

The Wuensche Group's Policy Communication (Grundsatzklärung)

November 2022

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1 Preamble

Act for tomorrow. Bringing our business with people and nature into harmony — that is the main goal of the Wuensche Group.

As a B2B company, we orient our business model around our diverse customers. Nevertheless, we never lose sight of what is most important: making our products in a fair way, with respect for nature and for the people we work with.

Our goal is this—to make our business sustainable by taking responsibility for social and environmental standards, while simultaneously offering competitive prices and high-quality products. We aim to accomplish this goal via means of monitoring and promoting social and ecological responsibility within our supply chain, regardless of the product, customer, or business model. In addition, we are constantly expanding the range of sustainable products that we offer our customers.

International standards, such as the Universal Declaration of Human Rights, the ILO Core Labor Standards, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines, and the UN Sustainable Development Goals, guide us in achieving these goals.

As a member of amfori BSCI, we are signatories to the initiative's Code of Conduct. We are committed to complying with the following ILO Core Labor standards within the Wünsche Group and our supply chain:

- The Rights of Freedom of Association and Collective Bargaining
- No Discrimination, Violence or Harassment
- Fair Remuneration
- Decent Working Hours
- Occupational Health and Safety
- No Child Labour
- Special Protection for Young Workers
- No Precarious Employment
- No Bonded, Forced Labour or Human Trafficking
- Protection of the Environment
- Ethical Business Behaviour

This policy communication is applicable for all of the Wuensche Group's member companies. This document does not replace any of our customer's specific CR requirements but represents our own CR values.

To read more about our corporate responsibility activities, visit the following link: <https://www.wuenschegroup.de/en/responsibility/>

17.11.2022



Björn Peters

*The Wuensche Group's Policy Communication document has been prepared in both German and English. In the event of any inconsistency, the German version shall apply, as it is the official, endorsed version.

2 Wuensche CR Management System

We manage any potential CR risks that may arise from our global activities through our holistic management system that is based on the following three pillars:

- Social Responsibility: Management of social standards throughout our supply chain
- Environmental Responsibility: environmental management system for continuous improvement of environmental performance
- Product Responsibility: Sustainable product certification, animal welfare protections, etc.

As a group of companies, which is rich in tradition and strongly believes in sustainability, our goal is to integrate sustainable practices into all of our business activities, but foremost into the production of our products. We are continuously working to improve the social and environmental conditions in which the products that we source for our customers are made. We collaborate not only with our supply chain partners, but also with other relevant stakeholders when it comes to tasks that cannot be tackled alone. This is one of the reasons why we are engaged as members in amfori BSCI (Business Social Compliance Initiative) as well as in the international Accord / RMG Sustainability Council (RSC).

Through our risk analysis, we identify social and environmental risks associated with our business as well as their (potential) impacts. We are committed to minimizing, rectifying and preventing any negative impacts of our business activities through various measures, such as training of our partners and employees, conducting factory visits and joining sustainability initiatives. If negative impacts occur in our supply chain despite increased due diligence measures, the Wuensche Group commits to remedy them.

Our grievance mechanism plays a crucial part in our human rights due diligence and enables us to be notified about grievances in real time and to counteract any negative development by using appropriate measures. All grievances are being handled according to a stipulated process.

Worldwide, our CR teams are engaging with our supply chain partners on a daily basis, providing valuable expertise and upholding the principles laid out in this document. We understand the complexities of the issues at hand and the need to constantly reflect upon both our business and sustainability strategies, as they are closely interwoven. Thus, we regularly review them, this policy communication, as well as our measures. A long-lasting relationship with our suppliers, as well as a fair and transparent business demeanor, supports us in continuously improving towards a more sustainable future – we act for tomorrow.

3 Risk Assessment and Vulnerable Populations

In order to be able to address the risks and challenges in our supply chain with appropriate measures, we regularly conduct a risk analysis. We are guided by international standards, such as the Universal Declaration of Human Rights, ILO conventions, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines, and the UN Sustainable Development Goals (SDGs).

