

SOCIAL REPORT 2021



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1981 Oberalp Group Spa is founded



1990 Oberalp acquires SALEWA; a multi-specialist for mountain & alpine sports



2003 Oberalp acquires Dyanfit; the most important global brand for ski touring gear and equipment



2011 Oberalp acquires Pomoca; the global leader in ski skin manufacturing



2012 Oberalp acquires Wild Country; an insider brand for climbing apparel & equipment



2013 Salewa, Dynafit & Wild Country become Fair Wear Foundation members



2016 Salewa, Dynafit & Wild Country become Fair Wear Foundation LEADERS

2019 Oberalp acquires Evolv; an American brand for climbing shoes



2020 Oberalp launches a new mountain sports brand for women only



Headquartered in the heart of the Dolomites

in Bolzano, Italy, the **Oberalp Group** is a leading provider of outdoor, technical apparel and equipment for mountain sport enthusiasts.

Today, it owns six brands, **Salewa, Dynafit, Pomoca, Wild Country, Evolv, and LaMunt** and also acts as EU distributor for other internationally recognised sports brands.

2021 was another intense year, full of challenges and uncertainties. Covid-19 continued to impact our supply chain, but in spite of this we managed to achieve very good results in monitoring and improving working conditions in our factories.

Despite the pandemic, local quality controllers based in Bangladesh, China, Myanmar and Vietnam continued to visit our production plants, ensuring closer monitoring when audits were often impossible.

In order to enable our suppliers to better organise their production, make sure they purchase the necessary material in advance, we anticipated forecasts and extended lead times. These actions were not always sufficient to allow good production management and sometimes our suppliers delivered goods late. In these cases, we never applied penalties and negotiated discounts.

Each country brought with it different challenges.

In both China and India, the risk of forced labour was detected and through careful investigation we were able to exclude it from our supply chain.

Myanmar was shaken by the coup d'état by the military junta, which led to numerous demonstrations. In the months that followed, violence escalated, and numerous deaths were reported. As soon as we heard about the coup, we immediately contacted suppliers to ask for an update on the situation in the country and the workers, seeking understanding and providing support where possible.

Vietnam was hit particularly severely by the fourth wave, which led to restrictions and factory closures in the most affected areas. We promptly started to collect information on local regulations in case of factory closures in Vietnam, and also asked our suppliers to fill in an in-depth questionnaire to collect detailed information on wage payments and government subsidies received by workers.

In addition to country-specific actions, we have pursued common initiatives throughout the supply chain.

Aware of the importance of freedom of association and the fundamental role of complaints, we conducted in-depth research through a questionnaire to assess the presence of these two aspects within factories. We focused on four points: workers, union and worker representation and grievance mechanism.

We also continued our efforts for the payment of a living wage. Carrying on the work of previous years, we analysed the results of audits focusing on wages paid at our suppliers. The road to living wage payment is still long and often the benchmarks are not entirely reliable. Therefore, we created our own target, which this year rose to 30 per cent above the legal minimum.

At the same time, we continue to implement the internal tool in which we monitor that we pay our suppliers sufficiently so that they can recognise the living wage to their workers.

This year, Fair Wear Foundation reclassified Italy as a high-risk country, falling under the requirements of regular monitoring. In the country, we have created strong and long-lasting ties with the factories through constant dialogue and monitoring activities made easier by the presence of our headquarters in the same territory. In our visits to the facilities, we have seen that the working conditions are good. Following the result of our risk assessment, we continue to consider Italy as a low-risk country.

Despite the difficulties, we managed to actively monitor 91% of our FOB volume.

We have also worked on the results listed in the Corrective Action Plans provided with the audits conducted over the past three years. The resolution of non-compliances during this difficult period was facilitated by maintaining long-term relationships with our suppliers (5 years or more), who account for 69% of our FOB volume.

Our efforts were recognised by the Fair Wear Foundation, which confirmed our Leadership for the sixth consecutive year.

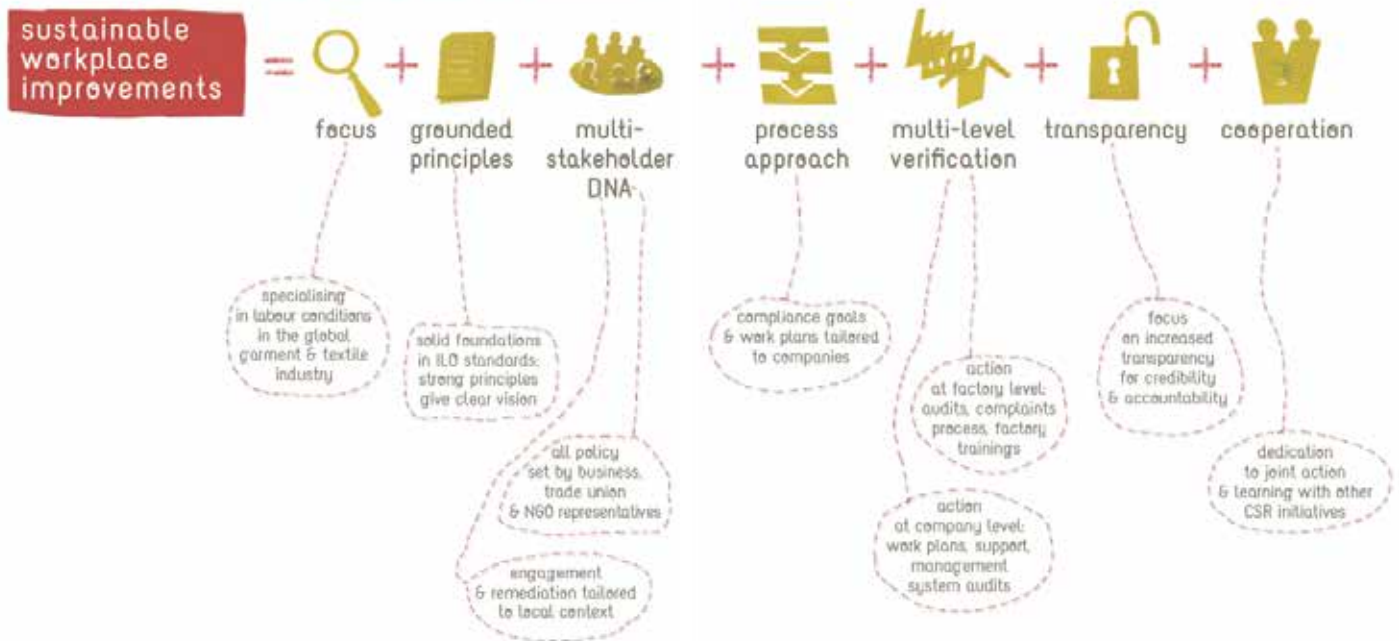
Holding the Fair Wear Foundation leader status since 2016 makes us proud, and at the same time it signifies an increased level of responsibility - not only to maintain this prominent status, but also to continue our duty to improve conditions in the factories.

Our efforts were recognized by the Fair Wear Foundation, which confirmed our **Leader Status** for the sixth consecutive year. It makes us proud, and at the same time **it signifies an increased level of responsibility.**

Our most important partner in the improvement of workers' wellbeing in the factories is Fair Wear Foundation (FWF). Dedicated to transparency and improving working conditions in our supply chain, Oberalp has been a member of FWF since 2013. Within the framework of the FWF system and the collaborative approach and the constant evaluation it entails, we have been able to make good progress. An important recognition of this came in in 2016, when FWF granted us the Leader status as a result of our concerted effort to support and integrate social compliance into our operations via ongoing due diligence, informed sourcing and purchasing practices, monitoring and remediation activities, internal and external training and capacity building, information management, and efforts towards greater transparency.

FWF is a non-profit organization that collaborates with brands, factories, trade unions, NGOs, and sometimes governments to improve working conditions in supply chains where sewn goods are made. The scope of FWF focuses on the cut and sew processes related to the production of textile goods, as they believe this is where the greatest positive impact can be made. At present, the FWF concentrates its efforts in 11 apparel producing countries in Asia, Europe, and Africa – Bangladesh, Bulgaria, China, India, Indonesia, Macedonia, Myanmar, Romania, Tunisia, Turkey, and Vietnam.

The Fair Wear formula



Source: Fair Wear Foundation

Cooperation in the framework of our FWF membership entails the monitoring of all factories making our products in the implementation of the Code of Labour Practices:

FAIR WEAR the 8 elements of Fair Wear's code of labour practices

- 1** Employment is freely chosen (Icon: Two hands shaking)
- 2** Freedom of association and the right to collective bargaining (Icon: Two hands raised together)
- 3** No discrimination in employment (Icon: Scales of justice)
- 4** No exploitation of child labour (Icon: Hand holding a child's hand)
- 5** Payment of a living wage (Icon: Hand holding a banknote)
- 6** Reasonable hours of work (Icon: Clock face)
- 7** Safe and healthy working conditions (Icon: Shield with a checkmark)
- 8** A legally binding employment relationship (Icon: Stacked documents)

Source: Fair Wear Foundation



Photo – Factory 5843 in Bangladesh

SOURCING

We do not own any factories and therefore, our products are manufactured at external facilities. Our broad product range for all brands is broken down into 2 key divisions: apparel, and a unit which concentrates footwear, equipment, and technical hardware, both based in Italy and shared between offices located in the Dolomites and in Montebelluna. Dynafit Ski-touring bindings and a part of the brand's equipment are managed from our German offices in Aschheim. The focus of this report, and of our Social Compliance efforts in the framework of our partnership with FWF, pertain to the factories where cut and sewn goods are produced.

Planning, sourcing, and purchasing activities are conducted independently by the different divisions. Each division has its own internal structure, sourcing strategies and partners; *however, common to all is the integration of due diligence and social compliance responsibilities throughout each of the respective teams, and with all suppliers, whether they be the factories* directly, or agents who act as intermediaries between us and the factories. In cooperation with the Sustainability team, sourcing and costing managers are regularly briefed about local living costs, potential hazards and risks, and actual working conditions so they are empowered to make informed decisions.

Our sourcing strategy and supplier relations management are based on established procedures, where transparency, monitoring and collaboration are essential. Because we do not own the facilities where

our products are made, and because many of them are located in far-away countries, with different cultures and political systems, with uneven coverage or guarantees on legal protection and social security measures, and especially with different degrees of dialogue and circumstances enabling equal treatment or advancement of workers' living standards, our sourcing (beginning, maintaining and ending the collaboration with our suppliers) operates under a Responsible Business Conduct (RBC) as intended in the OECD's "Due Diligence Guidance for Responsible Business Conduct", as a way to level ground, as much as we can. We are aware that the possibilities we have are limited, because of geographical distance but also because of economic circumstances, namely our size compared to that of some suppliers. But we are convinced that good management practices on our side, open discussion about shared values and social standards that must be upheld, and collaboration with competitor brands and stakeholders who want to improve workers' lives, lead to change for the better. This is why our due diligence procedures are integrated in our policies and operation systems; updated and regularly revised to reflect and address actual or potential adverse impacts on RBC issues; geared at ceasing, preventing or mitigating them; monitored through instruments to track implementation and results; communicated through this report and FWF's Brand Performance Check on how impacts are addressed; and appropriate to enable remediation when required.

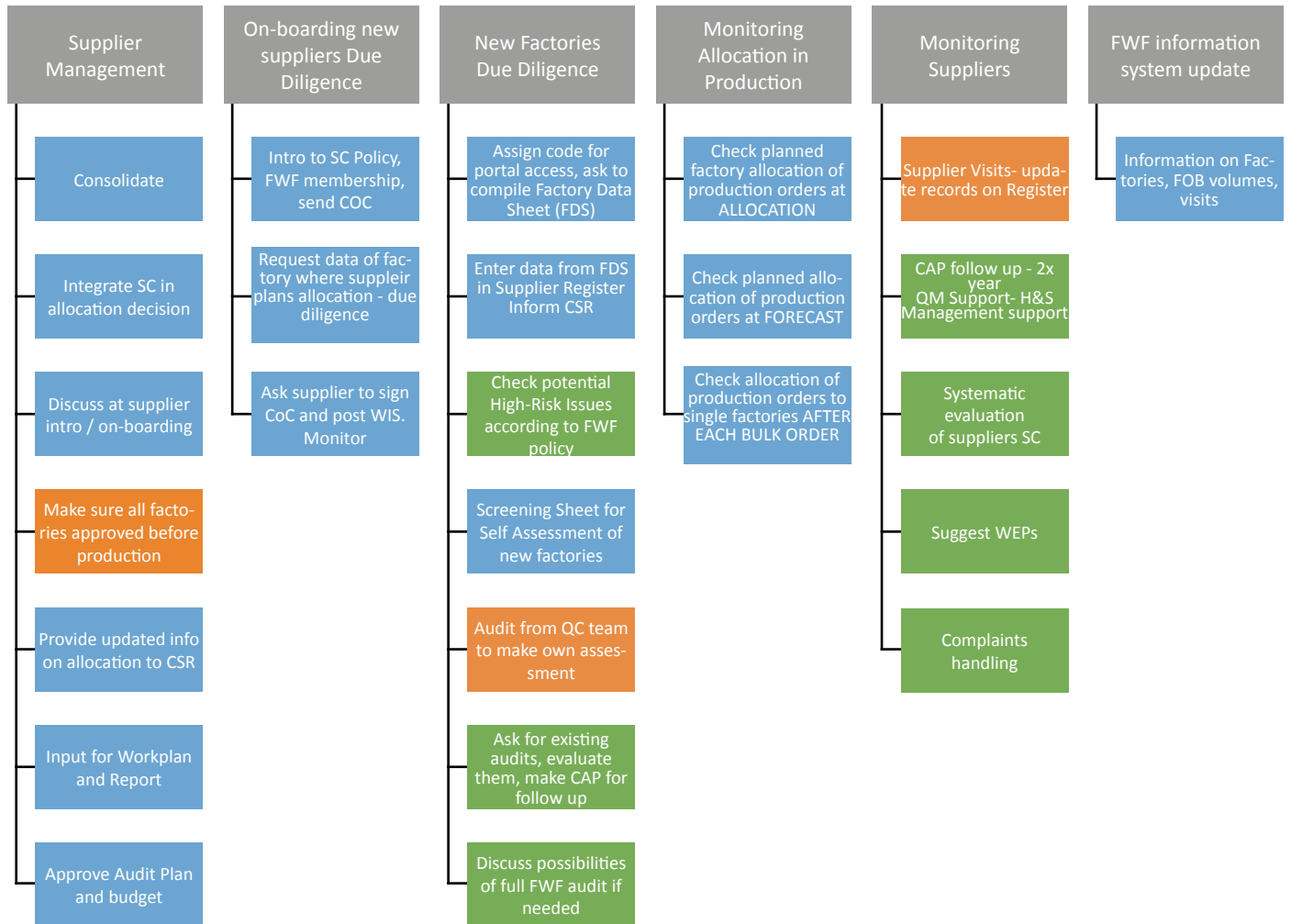
Our 2 Key Divisions

APPAREL (menswear, women's wear, accessories, denim, knitwear)

FOOTWEAR, EQUIPMENT (shoes and boots, tents, backpacks and bags, sleeping bags)

and **TECHNICAL HARDWARE** (cords, ropes, slings)

Integrated Monitoring Activities & Sourcing Decisions



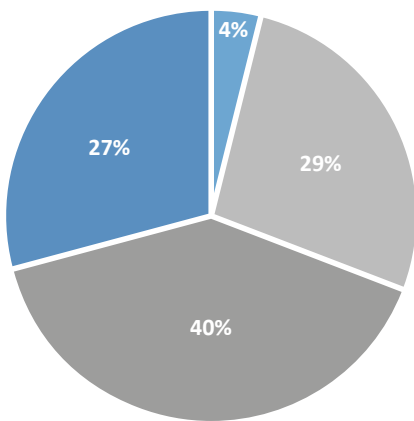
Sourcing
Planning
Purchasing
Quality Management
Sustainability

Supplier Relations

Long & stable Supplier Relationships - One of our primary objectives in regard to supply chain management, is to establish long-lasting relationships with our suppliers, with the aim for the maximum mutual benefits. This year, 29% of our total FOB volume came from factories we've been working with for more than 5 years. To grow successfully as a company, it is important that we cooperate with partners who also continually strive to grow and improve.

