Peru, Bangladesh, Nepal, Poland, Bosnia or Thailand who produce clothes for hessnatur. A personal statement was also posted on Instagram in addition to their picture and the message “I made your clothes”. hessnatur products are made by people. We want to raise awareness of this fact and promote critical questioning of the origin of fashion. And we would like to take this opportunity to thank all partners who supported this initiative.

9.3 Events

Visits to hessnatur
We regularly welcome groups of visitors for guided tours through the company head office in Butzbach. About 20 visits per year take place, mainly for pupils and teachers (e.g. within the frame of advanced trainings), but also for other interested persons.

Among other things, the visitors also learn about our social and ecological standards, the projects and the company values behind them.

Some very special guests visited the hessnatur shop in Dusseldorf in March 2017. The group of 50 attendants from South America – visitors of the Euroshop Trade Fair – was particularly interested in sustainable shop design, hessnatur’s overall sustainability approach and the use of natural materials. Apart from that, the founding history of hessnatur as a family business and the fibre projects were of special interest. How does hessnatur cooperate with partners and suppliers, how are social standards implemented and what does the cooperation with Fair Wear Foundation imply – these were only some of the questions the visitors asked.

Our partner Johannes Piltt who is cultivating organic linen for hessnatur.

10 Social Engagement

As part of our holistic approach, we are committed to comprehensive corporate citizenship. hessnatur supports initiatives and projects for a better world in Germany or wherever partners are located. At the same time, our experts are in demand as participants in the textile partnership or as speakers at public events due to years of experience.

10.1 Stakeholder dialogue

German Partnership for Sustainable Textiles
In 2016, we were the first German company to sign the Partnership for Sustainable Textiles which was formed as an initiative of the German federal government. Restraint in the industry was very pronounced at the start. Well-known companies with a large market volume did not join the partnership until fall 2015. By now, the partnership covers about 50 percent of the German retail market for textiles and clothing; the objective of the German Federal Ministry for Economic Cooperation and Development (BMZ) is to have at least 75 percent covered by 2019. We participate in the textile partnership’s working groups for social and ecological standards. Apart from that, we set up and published our “roadmap” with goals to achieve until spring 2018, covering the relevant subjects of natural fibres, environmental and chemical management as well as social standards.

Academic support
Given our special approach, we are frequently in demand as an example for inquiries from students for academic theses, dissertations etc. We receive some 30 inquiries per year. The main topics of these inquiries include the sustainable approach, cultivation projects or responsibility for the entire textile chain. In collaboration with the respective experts in the company, we answer questionnaires and provide assistance to the extent possible.
New SADLE Nepal

Hessnatur has supported the communal project New SADLE in Nepal for a number of years. As part of this support we cooperate with the charitable association Nepra e.V., an organization that fights for the integration of people who have been cured of leprosy. Many persons concerned do not even know that their illness can be cured and simply accept their fate of being excluded from society. Nepra e.V. has established workshops where healthy people and those cured from leprosy work together. With accommodations and the integration in schools and kindergartens, the cured receive the help they need for regaining their independence. Today, more than 400 people live in the project villages of Sewa Kendra and Kalsiya Baha and work in the textile workshops. Over time, we have established personal contacts and friendships in the country. We support the initiative with practical information about sustainable textile production and regularly include the high-quality products created in the workshops in our collection.

10.2 Our projects

After the devastating earthquake in Nepal in 2015 production came to a standstill. The workshops were severely damaged and most of the workers’ houses became uninhabitable. New SADLE was able to re-start local production as one of first businesses, also thanks to donations raised through a sample sale organized by our works council, as well as further support provided by hessnatur. Not only could the weaving workshop, the tailor shop, shipping, carving workshop, the paper workshop, the day care center and the nursing home be rebuilt but they were even made earthquake-proof.

Current information about the project can be found at http://www.hessnatur.com/magazin/nepal-newsade-projekt-interview/?shopgate_redirect=1&campaign=SocialMedia/Facebook/Blog/nepal-newsade-projekt-interview&utm_source=Facebook&utm_medium=SocialMedia&utm_campaign=nepal-newsade-projekt-interview

The Peru social project

In 2016, hessnatur has celebrated its 40th anniversary. It is our tradition to support a social project at every milestone birthday. On this occasion, the decision was in favor of an initiative in Peru. We have used alpaca wool sourced from Peru in our collections for many years. The alpaca feeds primarily on grasses that grow on the slopes of the Andes. Alpaca herders tend their small herds far away from urban civilization. The extreme climatic conditions are ideal for the quality of this precious hair, but life in the lonely mountainous regions is hard. Neither vegetables nor fruits grow there, and housing often takes the form of traditional mud huts that are equipped with neither a kitchen nor sanitary facilities. We started the social project in Peru in cooperation with the hessnatur Foundation in order to improve living conditions for the alpaca herders. The objective is to construct modern houses for the herders equipped with a water tank, kitchen and greenhouse in addition to sanitary facilities. In addition, passive air conditioning compensates for extreme temperatures.