The analysis focuses on country-specific environmental and social risks, taking the impact of our business activities into account. Within the framework of our risk analysis, we concentrate on particularly vulnerable groups, such as women, ethnic minorities, migrants, indigenous minorities, children, and homeworkers. Our goal is to minimize any harm done to these groups that could be caused by our business activities.

In our key sourcing countries, Bangladesh, China, and Pakistan, we have local teams on the ground who are in regular communication with our production sites; thus, they have insights into the issues and challenges in our supply chain and can respond quickly, if necessary. Within our social monitoring system, we are regularly in contact with potentially vulnerable groups through means of factory visits, corrective actions, training activities, as well as grievance mechanisms.

In addition to collecting market information, audits also provide a basis for identifying potential risks in our supply chain. With the help of our current carbon footprint data being collected, as well as our Scope 3 emissions being recorded, we are creating a baseline which we can use to address and reduce the amount of CO₂ emissions in our supply chain.

To begin with, we have taken an in-depth look at our textile supply chain. We plan to gradually expand this risk analysis to include all business areas.

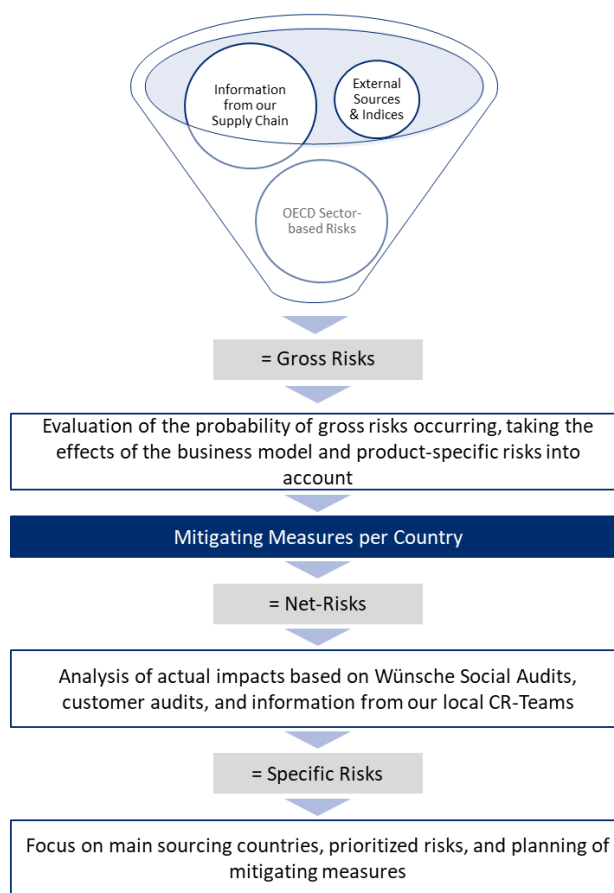


Figure 1 - Illustration of the risk analysis methodology

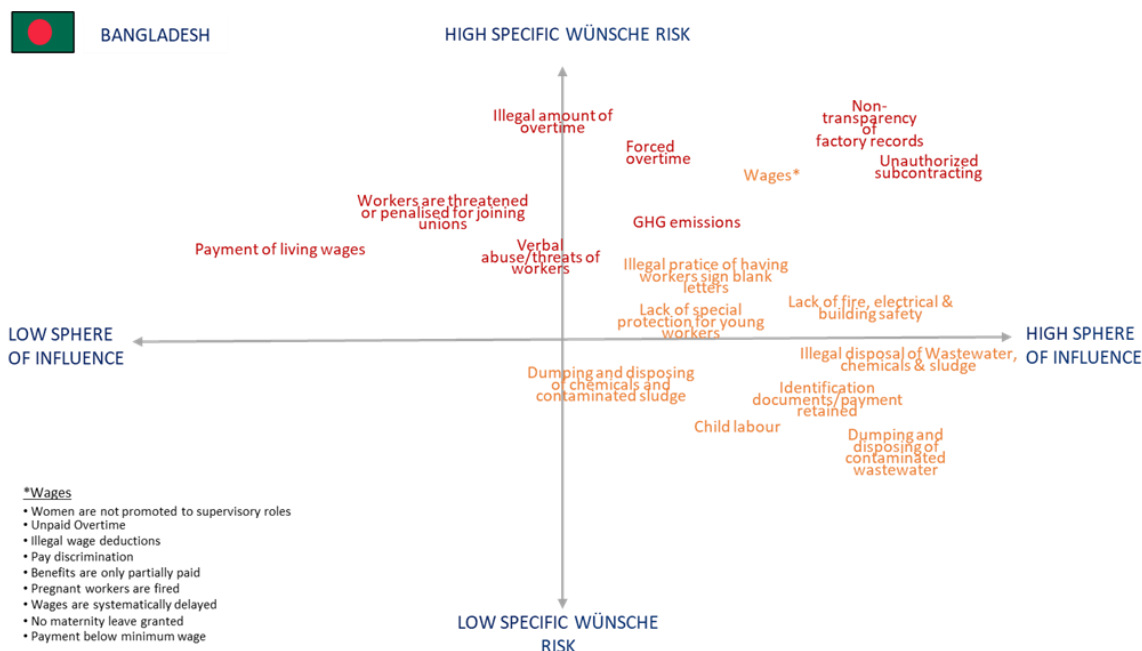
The starting point of our analysis is the countries from which we procure textile products. For these countries, we first identified risks using publicly available indicators (e.g. BSCI Risk Classification, Corruption Perception Index, and the Human Development Index). Enriched by information from our own supply chain, and with reference to the OECD Sector-based and specific country risks, we generated the first categorization of gross risks.