Those that, like ourselves, aim to better their social and environmental standards in their own operations and beyond. We see it as our role to encourage and facilitate dialogue that seeks to align our own values and goals with those of our suppliers, internally and in their business relationships with their partners. This on-going process is central to our social compliance efforts and demands our constant monitoring and evaluation.

In 2021, 2/3 of our total FOB volume came from factories where we hold long-term relationships



	2018	2019	2020	2021
More than 10 years	41%	30%	31%	29%
5 to 10 years	33%	45%	44%	40%
2 to 4 years	21%	9%	21%	27%
1 year or started in 20	5%	16%	4%	4%

Starting relationships with new suppliers - There are occasions when it becomes necessary to start a business relationship with a new supplier. This decision generally occurs for several different reasons, or a combination of different factors. In some cases, it is motivated by our own quality or technical requirements, or in others, we have to replace a supplier who did not meet our standards. Existing suppliers are evaluated at least twice a year on all aspects of their performance including: results obtained in audits and monitoring, cooperation to observe corrective action plan remediation, the implementation of our CoC, quality performance, and timeliness of deliveries.

Unfortunately, when actual working conditions do not meet basic health and safety standards, and/ or the supplier is unwilling or unable to demonstrate genuine change, it becomes imperative that we look for an alternative. The final decision to work with a new

supplier is the result of an in-depth discussion between the division managers, the sourcing staff, costing and production managers, the quality department, production managers and developers, and the Sustainability team.

There are also instances where the decision to begin cooperation with a new supplier is not of our initiative, and this may happen for three reasons: our partners may shift their production by opening new factories, close down their facilities or end the business relationship with us.

In 2021, we started working with 11 new factories.

In one case, it was our supplier's decision to allocate our production in another facility. The reasons for the start of most of the other new business relations were the need for new technical or specialised partners. For the remaining three factories, the cause of the start was the termination of our collaboration with another supplier and a strategic decision.

All factories we on-boarded in 2021 fulfilled our due diligence requirements

All new suppliers go through the following **due diligence process and fulfil the following requirements:**

- Sign our CoC and commit to its implementation;
- Complete a self-assessment on CoC compliance, provide full supplier and factory data, with an overview of their structure and other factories they work with – whether owned or subcontracted.
- Provide past audits done by third party organizations;
- Pass a QC inspection from our staff before production starts;
- Post FWF’s Worker Information Sheet (WIS) see point 1: a document containing the main 8 Labour Standards in local language for employees to view, and an address where workers can directly contact FWF to raise complaints which they deem they cannot solve in the factory;
- Bangladesh: show serious commitment to guaranteeing workers safety in the factory by agreeing to our ‘Bangladesh sourcing policy’. Even if the Accord on Fire and Building Safety is no longer active, factories must keep working on the CAPs findings.

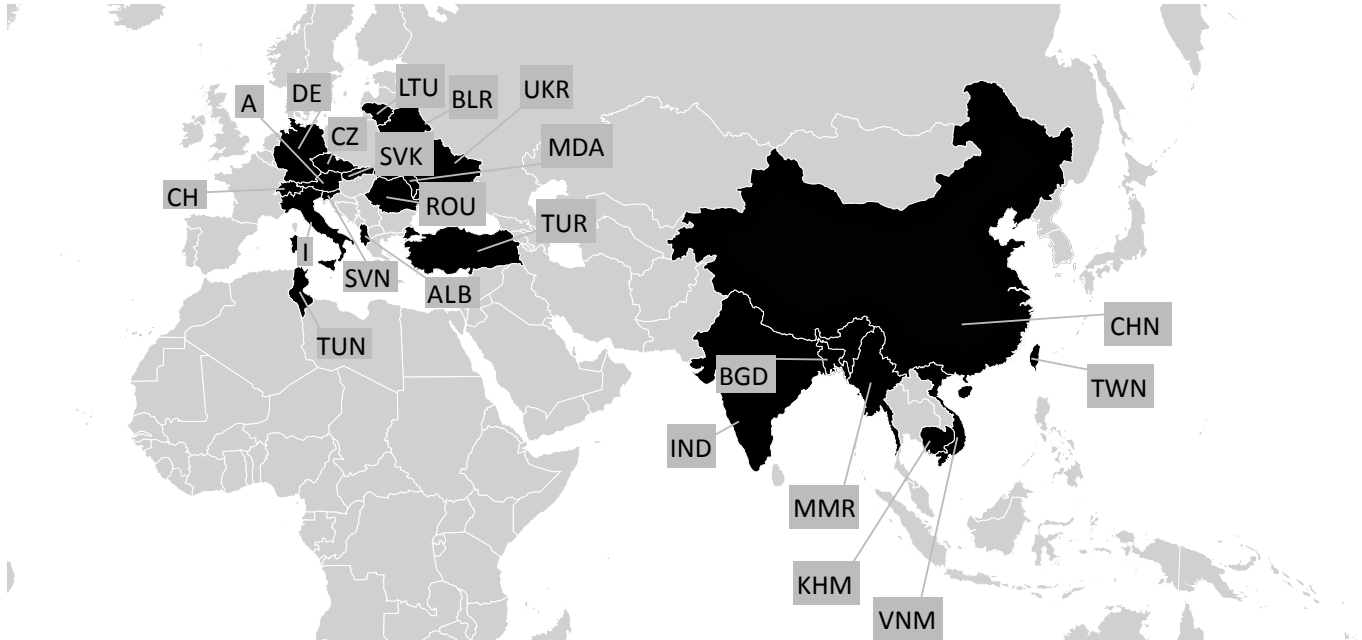
Between 2020 and 2021, we ceased sourcing at 16 factories. The motives for ending the cooperation are linked to our wish to consolidate the allocation of our products or the supplier's difficulties to meet our requirements. Before phasing- out from a facility, we try to find a common solution to continue the collaboration, but in some cases the only possibility is to terminate the partnership. When it happens, we communicate our decision to the supplier enough time in advance and to make sure that our choice to move elsewhere does not have a notable negative impact on the workers.

Our supply chain consolidation remains central to our sourcing strategy. Having less suppliers enables us to achieve two key goals: improve the quality of our communication and follow-up in the factories, and an increase in our influence, leading to a greater chance of successfully making changes for good in the workplace. During the pandemic it was hard to continue working toward this goal. The 2020 crisis also had an aftermath in 2021 that made it more complex to carry our consolidation work forward at the pre-pandemic pace. Between 2020 and 2021 we were able to consolidate the number of factories by 4.5%, from 66 to 63.



Photo – Factory 5843 in Bangladesh

Production Countries



In 2021, our production took place in **22 countries** across the globe.

We maintain production partnerships around the world. FWF rates countries as being “high and low-risk” according to evidence of the occurrence, or an estimation of the likelihood, of workplace issues in regard to Social Compliance.

High-risk: Albania, Bangladesh, Belarus, Cambodia, China, India, Moldova, Myanmar, Romania, Taiwan, Tunisia, Turkey, Ukraine, Vietnam

75% of our factories are located in these countries

84% of our production volume (FOB) comes from high-risk countries

Low risk: Austria, Czech Republic, Germany, Italy, Lithuania, Slovakia, Slovenia, Switzerland

25% of our factories are located in low-risk countries

16% of our production volume (FOB) comes from these countries



Photo – Factory 5843 in Bangladesh

Our monitoring efforts in the factories where our products are made differ according to the countries where they are located.

FWF performs research and has constant exchange with its local stakeholders to assess each context, according to economic and cultural factors, the legal framework and the available mechanisms in place to protect workers’ rights in case of irregularities. The result of this assessment is the classification of sourcing countries as “low or high-risk”, and the consequential guidelines for members on: the level of surveillance required, the issues to tackle.

with priority, and special measures or assurances needed for due diligence. Our sourcing policy operates regardless of the location and its inclusion in the list of high-risk countries: we visit all partners frequently and apply the same Due Diligence practices.

In 2021, as the result of a series of concerns raised by Fair Wear and ETI brands sourcing in the country, and a research study where critical labour situations in tanneries and some textile assembly facilities in the country were found, Italy was reclassified by FWF as a “high-risk” country. According to the new classification, FWF requires us to perform “regular monitoring”. i.e., to monitor factories in Italy with a similar degree of vigilance as our Asian suppliers.

However, and following our Responsible Business Conduct (RBC) policy, risk assessment in the facilities that make our products in Italy led us to keep the “status” of Italian manufacturers as “low risk”. We have established strong and long-term links with the factories thanks to constant dialogue and to monitoring activities, made easier by the fact that we share the language and having our headquarters in the same territory. Factories have been quick and transparent in sharing information, and through collaboration and visits to the facilities we have concluded that the risks identified by FWF are not present in the facilities we cooperate with: with the exception of one factory, they are long-term partners with highly-automated processes i.e. not many sewing workers, and for the few people in the factory, working conditions are good. For the partners where this is not the case, we have commissioned a Social Audit for 2022, to corroborate the documents and our impressions of the factories.

In Italy, like in many other countries, production facilities may have different standards, and we only work with those that fulfil our high standards, offer good working conditions and respect human rights, and are committed to improvement. We are planning a short film that will allow our consumers to see how and under which conditions the garments they wear are produced in Italy.

In 2021 our products were made in the following countries:

High-risk:

Factory country	Percentage of our total FOB	Number of factories
Albania	0,68%	2
Bangladesh	15,69%	4
Belarus	2,18%	1
Cambodia	0,41%	1
China	14,65%	17
India	0,30%	1
Moldova	0,03%	1
Myanmar	4,59%	2
Romania	14,53%	2
Taiwan	0,10%	1
Tunisia	1,25%	1
Turkey	0,39%	1
Ukraine	0,03%	1
Vietnam	29,27%	12
TOTAL	84,10%	47

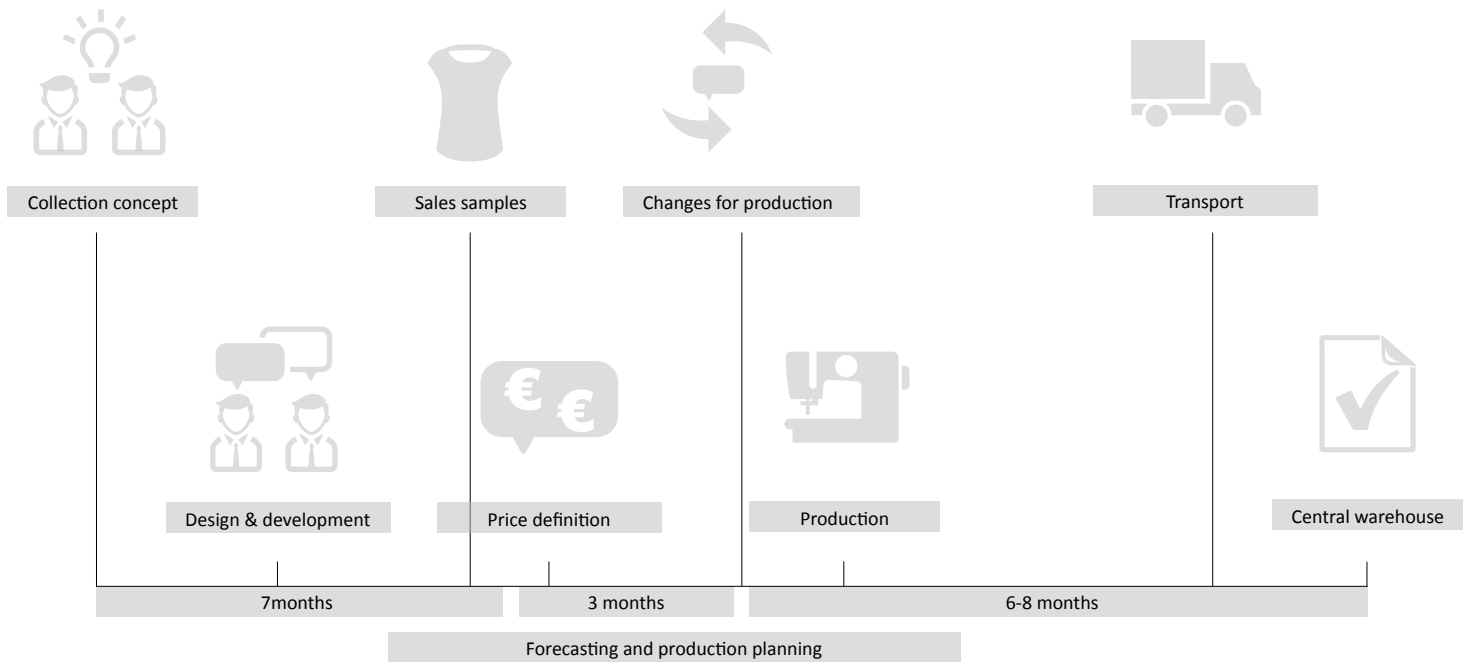
Low Risk:

Factory country	Percentage of our total FOB	Number of factories
Austria	0,07%	1
Czech Republic	0,99%	1
Germany	0,01%	1
Italy*	12,37%	8
Lithuania	0,46%	2
Slovakia	0,09%	1
Slovenia	0,86%	1
Switzerland	1,05%	1
TOTAL	15,90%	16

*We consider Italy a low-risk country after thorough due diligence on possible risks and analysis of the particular circumstances of our suppliers: long term partnerships, transparency, factory set-up, working conditions and our close monitoring through frequent visits to the facilities.