The houses are funded by donations from customers and us; the costs of 15,000 Euro for the first house are already covered. The house will be given to the herders as the first prize of the Quintal del Inca competition, a regular contest in which the herders compete for the best alpaca fibre. The winner will be chosen in autumn 2017.

Additional information may be found at http://www.hessnatur.com/de/das-hessnatur-sozialprojekt-2016

Bangladesh Selvedge Denim

In 2014, we initiated the Selvedge Denim Project in Bangladesh. The idea was to promote traditional craftsmanship combined with sustainable standards and thus to create new jobs in textile production in one of the most underdeveloped regions of Bangladesh.

After more than two years of development work in cooperation with the hessnatur Foundation, the Deutsche Entwicklungsgesellschaft (DEG) and our partner Classical Handmade Products (CHP), we have been able to build up a unique textile chain and to create a very special product, the hessnatur Selvedge Denim. In the north of Bangladesh, cultivating indigo and dyeing with the natural colour has a long tradition. In our project, we use this old knowledge for dyeing organic cotton with natural indigo coming from the region. Together with our partner CHP we have built up an indigo dye house and a weaving mill for denim – literally building a new facility and creating new jobs. The naturally dyed yarn is woven on traditional handlooms. The result is high-quality and sustainable denim for jeans production.

More information about the project can be found at http://www.hessnatur.com/magazin/selvedge-jeans/
Cooperation with external partners, businesses and academic institutions enables the Hessnatur Foundation to work in a networked and solution-oriented manner with the objective of developing and promoting practical solutions for sustainable economies. Our foundation supports initiatives like the MaxTex association and brings projects with business partners and experts to life. In the year under review, the Hessnatur Foundation has worked on the donation project in Peru together with us.

Raising public awareness for the topic of sustainability represents another focal point for our foundation. Apart from organizing events or seminars, the sustainability experts addressed responsible action in the textiles and fashion industry at a number of presentations, panel discussions or trainings and thus brought their specialized knowledge to a wide audience. A special focus lies on the support of young talents and the integration of sustainability topics in their education. Hence, the foundation cooperates with various colleges or academies; for example, with the ESMOD fashion university in Beyrouth. A two-day workshop, titled “What makes the difference”, was held and gave students the opportunity to learn about sustainable design concepts and to bring them to life by planning an own sustainable collection.

**FACTS AND FIGURES**

<table>
<thead>
<tr>
<th>Year of foundation</th>
<th>1976</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form of foundation</td>
<td>GmbH (limited liability company)</td>
</tr>
<tr>
<td>Market position</td>
<td>Market leader in the market for sustainable textiles throughout the entire German-speaking region</td>
</tr>
<tr>
<td>Product range</td>
<td>Sustainable fashion, home textiles and baby articles with approx. 800 designs and 8,000 items per season</td>
</tr>
<tr>
<td>Channels of distribution</td>
<td>Mail order (catalogue), stationary retail (stores) and E-commerce (online shop)</td>
</tr>
<tr>
<td>Distribution countries</td>
<td>Germany, Switzerland, Austria</td>
</tr>
<tr>
<td>Stores</td>
<td>Retail stores in Butzbach, Dusseldorf, Hamburg, Frankfurt, Munich and residual stock outlet in Butzbach</td>
</tr>
<tr>
<td>Subsidiary companies</td>
<td>Hess Natur-Textilien AG, Langenthal (Switzerland)</td>
</tr>
<tr>
<td>Founders</td>
<td>Heinz and Dorothea Hess</td>
</tr>
<tr>
<td>Headcount</td>
<td>370</td>
</tr>
<tr>
<td>Trainees</td>
<td>7</td>
</tr>
<tr>
<td>Customer base</td>
<td>approx. 1,000,000</td>
</tr>
</tbody>
</table>

**KEY INDICATORS ON SOCIAL STANDARDS**

| No. of suppliers | 80 |
| No. of production sites | 122 |
| No. of countries of manufacture | 27 |
| No. of production sites in EU countries | 78 |
| No. of production sites in Non-EU countries | 44 |
| FWF member since | 2005 |

Statements and data in this report refer to financial year 2016/17 (1 August 2016 to 31 July 2017).