With the help of the analysis of our producer's BSCI Audit Reports, already existing mitigating measures, and specific information about our business model, we then determined the respective net risks.

In the next step, specific risks for the Wünsche Group were derived from the net risks, by analyzing the Wünsche Social Audits, our product risks, and the assessment of our local CR Teams. Then, the risks were further categorized according to the following criteria: the probability of occurrence, severity, and irreversibility.

As a last step, we focused on our main sourcing countries, Bangladesh, China, and Pakistan, where 90% of our Tier 1 textile factories are located. For these countries' high and moderate risks, we then examined if they fell under our sphere of influence.

3.1 Sourcing Country: Bangladesh



For Bangladesh, we have defined the following measures for our prioritized risks, according to our level of influence:

Unauthorized Subcontracting:

- Asking for and documenting supply chain information from each production site prior to the start of the contract.
- Initiating and driving the topic of responsible purchasing practices in strategic discussions with our internal purchasing department and with our customers.

Wages and Overtime:

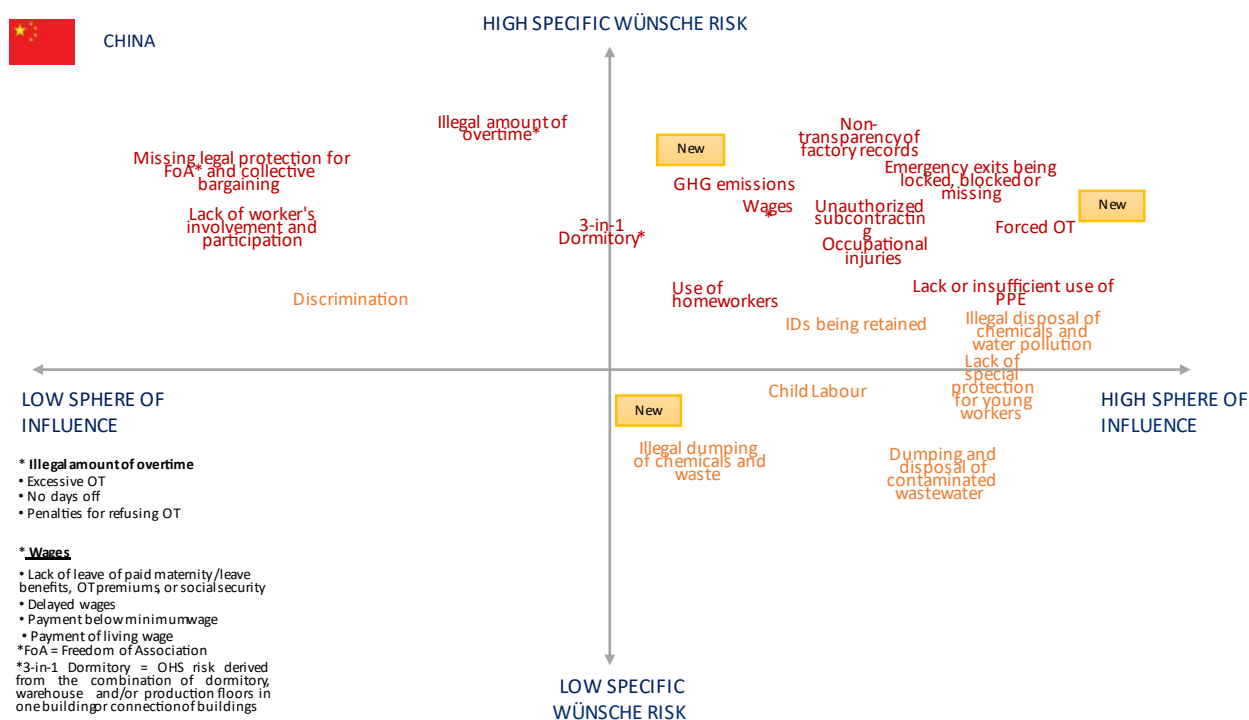
- Continuous evaluation of the use of and improvement of the Wünsche grievance mechanism, as well as the amfori BSCI grievance mechanism after its implementation.
- Applying the tools and skills that we have learned from participating in capacity building projects, such as the AFA Project, to train and assist additional factories.
- Working closely with our purchasing department to avoid as many pandemic-related order cancellations and reallocations as possible.
- Continuation of internal audit activities and follow-up on corrective actions, with a focus on wages, as well as timely and complete payment of overtime.