Production Cycle

Our production planning is informed by the **production capacity** of the factory, and is also based **according to style**. This allows for **substantial and flexible lead times** to avoid undue pressure to fulfill delivery dates. Furthermore, if / when the occasion arises we **accept delays** and **share the responsibility** if need be.



In agreement with our partners, we define a reasonable timeline including room for delayed fabric and accessory deliveries and considering important events and local holidays.

Holiday	Dates (2021)
ISPO fair	31 January to 03 February
Chinese New Year (China, Vietnam)	11 – 17 February
Ching Ming Festival (China)	04 April
Easter	04 April
Thingyan Festival in Myanmar & Burmese New Year	13 - 17 April
Golden Week (Japan)	29 April to 05 May
Eid ul Fitr (Bangladesh)	10 - 15 May
Aid El Fitr (Tunisia)	13 - 15 May
Dragon Boat Festival (China)	12 - 14 June
Outdoor ISPO	05 - 08 July
Eid ul Adha (Bangladesh)	20 - 24 July
Aid El Kebir (Tunisia)	20 – 21 July
Mid-Autumn festival (China)	19 – 21 September
Golden Week (China)	01 - 07 October
Water Festival (Cambodia)	18 – 20 November

Code of Conduct

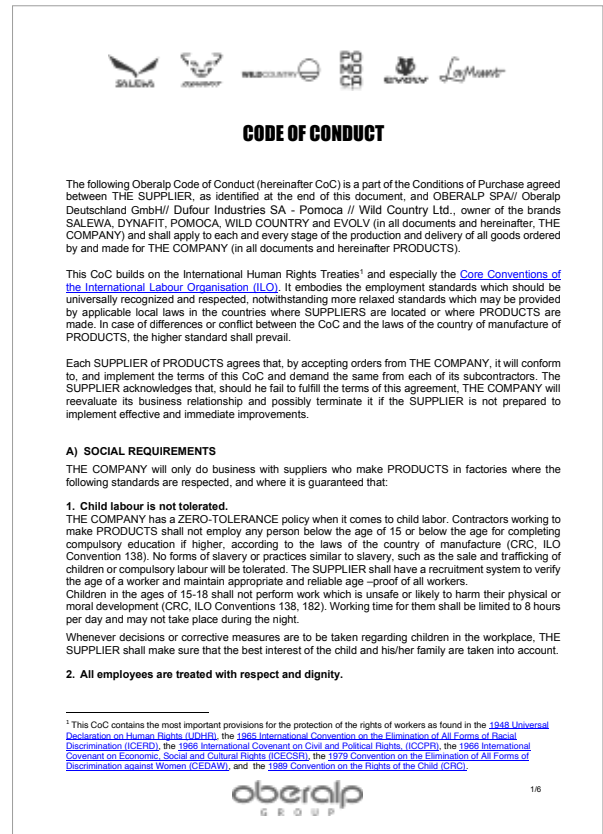
Building on the most relevant International Human Rights Treaties, particularly the Core Conventions of the International Labour Organisation (ILO), and in line with FWF's Code of Labour Practices, our own Code of Conduct sets forth the guiding principles and backbone of our company and all of our business relationships. At its core are the practices of RBC, both on our part and expected from our suppliers: geared towards sustainability and compliance, as well as ethical behaviour towards all workers at all stages of our business and supply chain. Moreover, it is an information tool for making all employees and suppliers aware of their rights and duties.

Our Code of Conduct

- Child labor is not tolerated
- All employees must be treated with respect and dignity
- Employment must be based on ability and no discrimination is tolerated
- Employment must be freely chosen
- Payment of a living wage must be guaranteed
- Hours of work must be reasonable; overtime exceptional, voluntary and duly paid.
- Working conditions must be decent and safe
- Freedom of association must be guaranteed
- The employment relationship must be formally established by means of a written contract

Additionally, our suppliers should implement an effective program and a system to tackle environmental issues in the factory, taking a precautionary approach. Starting in 2022, we will address environmental risks in our supply chain in a deeper and broader manner, and establish processes to better tackle, improve, track and report issues at suppliers: from the identification and assessment of risks, through to devising ways of addressing or remediating them in collaboration with our competitors and our suppliers, and ceasing, prevention or mitigation of these risks.

Our CoC also prescribes the need for suppliers to guarantee that their business practices are free from corruption, direct or indirect, including planned, attempted, requested or successful transfer of a benefit as a result of bribery or extortion.



Ensuring that our Code of Conduct is implemented

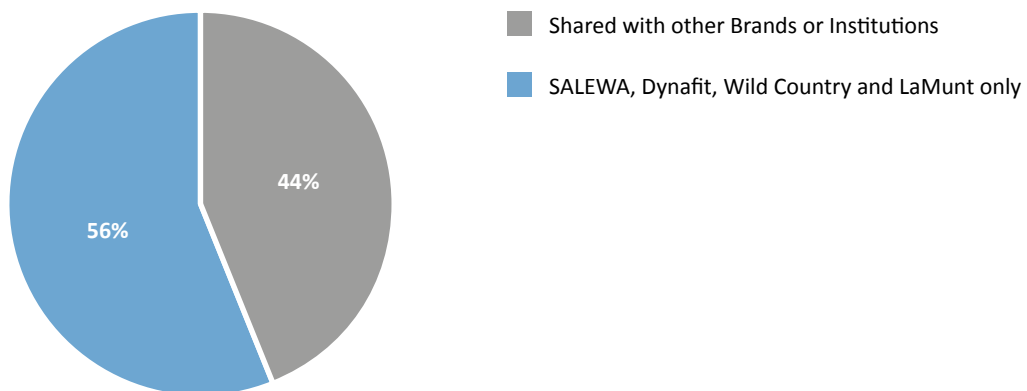
Social compliance and participation within the framework of our partnership with FWF is one of the key focus areas for our Sustainability team. We maintain a dedicated staff to manage these activities and respond to complaints immediately when they arise. Likewise, members of our quality control team, who visit our factories often throughout the year, act as our ‘eyes on the ground’ and are tasked with observing working conditions and informing the Sustainability staff when our Code of Conduct (CoC) and FWF’s Code of Labour Practices are not being adhered to. We monitor the implementation of our CoC and FWF’s Code of Labour Practices in all of our factories in four primary ways:

We stay informed - we collect, store, and maintain detailed information about each of our production sites, and factory sub-contractors.

We cooperate with other brands - operating with other brands in shared factories is a key part of our strategy to improve working conditions in our supply chain. Some of our partners are

located in far-away places or are much larger than our Company, and therefore our chances of driving change in the factories are small. Yet when we join forces with other brands sourcing in them, the positive effect is threefold: first, we *avoid audit duplication*, which in turn increases efficiency in three ways: by reducing costs, by following up on one single corrective action plan thus slimming the organization and ‘paperwork’, by having one brand on behalf of all the sharing ones to lead the communication and progress with the factory. Second, as a single brand we often do not have much influence in a factory; but when we collaborate with others, we are likely to amount to a more significant part of the production, which ultimately *enhances our bargaining power and the probabilities for positive outcomes*. A supplier will be more prone to making changes and investments to solve problems in the factories if it is an issue for more brands. And third, sharing best practices. Working with other brands allows us to see how others solve problems which come up in most factories, and thus create common methods and procedures.

In 2021, **44%*** of our audited volume was covered with shared audits.



* the decrease in the percentage is due to the limited possibility of conducting audits in 2020 and 2021

We maintain a dedicated framework for compliance in High-risk Countries - we require serious commitment from our partners in countries where specific and considerable challenges exist regarding the implementation of ethical labour standards. Factories in these countries must :

- Sign our CoC
- Post FWF’s Worker Information Sheet (WIS) in the local language, which includes the FWF’s Code of Labour Practices with the 8 labour standards and complaint hotline contact information
- Be open to regular social audits, either by FWF or an external auditing body as requested by us*
- Continue in a post-audit dialogue with the brand via Corrective Action Plan (i.e. CAP, with steps for remediation and timeline for action)
- Be prepared to make staff and workers available to participate in training sessions organized by us and carried out by FWF or other recognized organizations (Worker Education Programmes or trainings)*. These are valid for three years.

The decision to audit a factory is based on the following criteria:

Expired previous audit (audits are valid for 3 years)

Facilities that produce 2% or more of our FOB, with no valid (recent, full-covering all relevant issues, third-party) audit Facilities where our orders make up 10% or more of the production capacity, with no valid audit

Facilities in Myanmar or Bangladesh, with no valid audit

Facilities with recent complaints from workers or special challenges

Beyond auditing and corrective action plans, **worker trainings** aim to provide factory managers and workers with the tools they need to start an open dialogue about issues and opportunities in the workplace and about how to improve working conditions in the factory.

- Since 2015 we have conducted 21 worker trainings in factories in Bangladesh, China, Ethiopia, Myanmar, Romania, and Vietnam

*auditing and training activities have been reduced in 2020 and 2021 to limit the spread of the Corona virus.



Photo – Factory 5843 in Bangladesh

A summary of our monitoring in factories in High-risk Countries

Country*	Number of Factories in the country	Number of facilities audited 2019-2021 and follow up through corrective action plan	Percentage of our volume in the country covered with audits
Vietnam	12	9	95,6%
Bangladesh	4	3	97,5%
China	17	10	83,5%
Romania	2	1	99,9%
Myanmar	2	2	100%
Belarus	1	0	0%
Tunisia	1	0	0%
Albania	2	0	0%
Cambodia	1	0	0%
Turkey	1	0	0%
India	1	1	100%
Taiwan	1	1	100%
Ukraine	1	0	0%
Moldova	1	0	0%

A complete list of all our factories with the relative monitoring and remediation activities can be found in the annex at the end of this Report.

*Production countries are in descending order according to their share of our production volume (see the “production countries” section above).

**The data refers to third-party audits only. In the factories not covered by audits we have conducted our own assessment.

The internal audit process has been delayed for the collaborations started in 2020.



Photo - Factory 3919 in Vietnam

We source in Low-risk Countries where possible - in countries with stable pre-existing local laws and social security in place that ensure a good basis for fair and ethical working conditions, our level of surveillance is lower. However, we still require that factories operating in these countries sign our CoC and post FWF's WIS in the local language to inform workers of their rights. We also visit the factories regularly and make informal audits to ensure compliance with our CoC and FWF's Code of Labour Practices.

In 2021, between **low-risk**
and audited factories
we covered
91% of our **FOB value.**



Photo – Factory 12454 in Bangladesh

Ongoing challenges

Over the last nine years of our work with FWF we have seen considerable momentum, and while there have been notable improvements on all fronts, some pervasive issues remain. We believe the real strength of our work lies in the progress made on increasing transparency in the dialogue with our factories, crucial for identifying issues and making the necessary improvements, yet this is an on-going and gradual process.

Another significant challenge continues to be a fragmented supply chain, where, for some lines, we produce in many locations and with relatively small volumes of production regarding the factory's entire capacity. This translates into having little negotiating power, impacts our ability to effect positive change, and makes monitoring and remediation efforts increasingly complex. For this reason, we are continuing to put great emphasis into further consolidating our supply chain, which will remain in progress over the next few upcoming seasons.

As for the most pressing and persistent issues in our monitoring efforts, namely excessive overtime and achieving a living wage, even though we have invested much time and effort, effecting real change remains a challenge.

As last year, we found difficult to conduct audit and obtain reliable information. We were obliged by causes of force majeure to keep the "root-cause analysis project for reducing overtime" on hold. The factories' closures during the pandemic would have nullified our effort or at least limited the positive effects of our work., and the increase of demands of goods after the reopening would have provide us uneven data. On the other hand, we continued working on living wage. While audits show that the prices we pay are certain to contribute to wages well above the legal minimum wage, efforts to reach a living wage remain on-going. The means of assessing a living wage is complicated and requires a comprehensive overview of the costs of living relative to each of our factory locations. Reliable data is difficult to obtain, among other factors because, understandably, workers have different needs and expenses according to their usual living standards and expectations. Additionally, development and economic conditions evolve and consequently data changes, making our analysis all the more difficult.

Moreover, we encountered many other challenges during the year that we could not foresee.



Photo – Factory 5843 in Bangladesh

Country-specific challenges

China

In 2021, China faced two challenges: international outrage at the discovery and exposure of forced labour, and its consequences, namely the additional burden of verification and traceability of the supply chain, and the economic restrictions of some countries imposed as a consequence, and severe shortages of electricity.

From the autumn of 2020 through to the first part of 2021, western countries denounced the Chinese government for human rights violations and exploitation of the Uyghur population employed in the cotton harvest in the Xinjiang region.

Once the risk of cotton products being produced under forced labour conditions was highlighted, many brands refused to use the natural fibre from the region. China's response to the accusations of human rights violations was to boycott some of the multinational brands that had taken a stand by openly denouncing the practice and expressly refusing to source products from that region.

As soon as we became aware of the risk, we decided to take a closer look at our cotton supply chain. Within our collections, only a few products are created with this natural fibre. We learnt that no garment, whether produced in the past or in production at that time, had been made with cotton from the Xinjiang region. We also took assurances to the effect that our sourcing department refrains from doing so in the future.

The second challenge came from the end of September to November and was triggered by a market imbalance.

Following the reopening after the coronavirus pandemic, demand for goods from China increased. Therefore, the country's factories raised the pace of production, resulting in an explosion in the demand for electricity and a consequent rise in the price of coal. At the same time, Beijing imposed rules and restrictions on energy use geared towards making China's economy carbon neutral by 2060.

The two conflicting interests thus created an imbalance in electricity supply that triggered a series of blackouts. The government's imposition of factory closures and limitation of electricity supply in certain parts of the country triggered production delays that accumulated in all steps of the supply chain, which will most likely lead to higher prices. We checked which suppliers in our supply chain had been affected and found that they were those of textile production facilities. Fortunately, delays in production and delivery were not excessive, and our production team was able to manage them in collaboration with our manufacturers.

India

In early 2021, Fair Wear contacted us with a specific request: checking if we were sourcing from a list of spinning mills in Tamil Nadu in India.

NGOs SOMO and Arisa were conducting an extensive field research study, in close collaboration with their Indian counterparts, about the incidence and risk of forced labour in the South Indian textile industry, interviewing 750 textile workers in 30 spinning mills in various districts of Tamil Nadu. The report used the 11 indicators for forced labour developed by the ILO to assess the conditions of the workers. Of the 11 indicators, five were found to be most relevant: abuse of vulnerability; deception; intimidation and threats; abusive working and living conditions; and excessive overtime.

We received the draft of the research to assess whether we were indirectly sourcing and supporting the listed mills. The complete report was then published in May*.

The Indian state Tamil Nadu is a major hub in the global cotton-based textile and garment industry investigated in previous report aiming at mapping out risks and presence of ongoing violations of fundamental labour rights.

The draft chapters were based on interviews conducted in the second half of 2019 and early 2020 and they specifically looked at the recruitment process and working and living conditions of intra-state and inter-state migrant workers. After the Covid-19 outbreak, other interviews were conducted to evaluate the consequences of the crisis on the workers of the area.

For this research 750 workers. 464 men and 286 women, randomly selected, were interviewed.

The interviewed workers came from 11 different states and had poverty background that led them to take a job in the spinning mills. Most of the respondents were recruited through agencies or regional skill training centres. The vast majority of the interviewed workers lived in hostels: 645 out of 750 workers. Often, it was not the worker's choice but rather a management-imposed requirement where freedom of movement was limited.

After receiving the draft chapters, we immediately contacted our Operations Director to conduct an internal investigation. We asked all our Indian suppliers to share the names of the spinning mills they were sourcing from and all the subcontractors. We found that we were not using any of the spinning mills listed in the research conducted by SOMO and Arisa.

Myanmar

On 1 February 2021, the Burmese army seized power in a military coup, imprisoning Aung San Suu Kyi (de facto Head of State) along with the leaders of her party and declaring martial law.

The motives of the coup are linked with the November's 2020 elections, when the army chief Aung Hlaing and the generals claimed election fraud, after the military backed Union Solidarity and Development Party (USDP) lost by a landslide by becoming the opposing party of National League for Democracy (NLD).

The February event led to the creation of the Campaign for Civil Disobedience (CDM) a group of opposition activists that started to organised strikes and mass protests in the country.

Since the coup, hundreds of thousands of Burmese citizens have taken to the streets, regardless of the threat of tanks and gunfire.

In April, the National Unity Government of the Republic of the Union of Myanmar (NUG) was formed by NDL members and other parties. It became a government in exile supported by the Burmese citizens whose legitimacy has been recognised by the European Parliament. The following month, the NUG announced the formation of People's Defence Forces (PDFs) as its armed wing and launched an armed revolution against the military junta.

Days passed, and the violence against the demonstrators escalated and after two months there were at least 500 deaths and more than 2,600 arrests. By the end of the year, it was possible to count more than 1,000 protesters killed, and several thousands of people arrested. What started as civil disobedience has soon turned into a civil war across Myanmar.

The political and social instability had inevitably important economic consequences in the entire country.

Difficulties in shipping logistics and production slowdowns have halted the country's economic growth. The country's situation is further threatened by the decision of some companies to cancel orders or stop sourcing in Myanmar.

As soon as we heard about the coup, we immediately contacted the suppliers to ask for an update on the situation in the country and the workers, seeking understanding and providing support where possible. The utmost care has been taken to assess the impact of the coup and the martial law on the workers. We were mainly concerned by the endangerment of people life and safety, the loss of human rights, jobs and freedom of association.

Our collaboration with Burmese factories started in 2014 and currently part of our production is made in two manufacturing plants in the city

of Yangon. A member of our Quality Controlling team is Burmese and monitors the factories on a daily basis.

The country internet connection was slow, and communications were partly intercepted by the military. Despite this, the dialogue with the factory owners, the local management and our Burmese Quality Controller has been continuous. All the information we received, were then checked with all the three parties to assess their reliabilities.

Collaboration with other stakeholders has also been essential in being up to speed on the workers' situation in Myanmar. Continuous updates with Fair Wear Foundation and other brands that, like us, work with Burmese factories has helped us to exchange important information and has allowed us to stay alert and closely monitor possible violations of rights.

We have been highly concerned about the escalation of violence and the safety of our staff and factory workers. We have requested assurance from Factory Management that their rights were respected, that they could freely choose to participate in demonstrations, that their salaries were paid regularly despite partial bank closures and that no penalties or deductions were applied if they were unable to get to work due to roadblocks or dangerous situations. Both factories, we were sourcing from in 2021 had an active labour union or labour rights organisation and we made sure that workers could file formal complaint via hotline.

Already before the coup, we had run an advanced due diligence program to check suppliers for child labour and military connections. We further requested confirmation of this last aspect, asking our suppliers again if they had links with MEC, MEHL or other military bodies, and requesting a specific statement from their side to make sure they didn't support the Military junta. All our suppliers confirmed they had no links to the military.

However, one of our suppliers was listed in the "Report of the Human Rights Council on the economic interests of the Myanmar military" as a partner in a joint venture with MEHL.

This was also reported by Burma Campaign UK and indeed, the supplier was on the Dirty List of the NGO. Upon finding this out, we immediately informed our sourcing department and jointly questioned the supplier further. With the collaboration of all three parties, we were able to find out that at the time the factory was established in Myanmar, one of the subsidiary companies of the supplier had to make a joint venture with MEHL. After the Report of the HRC, the supplier decided to terminate all business relationships with the military in 2020 and took over all the stakes of MEHL. We informed Burma Campaign UK

about the development and, after reviewing the evidence, the ONG updated the list by deleting the supplier's name.

We have not stopped sourcing in Myanmar, and we are not planning to do so.

The situation in the country is very critical due to the political control of the military, making it therefore unavoidable that the military will benefit indirectly (through taxes, for example) from our dealings with local companies. Many NGOs are pledging for international companies to stop sourcing in Myanmar, and we have also asked ourselves what to do, from an ethical point of view. It is a difficult decision, but we believe that by collaborating with garment factories and monitoring that workers' rights inside the facilities are respected and improved, we can somehow contribute to making workers' lives better. In taking this decision, we are collaborating with local and international civil society stakeholders, such as SMART Myanmar, looking for ways to engage local worker committees or unions. The main goals of the involvement of these stakeholders are to hear workers' voices, actively foster participation, and dialogue mechanisms, get reliable and data from workers to better evaluate the conditions and the protection of human rights to really corroborate that we are improving workers' lives. Even more so in this difficult situation, the focus must be on the workers and their conditions. As reported by SMART representatives, due to other brands ceasing sourcing in the country, many workers have lost their jobs, adding further distress. If we leave the country, we will lose all connection and all possibility to contribute in any way.

Vietnam

The fourth wave of Covid-19 hit Vietnam with the Delta variant of the virus in late May. In the first weeks, the government imposed social distancing throughout the country, increasing restrictions only in the most affected areas.

The direction of government leaders was to maintain the productions running, temporarily blocking the factories where at least one worker was detected infected with Covid-19 or the facilities located in high-risk provinces.

Northern Vietnam recorded a high number of positives and the surge in cases led the government to close down some factories in the territory. At the end of June, one of the factories in Hanoi that produces our shoes was also put into a complete lockdown due to the increase in infections (59 F1 cases, 291 F2 and over 3000 F3).

Another main epicentre of the contagions was in Ho Chi Minh City, where another of our partners' factories was locked down in early July.

The activities of the factories still open were also slowed down due to quarantined areas blocking workers.

The contagion situation soon escalated in Southern Vietnam: a 6 p.m. curfew supplemented social distancing and then became an obligation to stay indoors and only go out to buy necessities, eventually translated into a total lockdown.

The period of uncertainty lasted several weeks with constant extensions of closed periods, which led workers in some areas to choose between stay at the factory to eat, sleep and work (3-on-site) or stop working completely.

None of our factories followed the 3-on-site, but many were closed for weeks at a time, creating unstable situations for the workers as well. The government required suppliers to pay the legal minimum wage only for the first 14 days of the lockdown period. To receive further wage compensation, employees needed to negotiate with their employers and could also apply for one-time government support with a maximum of 3,710,000 VND for standard workers, 4,700,000 VND for workers with child under 6 years old and 5,710,000 VND for pregnant workers. If the factory was closed and did not sign the temporary suspension of contract or unpaid leave, the workers would have been eligible to apply another scheme that would have provide a financial support of 1,000,000 VND.

This information came to us thanks to Fair Wear and our Quality Controllers in the country. Thanks to these partnerships, we were able to deepen our understanding of the situation, which appeared complex and uncertain. In a constantly aggravating scenario, one of our main concerns was related to workers and their livelihoods. We found out that the workers had to cope with food shortages and the difficulty of paying housing costs.

At that point we decided to start investigating more to make sure that the workers had received the information they needed to apply for government aid, that they had received the wages they were due, and that they had negotiated with the suppliers the wages for the weeks when the factories would have been closed.

The other Fair Wear member brands in the outdoor industry sourcing from Vietnam had the same concerns and we decided to act united. We organised several calls to exchange the information we were receiving from our suppliers and to figure out what to do.

As a first step, we worked out which suppliers were common to limit the number of open conversations around the same topic.

We then brainstormed questions to ask the factories to gather as much information as possible about closures and payments.

At that point, we created a complete questionnaire to send to our supplier in the lockdown areas after having it cross-checked and translated by the Vietnamese country representative of Fair Wear.

Once we collected the completed surveys, we again met among brands to discuss the outcomes. We received many valuable information that helped us to get the general overview and there we discovered that most of the factories had been closed for over two months.

All our supplier had shared enough information with their workers so they could apply to the government aid, but not all have been able to pay the legal minimum wage after the first 14 days of closure, as required by the law. We also discovered best practices, for example

one of our suppliers could pay the legal minimum wage to all his workers for the first 45 days of closure.

We are now facing two difficulties; on the one hand we are trying to figure out how we could push the supplier to reconsider paying the minimum wage gap and on the other we are struggling to verify the data gathered. After mid-October, when all the factories had been able to reopen, Vietnam had still its border closed making impossible to visit the country. The auditing activities were stopped during the lockdown and the verification planned for that period were postponed to 2022. As soon as audits will be available again, we will verify the wage information. The group of outdoor brands have decided to openly share with Fair Wear the complete results of survey, and they are going to help us in cross-checking the data while auditing our suppliers next year.



A deeper look into wider challenges and the most pressing issues

Covid-19

The Covid-19 pandemic hit all the businesses hard and showed the fragility of the supply chain. To monitor and limit the impact on our partners, we put in place an advanced due diligence approach.

Our Sourcing Department has been constantly in contact with the suppliers and the strong collaboration with Fair Wear Foundation and other stakeholders allowed us to be updated on the changes, the spread of the virus and its consequences in all the countries we worked in. As the previous year, we were continuously in contact with our suppliers and, in places where workers are most affected by closures, we have asked the factories for more information about their experiences and have made recommendations for particular or risky situations.

The safety measures were regularly checked with a specific interest in assessing the incidence of Covid-19 cases in the workplace and which actions were implemented by the factories concerning payment of leave, quarantine, and workplace sanitisation.

We carefully verified that the grievance mechanisms were working efficiently and that workers could easily access the Fair Wear Foundation hotline. During the pandemic, it was more important than ever that workers were aware of their rights and their voices could be heard.

We paid particular attention to ensuring that employment contracts were not terminated, with the emergency being used as an excuse. We recommended that communication with workers on the measures to be taken is clear and that the trade union, where present, is involved as far as possible.

To have a complete picture, we sent questionnaires that investigated the reactions, potential risky situations, and difficulties of our partners. The surveys were an in-depth follow up of the questionnaires sent last year. The conversation went on into details if a factory required closer monitoring and we designed and spread an additional questionnaire where we gathered data about a particularly risky situation in Vietnam, where the facilities were closed for four months.

Freedom of Association and Grievance Mechanisms

In 2020, two fundamental workers' rights became even more important for coping with the pandemic: the possibility of worker representation and access to effective grievance mechanisms. The possibility for workers to have their voices heard also allows sourcing brands to have a more complete picture of the situation in the factories and to be able to intervene if areas for improvement are detected. The extensive presence of quality control personnel inside a good part of our factories, the frequent visits to suppliers and the analysis of audit reports allow us to obtain a good amount of information. However, all these monitoring actions have their limits and often do not provide an in-depth degree of detail into the well-being of workers. We believe that a good way to increase our knowledge of this is making sure there are mechanisms in place to allow workers to express their concerns, and the factory and us to “hear the workers' voices”.

This is why in 2021, we carried out in-depth research through a questionnaire aimed at assessing the possibilities of social dialogue and expression within the factories.

Scope. We focused our queries on the existence and function of workers union, worker's representation and grievance mechanisms. Through our queries we were also able to dig deeper into three relevant issues: **1. Terms of employment.** Permanent and temporary or apprenticeship workers. **2. Gender and migrant breakdowns** and **3. Number of employees registered in social security** systems.