Non-transparency (of Factory Records):

- Continuation of internal audit activities and follow-up of corrective actions, with a focus on transparency.

We have not formulated any explicit measures for the remaining risks, as our ability to influence them is limited due to either the structural nature of the risk or our business model, or they are already being addressed by mitigating measures.

3.2 Sourcing Country: China



We plan to address the main risks in China with the following measures:

Non-transparency (of Factory Records):

- Creating trust through long-term supplier relationships and taking this aspect into account in purchasing decisions.

Unauthorized Subcontracting:

- Asking for and documenting supply chain information from each production site prior to the start of the contract.
- Initiating and driving the topic of responsible purchasing practices in strategic discussions with our internal purchasing department and with our customers.

Occupational Health and Safety:

- Through our audit activities and the follow-up of the corrective action plans of our factories, risks can be captured and remediated. A longer-term supplier relationship would support this process.

Improper Disposal of Chemicals and Water Pollution:

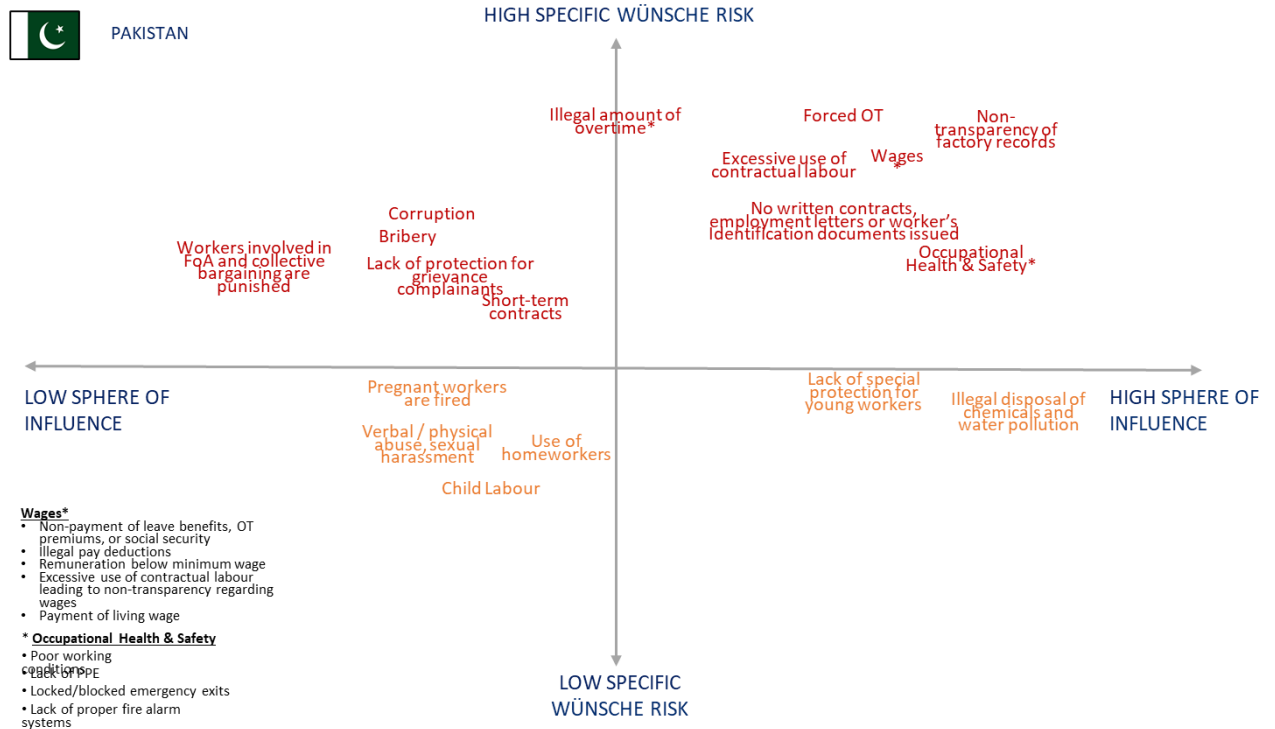
- Continuing and, if necessary, expanding Wuensche DETOX-Audits.

Occupational Health and Safety of Young Workers:

- Placing greater focus on this aspect in our Wuensche Social Audits and other audit activities.

We have not formulated any explicit measures for the remaining risks, as our ability to influence them is limited due to either the structural nature of the risk or our business model, or they are already being addressed by mitigating measures.

3.3 Sourcing Country: Pakistan



In Pakistan, we plan to address the main identified risks with the following measures:

Non-transparency (of Factory Records):

- Creating trust through long-term supplier relationships and taking this aspect into account in purchasing decisions.

Unauthorized Subcontracting:

- Asking for and documenting supply chain information from each production site prior to the start of the contract.
- Initiating and driving the topic of responsible purchasing practices in strategic discussions with our internal purchasing department and with our customers.