Within the analysis of trade union or worker representation in the factories, we asked about the name of the body, the presence of a chairman and his role within the factory to understand the influence of the management, the total number of workers registered, the possibility of being involved in the company's decisions and the number of meetings per year.

The aim of the analysis of the grievance mechanism was to understand its existence and especially its functioning. We therefore requested information regarding the complaints flow chart, the number of grievances received in 2021 and the number of those resolved, and further information regarding internal communication.

The research was carried out across both high-risk and low-risk countries, and we sent the questionnaire to factories which collectively amounted to 80% of the FOB generated in 2021; we received responses in 85% of cases. The decision to exclude 1/5 of the generated value is related to the presence of new factories with which we have yet to establish a close relationship to obtain such relevant but also sensitive information.

Outcome. From the analysis of the data, we learnt that there is a balanced combination of worker representation and trade union representation. When asked about the grievance mechanism, 83% of the factories replied that they have one in operation and if we consider only high-risk countries, the percentage raise to 100%. We cross-referenced the answers obtained with those reported during the most recent verifications and analysed the findings on the topic. The questionnaire gave us a better picture of the situation of the factories and some insights, but we believe we can make changes together with the suppliers that will improve the mechanisms for making workers’ concerns be heard and improve their conditions.

What comes next. In the coming months, we will continue to verify the information collected through the new audits and targeted questions during visits. We will share the data collection with Fair Wear Foundation so that they can use and corroborate this information for upcoming audits, and for further research into the topic, and we will identify a few factories to carry out a pilot project to raise awareness and increase the effectiveness of the tools already available. We will decide which factories to focus on following a risk-based approach and cross-referencing the results in a matrix that will also consider the importance of the factory for us and the leverage we have. Aware of the limitations we have, we would like to deepen our knowledge and leverage for improving working conditions through “workers’ voices” especially in Myanmar, where their situation and ability to express their concerns and discontent publicly is very much limited. We will engage with local and multi-stakeholder initiatives and share our progress in our next Social Report.

	Workers Union Exists and Functions	Workers Representation (other forms)	Grievance Mechanisms Exist and Function
Bangladesh	33%	100%	100%
Cambodia	100%	0%	100%
China	43%	57%	100%
Moldova	0%	0%	100%
Myanmar	0%	100%	100%
Taiwan	0%	100%	100%
Turkey	0%	100%	100%
Vietnam	100%	37%	100%

Transparency

In the last few years, the transparency topic has been at the centre of discussion between brands, NGOs and consumers. Companies are asked to show publicly where and how they are producing goods. There is an increasing pressure on providing detailed information about material sources, manufacturing processes, working conditions, and so on. The overriding motivation is to make brands accountable for their actions and human and environmental footprints on the supply chain.

For us, being transparent means reporting on the activities we do along the year, explaining projects and their impacts on our operations and supply chain, and showing our customers that the products we sell are made under decent working conditions.

Our ultimate goal is to improve workers' livelihood and make sure that their rights are always respected. We are certain that this could be achieved thanks to the constant efforts and the strong collaboration with our partners.

To better check and understand the factories, audit most of the facilities that make our products. Thanks to the data obtained, we are able to prioritise risks, direct our efforts, measure the improvements of the factories and decide where to focus next.

Apart from auditing we are investing in the strengthening of tools in and outside the factories, to help workers voice their concerns.

It is important to improve the environment for communication inside the factories, so that workers feel safe to raise complaints or talk to their supervisor in case something is wrong.

We are carrying out trainings on awareness of workers' rights for both management and operators. Some of the sessions are quite basic, focusing on the main rights and the existence of the FWF complaints hotline. Other training activities are more specific and are normally scheduled after finding specific improvement area during the audits. For example, we ask for advanced sessions if workers report communication problems between management and the workforce, or an environment that would not prevent harassments.

After the trainings, we gather feedback from management and the workers and suggest possible changes in policy or in procedures to apply the learnings of the sessions.

Social dialogue and workers voices are extremely important to substantial improvements in the factories. This is the reason why we are encouraging the involvement of Unions, if existing, in all decisions that affect the workers.

Every year, we check that internal grievance mechanisms in the factories are functioning and that workers are aware of the possibility to place complaints when they feel their rights have not been respected. Once we receive the complaint, we immediately tackle the problem with the factory to solve it (you can discover more about our complaints handling procedure in the dedicated paragraph).

In the last decades, we have invested resources, both human and financial, in building long-term partnership. This entails the exchange know-how, technology and values with our suppliers to help them improve their processes, the well-being and the skill of workers and to become more competitive. We also take good care that our planning and forecasting are timely and as accurate as possible to put our suppliers in the position to organize their workload.

We publicly disclose this and other information on our annual Social Report and all our efforts are also summarized in the Brand Performance Check report where Fair Wear evaluates our work. Starting from the collection summer 2020, we have listed the majority of the suppliers that produce the fabrics and the garments of our apparel and footwear collections on our website. We decided to go beyond the mere information on addresses and names but to show the relevant details that allow you to understand the reality and conditions under which our products are manufactured.

For each supplier, we provide general information such as years of partnership that we have and the typology of products manufactured, details about the workforce as the total number of workers and the breakdown of migrant status and gender, environmental information through the HIGG commitment and presence of environmental certifications, and social compliance specifics as last social audit, availability of trade unions, worker committee and complaint mechanisms.

Names, addresses, contacts details, financial turnovers and all information are completely available to Fair Wear which also has free access to all our facilities and counts on our suppliers' collaboration during audits. As a consequence of this full disclosure and openness we are fully accountable for our actions in the supply chain: both what we are doing right and what we need to improve.

Fair Wear is not the only NGO that can have access to the facilities. In case we are approached by other NGOs with an agenda and that genuinely and seriously want to improve workers' rights we are also willing to share relevant information and contacts.

Living wage

A living wage is the compensation necessary for a worker to meet his or her basic needs and provide some discretionary income. It should be earned during regular working hours and must not include overtime pay or incentive bonuses.

Workers in the garment industry often earn poverty-level wages and fair compensation is therefore one of the challenges we face. Through auditing and communication with our suppliers, we have been able to ascertain that in all the factories we collaborate with, the basic requirement of paying the minimum wage established by Law is met, but we also know that this amount of money is not enough to enable the workers to achieve good living conditions. The key to obtaining significant improvements on the payment of a living wage is through setting a reliable and strong process.

Studies in Living Wage and advice provided by our stakeholders in this matter (Clean Clothes Campaign, Fair Wear Foundation, the Global Living Wage Coalition), say that in order to do this, a Company must have:

- Living wage commitment
- Clear benchmarks for a minimum living wage
- Purchasing practices that make living wages possible
- Transparency
- A clear roadmap for implementing a living wage for all workers

Complexity

Being committed is not enough, it is not just a matter of allocating the resources. There are many risks that have to be taken into account in making a case, and setting the process for a Living Wage. We began to build this process more than 5 years ago, and have faced many questions and challenges. Like any other project in a Company, a case has to be built for dedicating resources, human and financial, into assessing the situation and, if a problem were to be found (i.e. lack of payment of living wages) and the need to solve it arose (making sure that workers in the factories making our products receive living wages), reserve the financial resources required. Some of the questions or problems we needed to solve:

- Is there resistance from the Purchasing department to address the issue with supplier for fear of higher quotations or termination of relationship?
- If working with an intermediary, is he willing to cooperate and involve the factory in the discussion?
- Is a long-term relationship or an important one at risk, if we address this with the supplier? Will this damage the dialogue and the trust, rather than strengthening the bonds with the Company?
- Are suppliers willing to disclose the wage structure of the factory?
- Are suppliers willing to implement or disclose minute costs within labour costs?
- Would the Purchasing department be able to reduce margin or is it bound to targets imposed by the Company?
- Would the Company be willing to allocate budget to cover extra costs of wage surplus in the factories?
- Is it really worth it, i.e. what is the impact, if we have such low leverage (we purchase small volumes) in the factories?
- Are other brands willing to participate in the joint financing of Living Wages (to counter the lack of leverage in factories where there are no other FWF members sourcing)?
- Lack of reliable sources for determining the target wages, i.e. what constitutes a living wage in each country and region where our products are made.
- Additional payments not arriving to the workers

The process

Before delving into the Living Wage scenario, we made a “SWOT” analysis of the status quo and position of our Company:

Strengths

- Consolidated suppliers and factories base
- Committed staff
- Good relations with most suppliers
- Open Costing
- High volume of audited factories - suppliers disclosed information

Weaknesses

- Low leverage at most suppliers
- Low reliability of information provided
- No experience in living wages
- No reliable information in living costs in locations
- High pressure for keeping the margin and low cost
- Complex price structure (open costing but some items are paid per piece and “labour costs” are a closed amount, not transparent and with no “ppm”)

Opportunities

- Make real steps in living wage and improving workers’ lives
- Getting an overview of cost structures in the company

Threats

- Losing suppliers
- Low or no impact – workers for the manufacture of our products
- change, it is difficult to ensure that the extra sums reach them

The beginning – and the end

FWF’s motto reads “Start paying higher wages. Now. Analyse what worked and what didn’t. And then keep going”.

FWF’s position on living wage payment is much broader and more complex. The process is made of little achievements and “measuring wages doesn’t always give a picture about the brands measures and steps taken already. It is key to also measure the steps that are taken in between. Let’s not forget that many steps must come before brands are able to tackle wage improvements with their suppliers”(FWF).

Recommendations from NGOs on Living Wage studies and reports repeat continuously that brands must pay higher salaries. However, why should we assume that brands are not paying prices which are high enough? Why should we assume that factories do not pay living wages to workers? What happens if a brand makes sure to be paying wages which are high enough, but cannot make sure that they reach the workers?

It is important to be aware that, even though our commitment to ensure the payment of living wages is set in our Code of Conduct, incorporated in our price dealings and reminded to our suppliers on a regular basis, factories have the ultimate responsibility in ensuring the effectiveness of this: we pay for a finished product and must rely on our partners fulfilling their part i.e. effectively transferring the sum that we set out for covering fair wages, to the workers. And if factories assure us that they do pay living wages, but do not disclose wage details because of the confidential character of the information or for any other commercial reason, should we or do we have the right to assume the contrary? Not really. We should and will continue to work with our suppliers to gather the information to check IF they are already paying living wages, and make sure that we can jointly find solutions for those who are not. We need to involve them in this endeavor, because it is a common project. It is for the better of the workers, of the factories and of our products.

The long journey

Since the beginning of our partnership with FWF in 2013 we have gone through different scenarios for deciding how to best tackle living wages, and encountered a series of hurdles along the way. We reported this in our Social Reports quite generally, without going into detail, because we would rather give results and solid data; and during all these years, despite deep and constant work, we were able to make slow progress.

We restated our goal of making sure that living wages were paid in the factories, enounced some of the difficulties in obtaining information, and reiterated our will to continue the road we had commenced years back for:

- Calculating a reliable living wage benchmark to measure workers' pay against
- Having more transparent information from all producing factories
- Investigating potential solution, and our share in the relative costs

Thanks to our dialogue with Clean Clothes Campaign, we realized that some stakeholders out there were genuinely interested in following our progress, not just our success. So since 2019 we decided to let you have a deeper insight into what we have found, the challenges we had, and what we will do next. When we set off on the journey of Living Wages, we identified the need to:

1. Set a reliable benchmark or "target wage"
2. Get wage data
3. Get suppliers to confirm the target wage
4. Assess the gap

1. Setting benchmark is a very complex task. There is no single indicator for the amount that should constitute a living wage, and each country, each culture and even each person might have different parameters for what should fulfill a decent standard or for determining an acceptable amount of "disposable income".

At the time when we began to approach this matter, our intention was to make a pilot project with one of our long-term suppliers in China. So we studied the possibilities of discussing the benchmark suggested by FWF for China, the Asia Floor Wage (AFW). AFW establishes a benchmark of 4547 RMB for the whole country. However, China is

divided into 32 regions, and each one is again split in 2 or more "wage" zones, for a total of 116 zones and 51 different minimum wages, according to the living costs of each area. They range from 1000 to 2420 RMB and applying a unique benchmark, as the Asia Floor Wage, would not be accurate. As far as our factory base, facilities are located in 14 cities with 8 different minimum wages ranging from 1380 to 2200 RMB. This is why one of the most important tasks we gave ourselves was to determine a target wage per area, against which we could compare the factory wages.

Even very accurate studies by specialized organizations, international bodies and NGOs, do not provide a single answer which can be applied overall.

Some indicators given by thorough studies, like the work of the Global Living Wage Coalition are excellent but do not cover all the countries where we are active, and with the rapid changes occurring in the world, and inside the factories, can quickly become outdated: the GLWC report we decided to use for Bangladesh is from 2016.

2. Gathering wage data to be aware of the current situation and understanding which are the actions to take to ensure a living wage for all workers is quite complex.

One important matter in our work so far, is that up until now, we have focused on the factories located in "High-risk" countries, and left those located in "low-risk" contexts out, following the distinction made by Fair Wear Foundation: based on the assumption that the first set are bound to have rules and regulations in place be able to guarantee the upholding of the 8 labour standards, which includes the payment of a living wage, FWF sets a tough monitoring system for countries which fall under "High- risk", where this might not be the case.

We collect data on the wages paid by the factory and we collaborate with our suppliers in order to have an overall picture. We do this through third party auditing mostly with Fair Wear Foundation, who has experts in each country that provide full wage analyses, and constant dialogue with our suppliers. Then, we classify the total salaries into regular, benefit and overtime incomes for lower-paid and mode workers. The gathered information is the beating heart of the in-depth analysis conducted on the factories based in high-risk countries. Evaluating living wage requires high quality data, thus we can only process the

feedback from facilities that provide precise and reliable information, which in 2019 amounted to 85% of our FOB (high- risk only).

Sometimes we also face an additional hurdle connected with the type of payment. Analysing wages in China, we have found that 32% of factories pay wages on piece rate, thus the salary amount is based on production output.

This is further complicated by the fact that workers may produce different items, with varying degrees of difficulty, in the same month, resulting in “output” that is not easy to compare.

Therefore, our due diligence regarding overtime and wages calls for checking that in factories where workers are paid “per-item”, prices negotiated with our suppliers allow for reasonable working times and wages.

3. Getting a confirmation from our suppliers on the accuracy of the “target wage” reflects the judgments of various organizations and suppliers. This data plays a fundamental role in the wage’s evaluation of the in-depth analysis.

In 2018, we defined a set of potential benchmarks to use in our analysis and in 2019 we put a lot of efforts in asking our suppliers if the living wages suggested were aligned with their experience. Unfortunately, this turned out to be a blind alley and we had to change course, yet again.

Our priority was not to lose the progress made so far and to continue to work consistently on this challenge. We therefore decided to try the strategy of a fellow brand who is also FWF member and thus committed to improving working conditions: taking the legal minimum wage increased by 20% as a benchmark, a good compromise between precision and ease of calculation.

In 2021, following the advice given by FWF, we decided to raise our benchmark by an additional 10%, meaning that we are pushing the wages to be, at least, the legal minimum wage plus 30%.



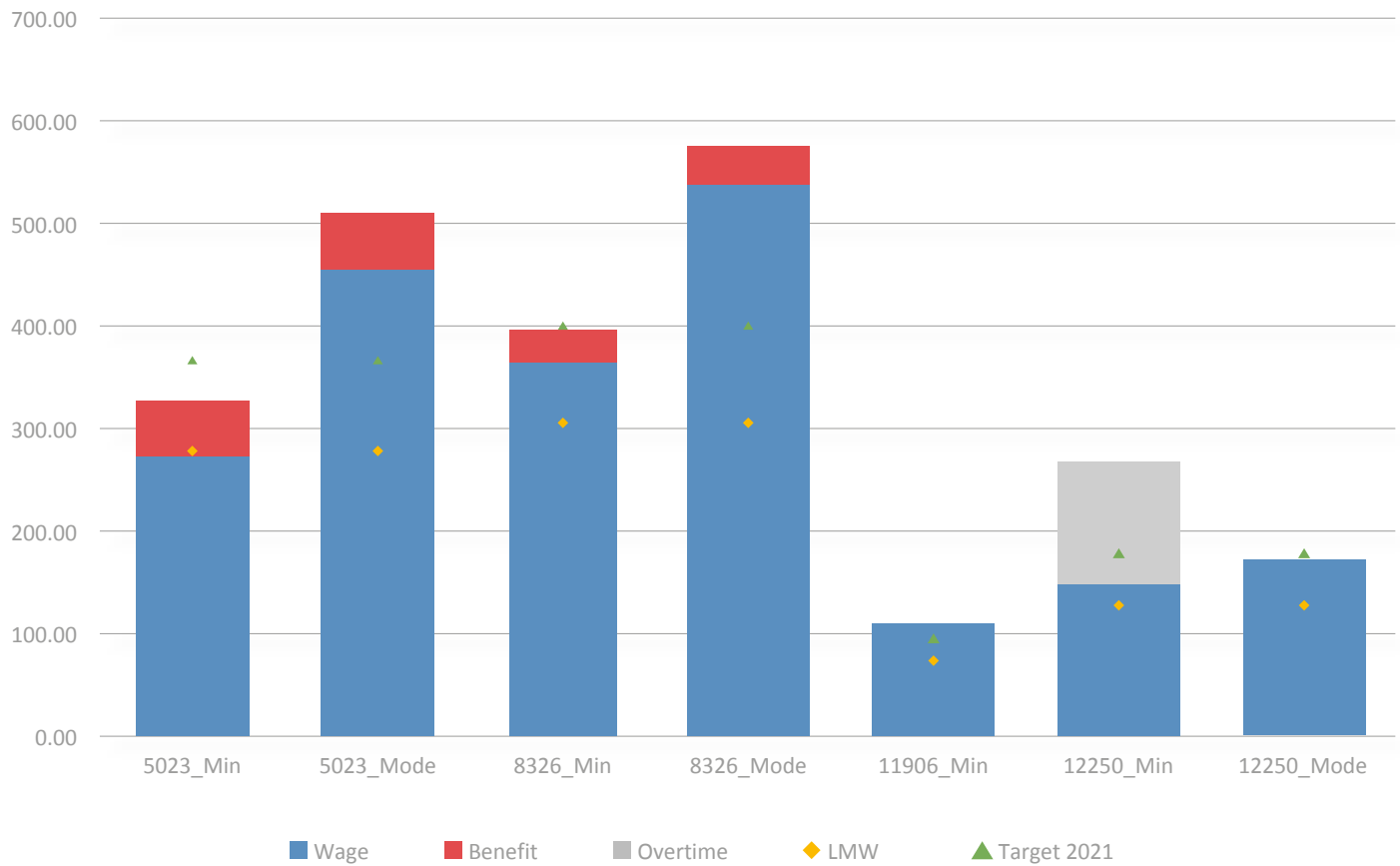
Photo - Factory 5414 in Vietnam

4. Assessing the gap the last step of the process.

Like we did in 2019 and 2020, in 2021 we applied the target wage as a parameter to evaluate wages in the audits conducted in the previous year, complemented by the wage data that we have collected for the past 6 years, and are updating it constantly. Our standard procedure in this analysis is as follows: as soon as we receive a new audit report, we check the information on wages and replace the data we had gathered beforehand, to make sure we are using the most updated information. In some cases the information provided is not enough to enable a good level of analysis; in those cases we do not rely on the information and use older data, if it's of better quality. In other cases, the degree of detail of the data is limited, but it allows us to carry out

our analysis. Our goal is to make sure the target wage is paid to each worker, so despite the scarcity of data, we aim to calculate the gap for the most disadvantaged category, i.e. the lowest-paid workers. We believe it also makes sense to make the calculation taking into account the earnings of the majority of the workers, i.e. the mode workers. In sum, in 2021 we were able to conduct more accurate analysis cross-referencing the salary data on the lowest paid workers with the target wage (legal minimum wage + 30%). We found that the target was reached by the mode workers for nearly 42,5% of the FOB. We will continue to perform this analysis with our suppliers, taking into account the best-quality information we are able to get in terms of wage data.

WAGE ANALYSIS - AUDITS 2021

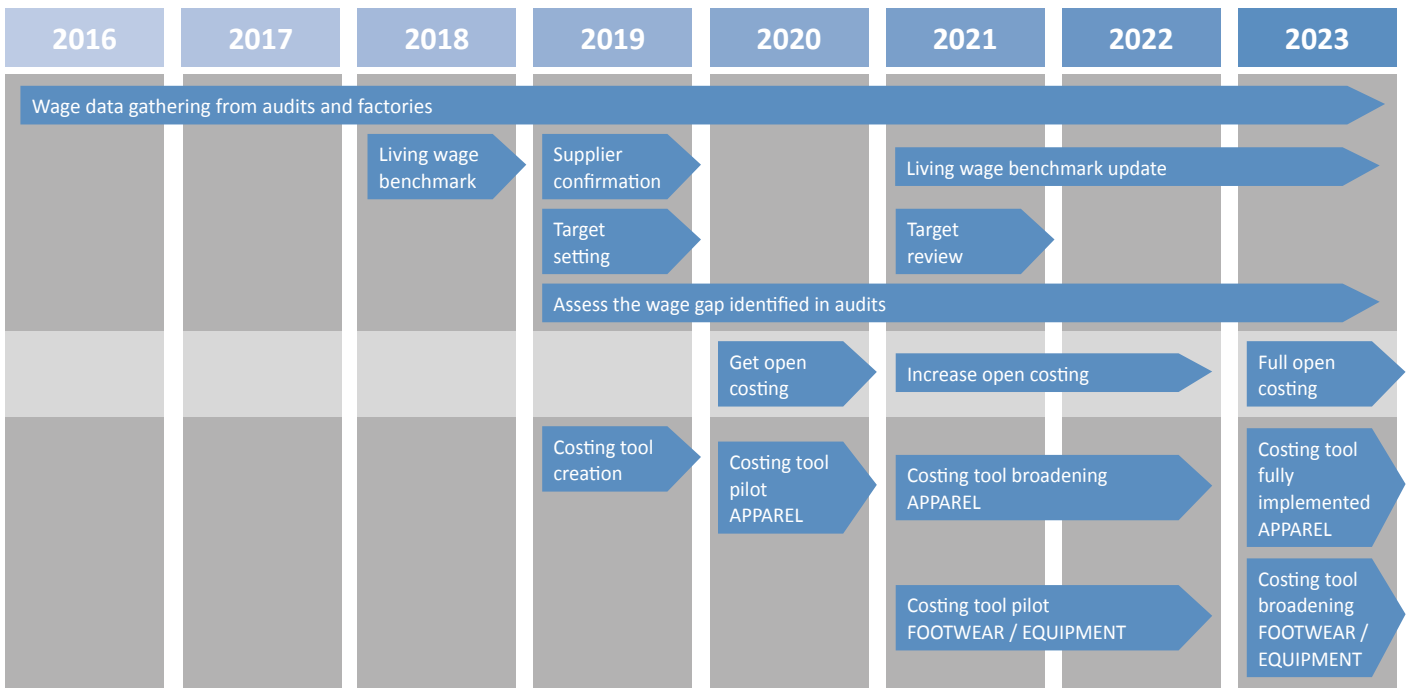


However, this is not enough for making sure that we are paying a living wage. The information we obtain from suppliers and audits is likely to be only limitedly and not permanently reliable or verifiable (see point 2). The only thing we can control 100% and make sure of, is the fact that we are paying prices that enable the factories to compensate their workers with a living wage.

With this in mind, in 2019 we decided to embark on a new journey: determining a labour cost which would cover a living wage, and incorporating into our price structure and negotiations with suppliers for the single items.

The result was a **Costing Tool** designed and implemented by the Costing Manager of the Apparel Division, which allows for a thorough cost breakdown calculation per style. Developed between 2019 and 2020, it establishes a relationship between the "labour costs" declared by our suppliers on costing sheets, and available living cost benchmarks in each of the countries where our products are

manufactured. The tool enables us to make a reverse calculation, whereby the abovementioned "labour costs" are put in relation with into "labour minute cost" at living wage rates, with standard working days and hours in each country, and assumed working time (SAM) depending on the complexity of the garments, and taking into account the technical setting of the factory (breakdown between direct and indirect labour) and other specific features. It thus enables us to check if the prices we are paying the supplier for the single items are enough for him to pay the workers adequately. In 2020 we began to implement this tool and were able to confirm that this is the case. In 2021, the tool was shared with the Footwear and Equipment Divisions and we began to introduce and test it in the pricing structure of the Divisions for the upcoming collections. We continuously update the living cost and wage benchmark in each country with the latest information available from expert stakeholders and institutions.



Monitoring in 2021 – new audits, progress on Corrective Action Plans and deeper analysis on the more pressing issues

Of our textile production in 2021, 84,11% was located in high-risk countries and therefore, under strict monitoring. In total, we produced in 22 countries around the globe and 14 of them are in high-risk locations. We had valid audits in 7 of them: Bangladesh, China, India, Myanmar, Romania, Taiwan, Vietnam. In 2021, we covered 89% our purchased volume by auditing or following up on audits performed between 2019 and 2021.

In 2021, we commissioned audits to FWF in China Vietnam, covering 2,31% of our production volume for the year. The percentage raises to 31,21% when external parties audits are considered.

Despite the difficulties we faced in 2021, we managed to achieve an important goal: together with other outdoor brands, we were able to consolidate an "Audit Alliance", aimed at expanding our social monitoring to technical hardware factories.

The following is a summary of the findings of these audits in the context of the country. This will be followed by an overview of the progress of Corrective Action Plans from previous years' audits not conducted by FWF in the other "High-risk" countries where our products are made.

Fair Wear Foundation Country Studies and specific information regarding Covid-19, and ILO researches have been fundamental to enriching the overview of each country presented in the next pages with data and grounded information.



Photo – Factory 12454 in Bangladesh

2021 Audits

China

China remains unrivalled as the largest producer and exporter of textiles and apparel in the world. Its importance in the global context was proved once again during the pandemic. When the Covid-19 outbreak began in China, its impact was felt across the entire apparel and textile sector. Even though other countries were not yet directly impacted by the virus, they suffered the consequences linked to delays and lack of materials.

Already before the pandemic, dynamics in the Chinese manufacturing sector have gone through rapid and dramatic changes, including labour shortages, fast-changing workforce, and transition to higher-end manufacturing. This can be attributed to a number of factors.

On the one hand, oversupply at home, higher labour costs and the global increase of protectionism have reduced Chinese competitiveness. On the other, the Chinese government has enacted policies aimed at diversifying the economy, increasing the manufacture of innovative products, and improving living standards of workers.

The result was the growth of manufacturing expertise in the sector of technology, contrasted by the closing of many garment factories. In recent years, wages, employment laws and overall working conditions improved. However, despite these positive changes, Chinese factories are often in the spotlight when it comes to the labour conditions of workers. Wages are still too low, overtime exceeds legal requirements, social insurance is lacking, and freedom of association remains restricted by law.

Since it is also one of our key objectives to guarantee that the people who make our products can work in decent conditions and earn fair wages, we have increased our efforts towards monitoring and following up corrective measures in the factories.

In 2021, it also remained our largest sourcing country not in terms of FOB volume but in terms of the number of factories we worked with. Our supply chain is fragmented, our production is spread across many factories, some of them quite small: 14,65% of the volume split into 17 factories means the average FOB we had per facility was 0,86%. This is a challenge for the quality of our communication with the supplier and consequently, our monitoring and remediation efforts. Our long-term sourcing strategy to consolidate the supplier network and relocation to a more stable economic environment for our products remains in progress and will surely help to ameliorate these issues. After sourcing in 73 factories in China in 2015, we reduced the number of facilities to 51 in 2016, then further down to 38 in 2017, in 2018 we concentrated our production in 32 factories, in 2019 we produced in 25 facilities and in 2020 we made clothes in China with 21 factories. In 2021, we achieved a further 19% reduction, working with 17 factories.

Even though we continue to make progress in shrinking our supplier base, at 17 it is still quite large, and our efforts continue. A particular challenge here is to carry out consistent monitoring in the smallest factories: subcontracted by our business partners (i.e. we have no direct relationship with them) on an on- and-off basis, with anywhere from 18-40 employees, where we have very small volumes but make up a considerable portion of the production capacity, an official or full audit is neither feasible in the short term nor practical in the long-term. This was the case for 10 factories which together made up a total 1,38% of our FOB. In agreement with FWF, our QC team conducted 'Basic Health and Safety' checks with FWF's or with our internal auditing system, and we made a close follow-up of the findings we encountered (see "Tail-End" in the monitoring overview per country at the end of this report).