Wages and Overtime:

- Continuation of internal audit activities and follow-up on corrective actions, with a focus on wages, as well as timely and complete payment of overtime. In addition, contractual labor (a prevalent form of employment in Pakistan) and its documentation will also be focused on.
- Pushing for transparent, consistent documentation of working hours and payroll, including contract labor.

Occupational Health and Safety:

- Through our audit activities and the follow-up of the corrective action plans of our factories, risks can be captured and remediated. A longer-term supplier relationship would support this process.

We have not formulated any explicit measures for the remaining risks, as our ability to influence them is limited due to either the structural nature of the risk or our business model, or they are already being addressed by mitigating measures.

To address risks in which we as a stakeholder have little influence over, we take the opportunity to engage with other stakeholders, for example, in the form of working groups or industry initiatives. Examples include our involvement in the amfori Working Group “Grievance Mechanism” (details under Section 7) or our membership in the ACCORD on Fire and Building Safety/RMG Sustainability Council (RSC) in Bangladesh (details in Section 4.1).

We are aware that the risk analysis is only a snapshot of a certain point in time and that a reassessment of the risks must be carried out regularly as part of our corporate due diligence.

4 Wuensche Social Compliance Monitoring System

Through means of our purchasing strategy, we believe that we have the greatest amount of leverage for initiating sustainable changes in our supply chains. Therefore, we already act responsibly during the order placement process.

In order to do business with us, every factory must have (at the very least) a valid social audit. Without being able to examine and review the audit report, we will not allow for this main production facility to join our factory pool. Furthermore, we do not tolerate any forms of child labour or forced labour. As a member of the amfori Business Social Compliance Initiative (BSCI), we commit ourselves and our partner factories to respect basic human rights, which we additionally verify via means of internal Wuensche Social Audits.