This year we commissioned two audits in China to FWF, one conducted in March and the other in November. Thanks to the verifications conducted in the last three years, we covered more than 84% of our total production in the country, making up for nearly 13% of our total FOB.

The first factory audited, had been previously monitored through a FWF reports in 2015 and 2018. Despite our efforts and the factory's improvement, we still have a long way to go. 20 findings were recorded, 15 of them were unsolved from the previous FWF audit conducted 3 years before. In line with other monitoring reports in the country, FWF found issues connected with excessive overtime, insufficient wages, no awareness on the freedom of association, and health and safety.

As for wages, it was found that the production workers were not entitled to paid annual leaves and a gap in the overtime premium was found in 7 out of 60 sampled workers.

Another big issue in the country is excessive overtime. We are aware of how our purchasing practices are reflected in workers' salaries and how our orders could lead to overtime, so we have developed reasonable purchasing practices. This time, it was found that we seldom place urgent orders and we are investigating more with our purchasing department to correct this.

The only way to achieve real improvement in working conditions is by being consistent and determined.

One of the most pressing needs in China concerns freedom of association, but despite law restrictions we are working to help workers raise their voices. This issue remains difficult to tackle and in the factory, there is a lack of awareness of this right.

In the meantime, a few findings linked to health and safety can be solved more quickly. They concern evacuation plan, firefighting equipment and storage of chemicals.

We are still discussing the other findings with the factory in order to find a solution.

In November, another factory was audited by FWF and we received the report the next year. The remediation work to do together with the factory is wide since 19 findings were report, of which 10 were not improved since the previous audit that took place in 2016.

The issue that will be discussed in the close future are related to wages, excessive overtime, lack of awareness of freedom of association and health and safety. The most worrying and pressing finding concerns the impossibility to precisely determined the age of some workers since the ID cards were not provided.



Corrective action plans of previous audits

Analysis per country

After each factory audit, a corrective action plan (CAP) is made and shared with management, and a timeline for improvements is set. CAPs are useful for monitoring the progress on issues affecting working conditions after the date of the official audit. Our final goal is to solve all the findings recorded, thus we constantly work on CAP follow-ups. Some issues may be solved in relatively short timelines, but others, requiring management or company cultural changes, require deeper analysis, longer planning and extra time for implementation.

Therefore, we follow on audits up to 3 years on, after which a new audit is done to look at the whole picture again.

In the last year, we actively followed-up on 28 audits conducted in 2019, 2020 and 2021, covering 75,02% of our total FOB.

We try to schedule new audits every year, but external circumstances do not always allow us to do so. This year, we have followed up on 16 audits, 43,81% of our FOB, done prior to 2021. The following analysis is a summary of the progress we made in remediating outstanding issues from external party audits (not from FWF) on the high-risk countries.

Bangladesh

Bangladesh is the second-largest manufacturer of apparel in the world after China and garment production is one of the most significant industries fuelling economic growth. Most big garment retailers produce in Bangladesh, and their relative weight in the local economy is large compared to ours. Nevertheless, we take responsibility for our part and invest substantial resources in strengthening our bonds with the factories, transferring knowhow and technology, and in terms of our due diligence and social compliance work. For us, it is one of the most important country we source from, and it produced 15,69% of our total FOB in 2021.

We share a factory with two other FWF member brands and WE audited the factory at the end of 2021. The audit identified several points of non-compliance which, after discussion with the other brands, were identified as urgent. The findings were related to excessive overtime, payments below the legal minimum for employees with apprenticeship contracts, verbal violence and problems with recruitment procedures. One of the most urgent and concerning findings was the presence of several people hiding in the toilets, one of whom was found to be a minor. All the brands involved discussed separately with the factory also involving their sourcing department, to emphasise the importance of resolving this finding.

A point not strictly related to the audits conducted in Bangladesh, but related to Due Diligence, concerns the Accord on Fire and Building Safety. It was a legally binding agreement designed to build safer working places which was launched by trade unions and brands in May 2013 after the Rana Plaza factory building collapse. In April 2018, the High Court in Bangladesh issued a restraining order on the Transition Accord, resulting in the ceasing of operations on May 2020. On June 1, 2020 the functions of the Accord transitioned to the RMG Sustainability Council (RSC), a not-for profit organization established and governed by global apparel companies, trade unions, and manufacturers (the Bangladesh Garment Manufacturers and Exporters Association (BGMEA)) to ensure that the safety progress achieved by the Accord since 2013 is sustained and expanded. The RSC inherited all operations, staff and infrastructure of the local Bangladesh Accord office and began to operate, a permanent safety monitoring and compliance body in the RMG sector in Bangladesh. We have integrated this new requirement in our Sourcing Policy, and we asked our suppliers to continue to work on the outstanding issues of the CAPs to exclude issues of structural risk. We are currently seriously considering to sign the Accord.



Photo – Factory 5843 in Bangladesh

India

India is the second largest exporter of textiles and apparel, with a massive raw material and manufacturing base. The industry employs about 45 million people throughout the country and it has been estimated that one every six households depends on it.

When our apparel purchasing department decided to re-open the possibilities for sourcing in India, they worked closely with our Sustainability department on the due diligence issues specific to this country. The main barriers to fair employment are due to excessive

and forced overtime, lack of formal working contracts and home-based work, low wages, few trade unions, gender inequalities, sexual harassment. Before starting the collaboration with the factories, our Quality Control team visited them for both the standard checks and the enhanced monitoring to evaluate the risk of child and home-based labour, and the Sumangali scheme contracts, resulting in excessive overtime, forced labour and harassment.

Myanmar

Up until 2012, production in Myanmar was strictly prohibited by FWF. Today, even though the country has been democratized it remains an area of high concern and FWF members are required to follow a strict due diligence protocol. Garment workers in Myanmar often endure low wages, long working hours, denial of freedom of association and collective bargaining rights, and incidents of verbal and sometimes physical abuse. There is also a High-risk of child labour.

Myanmar's garment industry has grown rapidly since 2011, when the country's military government stepped down, the new government took up a series of reforms and changes to facilitate trade and foreign direct investment (FDI) which started flooding the country. After 2015, Myanmar's garment exports have grown by almost \$1 billion every year and this increase was expected to continue considering the growing demand.

During the pandemic, this key sector has been deeply affected with significant job losses, the consequences of which have been felt particularly by young people and women.

The situation aggravated with the military coup on 1 February where the Burmese army seized the power (more info on page 23).

Despite general demand collapse, our volume in Myanmar increased compared to the previous year, when we had produced in the country 3,61%. In 2021, the volume we sourced at those same factories reached 4,59% of our total FOB.

Last year, we hired a local Quality Controller dedicated to Burmese factories only. Having our staff in the country increases the production quality and improves the communication with factories management also for social compliance and due diligence goals. The presence of a QC in Myanmar is of utmost importance in these times of political instability and inability to travel. Being able to monitor the country is a challenge especially when auditing activities are suspended. In 2021, FWF had planned a Verification Audit at one of the factories, but it was cancelled due to the risky situation. Not being able to conduct a new audit to assess the situation, together with another FW member brand we asked the factory to share with us other audits carried out by third parties in order to better monitor the workers' conditions.

Taiwan

For cut and sewn goods we produced only in one factory in Taiwan in 2021, which made up 0,1% of our total FOB.

One of the key issues found was overtime and the lack of an effective work schedule. Another important finding was a recruitment fee applied to migrant workers which was later confirmed to be borne by the employer, and not the workers. Even though our volumes in textile factories in Taiwan are extremely small, an important part of our hardware is produced in this country. So in 2016 we began to research

on the possibilities of extending our verification and Social Compliance to these factories. After years of risk assessment and preparation, in 2020 we rolled out the process and carried out two audits with a special focus on the issue of recruitment of migrant workers and fees charged both in their home and receiving countries and in 2021 we made good progress in the remediation process (find out more in the Audit Alliance Hard Goods session).

Vietnam

In recent years, Vietnam has become an important country for the production of outdoor apparel, particularly for footwear, and it currently ranks as one of the top five global garment-exporting countries. As for the rest of the world, Covid-19 had a severe impact on Vietnamese economy and society.

In terms of our own supply chain, Vietnam is where most of our FOB comes from. In 2021, 29,27% of our total FOB was made in 12 Vietnamese factories. 95,56% of our volume generated in the country is covered by third party audits, almost all made by FWF.

In 2021, we had one of our Vietnamese facilities audited. Other two FWF member brands sourced from the same supplier, thus we joined forces both in the verification and in the follow up of the CAP.

The supplier was already covered by a FWF audit, but we decided to conduct a new one since our production was placed in a new building. We could have assumed that most of the findings would be the same, especially for the similarly managed parts such as policies, wages, planning, working time; but we preferred to investigate further. At the end of the audit, we found that a good part of the findings identified in the past audit had been resolved, confirming the results obtained in the CAP follow-up. The non-conformities identified are important to resolve but not severe. It is particularly a question of continuing to monitor the situation of probationary workers and making sure that all workers are aware of the grievance mechanisms.

	Policies & Compliance	Grievance solution mechanism	Human resources practices	Wage payment	Working hours	Health & Safety
China	●	●	○	●	●	○
Vietnam	●	●	○	●	●	●
Bangladesh	●	●	●	●	●	○
India	●	●	●	●	●	○
Myanmar	●	●	○	●	●	○
Romania	●	●	●	●	●	○
Taiwan	●	○	○	●	●	○

● No issue found or all solved ○ Remediation in progress ● Improvement needed ● Major issue ● Critical issue

The FWF complaints procedure

FWF gives brands the opportunity to provide direct support to workers in their supply chains. Workers or worker representatives file a formal complaint against their employer via the FWF complaints hotline; then FWF forwards the complaint to the brand, and the brand must notify the factory immediately and try to solve it as soon as possible. Once the facts are verified and the factory commits to carry out the required remediation measures, we make suggestion on preventive actions, to avoid the repetition of the situation. Once this process is completed, we notify FWF and they publish the complaint on their website.

We take complaints very seriously and have a person who is specifically working to respond to these incidents as soon as they arise.

In 2021, we dealt with 1 formal complaint made via the FWF hotline.

The issues that workers complained about concerned contractual rights and discrimination.

The short description below provides an overview of the complaint, how it was handled, the ultimate resolution, and the preventive measures that we agreed on with the suppliers.

Complaint #1

Factory 5421: Vietnam

04 August 2021

The only complaint received during the year was a violation of FWF's Code of Labour Practices #5 'Payment of a living wage' and #8 'Legally binding employment relationship'.

This was a complaint received from a factory closed for Covid-19 from 22 July to 10 October.

The worker's reasons for contacting us were related to the lack of information regarding wages during the factory closure. The worker told us that she/he had only received verbal information about the closure from the line manager and was worried about losing the job without receiving the due wages. As always when we receive complaints, we act promptly and also in this case we immediately started the investigation procedure. As soon as we asked for more information, the factory clarified to us that the managers of each team had given information on closures and salaries to the various teams.

To enable us to better investigate, we asked FWF to share additional information, such as the name of the workshop and the number of the building. We made sure not to disclose sensitive details to the factory to avoid retaliation on the complainant.

The sewing worker who contacted us confirmed receipt of the July wages in full, but added concerns about rumours of 70% payment of the early August wages, leaving the workers on unpaid leave until the end of the shutdown.

We therefore continued our research in two parallel directions to understand the payment situation in the factory. We sent the factory the questionnaire created together with the other outdoor brands and analysed the information received. At the same time we made sure that all the workers had received all the necessary information to apply for government subsidies. The complainant confirmed that he/she received support according to Resolution No.116/NQ-CP (2,100,000 VND) and another support of about 3,700,000VND according to Resolution No.68/NQ-CP.

We did not receive any additional feedback from the worker, but we will continue our research with the aim of finding out whether some wages were not paid, calculate the amount and request the factory to fill the gap. Next we will ask Fair Wear to conduct an audit at the factory with a special focus on the wages paid during the closure.

Activities to Inform Staff Members

Our social compliance work also includes internal initiatives. Our pledge towards transparency and social justice in our supply chain is something we are very proud of. We believe that all members of the company should act as ambassadors of these achievements, and this is why we work to inform all employees about our progress. For example, at our company-wide Employee Meetings our CEO or Sustainability Manager present our environmental and social compliance activities. This includes details about our on-going work, the challenges faced, and the milestones achieved. We also believe this is an important moment where annually we restate our greater value as a company, and a reminder of our dedication to improving the everyday lives of those working to make our products - no matter where they are in the world. Twice a year, the Oberalp Convention is organised to show our customers and partners the new products of the fall-winter and spring-summer collections of the following year. During the events, a specific corner is dedicated to sustainability. In the lounge, we have the chance to speak with our colleagues, dealers and clients about our social compliance and sustainability work.

Social compliance and our partnership with FWF make up a big part of how we internally communicate and educate staff not only on our Sustainability work, but also on our greater mission and values. This year we held online sessions with the retail team for safety reasons. Despite the new format, they were very pleased with the results we have been able to achieve. All new Oberalp employees an introduction to the importance of Social Compliance for the company to ensure that they know how the factories in which we produce are selected and monitored. For four new employees, the induction phase was more thorough. We welcomed to our team, two people that are now in charge of Chemical Compliance and Communication. One of the new team members was completely new to the topic, thus we dedicated more time to introduce the social compliance subject, workers' rights issues, relationship with Fair Wear Foundation and other NGOs, and the efforts we are making.

In 2021, two new people joined the Footwear and Equipment division, a Purchasing and Planning Specialist and a Planning and Purchasing Manager. As these two roles are very important in terms of factory relations and order planning, we carried out special training with them to inform them about the practices we use within our supply chain. We shared both the general guidelines we follow, but also the specific actions and projects in place.

At the end of the year, together with the Apparel Costing Manager, we have trained the Footwear & Equipment division on the tool designed to check whether we pay our supplier enough to enable to pay the living wage to workers.