The amfori BSCI, a joint initiative developed within the framework of the European Foreign Trade Association, aims to improve fundamental social standards in global supply chains. The initiative, therefore, aims to set uniform minimum social standards, and to monitor and uphold the compliance of these standards through an auditing system. As a member of the amfori BSCI, we are committed to ensuring that main production sites comply with the principles of the amfori BSCI Code of Conduct (you can find the amfori BSCI Code of Conduct [here](#)).

All main production facilities used for the Wuensche Group orders must have a BSCI audit conducted by a third party and of which is valid for the entire time of production. Other reports based on industry accepted standards (e.g. SEDEX, FLA, SA8000, Better Work, ICTI etc.) may apply, but need to first be reviewed and are subject to the approval of the CR department. The audit result must be at least a BSCI "C" or equivalent. The audit report must be provided, latest, at the time of order confirmation and may not have any "zero tolerances".

The following shortcomings are considered as Zero Tolerances (ZT):

- Bonded labour
- Child labour
- Coercion abuse or harassment of workers
- Confirmed cases of financial bribery
- Denied access
- Discrimination
- Fatal threat to workers life or limb
- Financial bribery or threats towards auditors
- Infringed workers' right to organize
- Lack of valid licenses
- Non transparency of conditions
- Non transparency of production facility
- Observed coercion or harassment of workers
- Precarious employment
- Systematic payment below legal minimum wages
- Systematic unauthorized subcontracting
- Systematically delayed payment
- Unauthorized disposal and illegal dumping of chemicals, wastewater or sludge
- Unauthorized subcontracting

- Wage deductions leading to payment below minimum wage

In addition to BSCI audits, we conduct our own internal audits in order to verify a factory’s compliance with our CR requirements. In general, there are three types of visits our CR team conducts within in the social compliance monitoring system:

Wuensche Social Audit	Wuensche Production Tracking	Irregular Factory Visits
<ul style="list-style-type: none"> • Focus is to assess the CR performance of the factory • At least once per year for all PF • Usually announced • Report: Wuensche Social Audit 	<ul style="list-style-type: none"> • Focus is to identify subcontracting risk • Frequency as needed • Unannounced and announced • Report: Wuensche Production Tracking 	<ul style="list-style-type: none"> • Specific focus e.g. ACCORD, training • Frequency as needed • Usually announced • Report: Wuensche Factory Visit

The main objective of these visits is to achieve full transparency with regards to the working conditions in the Wuensche Group’s supply chain (mainly Tier 1). This transparency is a prerequisite for developing and maintaining a sustainable supply chain. The order in which internal Wuensche Social Audits are conducted are prioritized according to specific criteria, such as business relevance or specific CR risks. It is in the sole discretion of the CR headquarters to lay out the criteria by which internal audits must be conducted. Our goal is to conduct internal audits annually in all factories that are considered a priority. In general, our Wuensche Social Audits are announced, but they can also be unannounced if deemed necessary. The Wuensche Group CR also reserves the right to conduct audits in BSCI non-risk countries if required.

A significant part of our work begins after the audit. Together, with our suppliers, we work on remediating any identified shortcomings. Our approach is based on achieving continuous improvement through the transparent and trusting relationships that we have with our suppliers.

Should, however, shortcomings systematically not be satisfactorily remediated, the business relationship with the factory may be suspended temporarily or terminated permanently.

4.1 Additional Prerequisites for Production Sites in Bangladesh

The Wuensche Group is a signatory of the international ACCORD for Fire and Building Safety in Bangladesh / RMG Sustainability Council (RSC) in Bangladesh, which proactively contributes to achieving a safer textile industry in Bangladesh. The international ACCORD is a multi-stakeholder initiative that aims to eliminate instable buildings which endanger the many textile workers in Bangladesh. To read more about the ACCORD, please visit www.internationalaccord.org.

All the Wuensche Group's partner factories in Bangladesh must be covered by the ACCORD. If a Bangladeshi factory is working with us for the first time, it cannot be escalated under the ACCORD¹ and the implementation rate of their corrective actions must be 80% or higher.

4.2 Unauthorized Subcontracting

One of our goals is to have complete transparency when it comes to the conditions of factories within our supply chain. This includes being able to know, at all times, where which product is being manufactured. Therefore, Wuensche Group production facilities are strictly prohibited from subcontracting any part of the production to other facilities that are not previously specified in the respective purchase agreement unless prior written consent from the Wuensche Group has been given. Consent to subcontract shall be at the sole discretion of the Wuensche Group. Systematic unauthorized subcontracting is considered a zero-tolerance violation for the Wuensche Group and may – as a last resort – lead to the termination of the business relationship with the production site.

¹ The ACCORD uses an escalation protocol consisting of 3 levels of escalation. If a factory has been escalated to level 3 under the ACCORD, all signatories must stop doing business with the factory.

5 Protection of the Environment

We are aware of the fact that any activity - business or non-business - may have a negative environmental impact. That is why we are committed to using natural resources responsibly in our supply chains, as well as in our offices.

Within our supply chains – specifically our textile supply chain – we assist wet manufacturing facilities with their chemical management. Our employees advise the factories on how to manage the use of chemicals during the washing or dyeing processes in a way that is environmentally friendly and appropriate. In this way, we actively contribute to minimizing some of the negative impacts within our supply chain.

We require each wet production site to have at least one wastewater treatment plant (either an on-site treatment plant or by discharging wastewater into a public treatment plant). If existent, national laws and regulations for sewage sludge, chemicals, waste and wastewater disposal must be strictly adhered to. It is strongly recommended that relevant wet production sites have a functioning chemical management system in place. Again, our on-site staff supports our suppliers and their wet production sites in establishing such a system through means of on-site visits, corrective action plans, and technical assistance.

In addition, we support many of the production sites we use in implementing a certified environmental management system.

The environmental management at the Wünsche Group, is continuously working on improvement measures. For example, in 2017 we started to record and report our relevant greenhouse gas (GHG) emissions for the Group. Having gained insight into our GHG footprint, we are now setting reduction targets and developing appropriate measures to implement them. We are continuously refining these targets and measures, following the EMAS standard.

6 Product Responsibility

Through our efforts to provide sustainable products to our customers, we continue to take responsibility for the environment. Through the use of sustainable materials, product certifications, and packaging, we aim to reduce GHG emissions and minimize waste.

In addition to ensuring a certain quality criterion, we currently use the following product certifications for certain products within the Wuensche Group:

Certification	Social Criteria	Environmental Criteria
GOTS (Global Organic Textile Standard)	✓	✓
Better Cotton Initiative	✓	✓
Cotton made in Africa	✓	✓
Forest Stewardship Council®	✓	✓
GRS (Global Recycled Standard)	✓	✓
OCS (Organic Cotton Standard)		
RWS (Responsible Wool Standard)		

7 Grievance Mechanism and Access to Remedy

To give our stakeholders the opportunity to address us regarding a violation of our Code of Conduct and/or our CR values, we plan to introduce a grievance mechanism. For us as an internationally active group, this means establishing contact options and infrastructure to adequately follow-up on any grievances worldwide— a challenge we believe that we cannot overcome alone.

Through our Bangladesh ACCORD/RSC membership, workers in our factories have the opportunity to submit grievances, which, if they relate to occupational health and safety issues (OHS), are handled by the ACCORD/RSC. If the grievance is of non-OHS origin, the ACCORD/RSC will contact the Wuensche CR team. Our CR team then will follow up and remediate the grievance. Through our experience with this successful grievance mechanism in Bangladesh, we are now seeking a collective solution for all our sourcing countries through our amfori BSCI membership. Amfori BSCI is currently developing a grievance mechanism for all its members, which we are actively involved in designing it as part of a working group.

Until this final solution becomes available, we are bridging this gap by creating an email address (grievance@wuenschegroup.de) that will be publicly available on our website for stakeholders to raise any concerns. In addition, our social auditors will be provided with business cards which include the grievance email address that they can proactively distribute during factory visits. We see this interim solution as an important first step towards a long-term, functional grievance mechanism. In 2021, there were a total of five complaints at our production sites in Bangladesh. These were all non-OHS complaints filed through the ACCORD grievance mechanism. No complaints were received through the other two channels.