Finally, we ensure all of our production partners - whether they are agents, intermediaries, or factories - are aware of and committed to our CoC, and FWF's Code of Labour Practices. In cases where we do not have direct contact with a factory, but instead communicate via an agent or intermediary it is the agent's or intermediary's responsibility to ensure compliance to our social standards.

Our local Quality Control teams carry our audits in new factories as part of our due diligence. As a condition for on-boarding new partners, we make an assessment on the social standards of prospective facilities, to measure compliance with our own standards, and management practices together with commitment to improvement of problems. We had this system in place before we became members of FWF, and because FWF has its own, it meant that we had two different standards for evaluating factories. This was not efficient, so in collaboration with our Quality Control Specialist, the company's eyes in the factories, we decided to adapt our assessment forms to those used by FWF audits- This enables us to evaluate our suppliers in a more consistent manner, and it includes also the smallest factories, our "Tail End".

In 2018, we engaged a member of our local Chinese team in FWF audits carried out in two factories, as a form of training. There, she had the chance to take part in professional auditing, interviewing of workers, document verification, questioning of factory staff and general dialogue regarding social compliance in the factory.

This helped her to gain confidence in her own auditing tasks and improve dialogue on these matters with the factories.

After this positive experience, we offered the same to our Licensee manager, who is in charge of aligning our license partners with our Social Compliance standards. In essence, licensees may independently develop and sell collections, in exchange for royalties on the use of our logo on the products. Even though we are not involved in their internal procedures, our License contract foresees minimum requirements on Social Compliance, as part of our Company policy. Licensees have therefore adhered to our CoC and committed to its implementation in the factories where they make their products. To help our Licensee Manager have a more proactive role in advising Licensees, in 2019 we decided to give her the opportunity to be present at a FWF audit. This enabled her to understand how the monitoring and verification system works and will help us to set a system to advise licensees on these issues. For 2021, we had planned audits at two factories where our licensees are producing. Because of covid-related restrictions in China, unfortunately we had to cancel them again. We hope to be able to carry them out in 2022.

Activities to Inform Manufacturers & Workers

In addition to auditing, Workplace Education Programmes (WEP) and trainings make up a big part of our work with factories. These programmes aim to enhance awareness of workers' rights, foster social dialogue and the resolution of issues through open communication, and to help factories find out how they can improve the well-being of workers in the factories. FWF and other institutions offer both general and country-specific modules.

They cover topics such as: FWF's Introduction to workplace awareness, complaints hotline and grievance mechanisms (Bulgaria, China, India, Macedonia, Myanmar, Romania, Tunisia, Turkey and Vietnam); violence prevention capacity (India, Bangladesh); risks facing Syrian refugees (Turkey); worker-management communications or dialogue (Indonesia, Myanmar, Vietnam, and Turkey).

At the beginning of the year, we had planned many trainings and raise the awareness of workers on their rights and improve their conditions in the factory. Other than basic and specific WEP modules, we were starting to organise internal trainings for our Quality Control staff that visits the factory almost daily.

Their main task is to check that the quality of the produced items meets Oberalp standards, but it is important to also train them on social compliance related topics. Having our own staff in the factories with an eye for working conditions is a great opportunity to improve them. Unfortunately, we were obliged to postpone the project, but we would like to investigate this possibility next year. Moreover, we thought in times of this pandemic it was not advisable to organise gatherings. So as part of our responsibility in preventing the spread of

Covid-19, we cancelled all our WEP plans.

Instead, we concentrated in making sure that workers were aware of their rights and could access grievance mechanisms. Every time we contacted a supplier, we asked if new complaints had been raised and their relation to Covid-19. When facilities could open their gates and start working again, we took the chance to share the updated version of the Worker Information Sheet and asked them to post it in a visible place. The factories had already the old version, which contained FWF's old logo and corporate image, and we thought sending the new one was a chance to remind them the importance of posting the WIS. Moreover, the renewed design could more easily get the attention of workers and thus increase the likelihood of the WIS being read. We have also designed and shared a specific questionnaire aiming at better understanding the presence and the efficiency of the grievance mechanisms.

If our suppliers face particular situation, we evaluate how we can support them in obtaining more information to be able to handle the cases. In 2021, factory closures in Vietnam led the country's government to provide economic aid to support workers. The resolutions promulgated were clear but at the same time not entirely accessible to factories and workers. For this reason, FWF and local stakeholders organised training for the suppliers so that they could learn more about the dynamics of the request and the timing. Quickly and effectively, we shared the invitations and dates of such webinars to make sure that suppliers knew how to apply for the aid and support their workers in doing the same.



Photo – Factory 5645 in Vietnam

Partnership and collaboration

Sometimes it is important to be fast, and acting alone is the best option. Even though this approach is effective, if we want to achieve long-lasting and stronger results, joining forces is better. For this reason, we put a lot of effort into creating partnerships and nurturing collaboration.

In 2021, the three most fruitful and valuable common cooperation instances were with the Fair Wear Foundation, Clean Clothes Campaign, and the Audit Alliance Hard Goods.

Fair Wear Foundation

When the pandemic first hit us, we were not ready. In 2021, we were more aware of what we were facing, but we were disoriented with the multiple evolution of the virus in the different countries.

Other than communicating daily with our suppliers, we found a useful source of information in Fair Wear Foundation research.

The country-specific webinars they organised helped us in better understanding the different situations worldwide. Gathering information from suppliers is important to have their point of view and to understand the impact of the pandemic on their business, but we lacked a general picture of the country. Thanks to the webinars and the investigations that FWF conducted, we were able to get general data on the funds allocated by governments to support businesses and on the impact of the pandemic on the economy.

Every country reacted in a different way, and in the worst hit and far away ones we could count on the local FWF team to get updates. We would say that this possibility was one of the winning cards that allowed us to be up to speed and informed.

Clean Clothes Campaign

Another organisation working on ensuring that the fundamental rights of workers are respected is Clean Clothes Campaign. We were in touch with them in the last few years to provide input and information for their studies and questionnaires, but during the pandemic the dialogue reached a higher level that laid the foundation for a good collaboration. In 2021, they asked us to update a survey on the living wage and transparency that was then published on their website under the name of Fashion Checker. The aim was to help customers to assess how transparent brands are regarding where and how garments are made. The data is meant to be updated every year to track the improvement of the companies involved in the research. Despite the low score we obtained (2 points out of 5 for transparency and "D" on living wage, where A is the maximum), CCC acknowledged. They acknowledged that we have put a lot of effort into our projects and that we have started to work on living wage with some success. Another topic of discussion concerned our position on the issue of transparency. On several occasions we were able to share our views and engage in a very constructive exchange of ideas. In two calls, we were able to better elaborate on both our position and our fears. Several e-mail exchanges took place to continue the debate and we found in CCC an NGO open to discussion but firm on its own ideas.

Audit Alliance Hard Goods

The pillar of our social compliance efforts is the monitoring process. It is carried out through factory self-assessments, on-site checks, third party audits and constant communication with suppliers. We mainly focus on those involved in cutting and sewing since 82% of our turnover comes from textile products.

However, in 2016, we started gathering more information to extend our monitoring work to technical hardware factories as well. After collecting useful contacts and increasing our knowledge, we were ready to start a project.

In July 2019, a subgroup of the European Outdoor Group's (EOG) Hard Goods Working Group was established with the purpose of combining outdoor brand's business power and good practices to assess the risks specific to, and improve social practices within the metal supply chain.

Together with five other brands, we founded the Audit Alliance Hard Goods (AAHG) aimed at tackling human rights issues in Taiwanese hardware factories.

After this alignment on align the approaches and expectations of the companies involved, laid the foundations for the practical work: verifying the situation in the factories. This was done in three steps: first, identifying the possible factories where we could start. By disclosing our suppliers and finding common ones, we were able to define the strategy, i.e. on the one hand, which suppliers were more significant for the brands, and on the other, at which suppliers more than one brand was sourcing, to raise our leverage and the likelihood of getting the supplier to cooperate. The second step was writing a collective Code of Conduct and guidelines on fair labour practices to guide the process. The third one was carrying out research on the possible risks in this context. At that point, we decided to deepen the research and engaged an auditing company that could focus on the pressing issue of migrant workers' fees, which was highlighted in the risk analysis.

Migrant workers are often charged high fees by employment agents both in their home country and the country they become employed in. They can also face language barriers, poor accommodation, restricted personal freedoms and health and safety abuses. The combination of these factors put these workers at a High-risk of forced or bonded labour. The recruitment of migrant workers is common practice in Taiwan. The workers are primarily recruited from Indonesia, Thailand, Vietnam, and the Philippines.

To confirm this suspicion and be able to start a remediation process, we arranged 3 audits in December 2020.

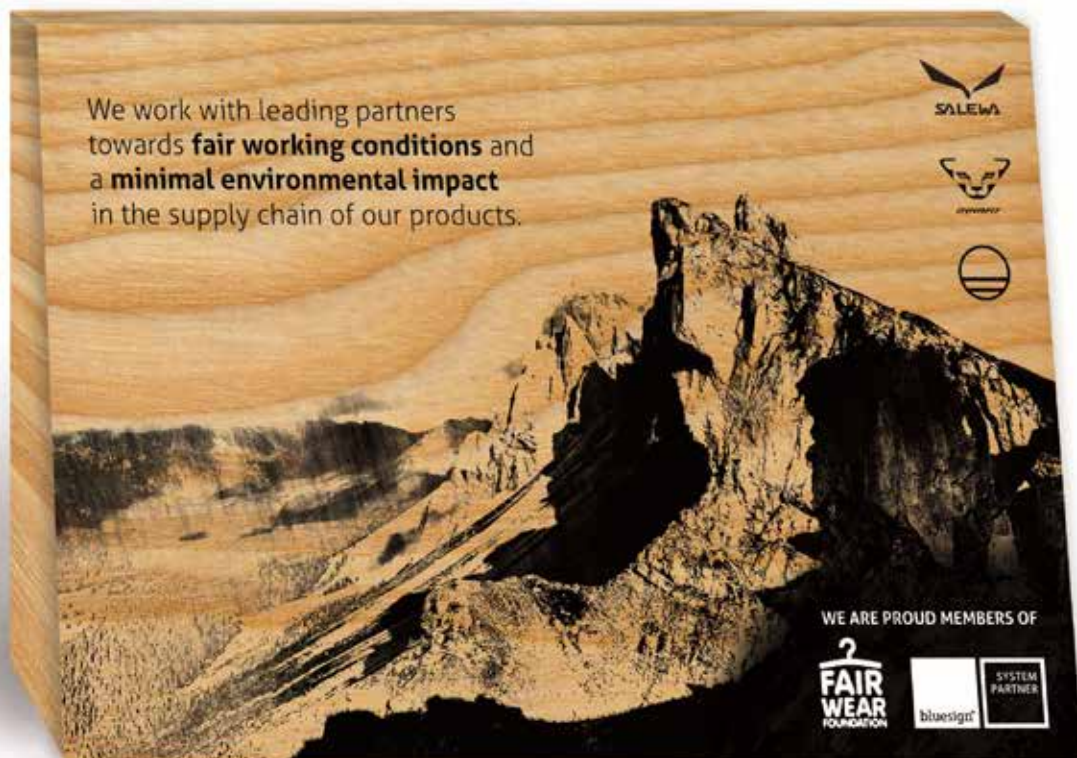
As soon as we received the audit reports, we met with the other members of the group to discuss the findings and to decide how to continue the corrective work. In order to divide the CAP follow up between us, we based it on the leverage of the brands. We addressed the health and safety violations identified at the 3 factories and then the discussions then turned to the issue of migrant workers' fees. We aimed at investigating and reviewing the fees system and in the early 2021 we tried to list them all. Thanks to the audit report we were able to obtain some information, which unfortunately was not clear enough to allow us to accurately reconstruct the amount of fees paid. In several discussions with suppliers, we tried to fill this gap, but only partially succeeded. Developing a comprehensive understanding of the migrant worker landscape in the hard goods supply chain was not easy and even if we involved our Taiwanese QC, we were not able to figure it all out. We also tried to involve external NGOs that have more know-how on this field and we discussed the issue together with other brands that are known to have tackled the same problem before us.

The fundamental change in the perspective was the results of the talk among the three suppliers and another player of the area producing for us and that has implemented best practices in the field of fees in the past years. These meetings were very constructive, and our suppliers were open to discussing how to solve migrants' fees findings.

We are proud of the work we are doing, **and we want people to know**

It is a continual process, as every year we want to share more and more, and so communication and transparency about our social compliance work comes as a given. One of our primary ways to inform customers, employees, and others about our work is the publishing of our annual Social Report (the one you are reading right now), and the year’s Brand Performance Check results. These are made available on the websites of each of our brands, as well as on the Oberalp Group website. The Social Report is a way for us to highlight our accomplishments and challenges from the previous year in a way that is useful for a general audience.

Our group-wide sustainability report is another channel to communicate our social compliance efforts and FWF work. Additionally, there are a number of in-store opportunities for customers and employees to learn more about FWF, and what we are doing as a company to address human rights issues in our supply chain. There are plaques at cash registers, fact cards in the shop and FWF logos on shopping bags as a means to communicate our commitment to fair working conditions. Furthermore, we provide brochures about FWF, in the local language, at all of our retail stores.



In the **forthcoming** year we want to keep up the **momentum**

that we have generated over the previous years. During the end of last year, and at the beginning of this we have experienced a lot of staff changes. This means building new internal alliances to ensure we can continue our systematic and integrated approach to our social compliance work. Likewise, we aim to organise training sessions related to social compliance for our Quality Control team that visits the factories daily.

Other goals for next year are to develop tools, conduct studies and launch pilot projects to assess and analyse the current situation of freedom of association and discrimination in the factories we cooperate with.

The pandemic has raised, more than before, the need to make sure that workers have a voice and means to make sure that their rights are respected. During our analysis, we have discovered that some factories lack workers' committees or any other form of representation. In some cases, this is explained by the absence of the need for such a representative body, due to the dimensions of the factory or the good quality of internal communication. In some others, the awareness on the topic is limited. Thus, we would like to work on raising workers' awareness about rights, payslips, and specific issues through information cards and training sessions.

We have also chosen to focus on gender discrimination. So far, we have never addressed this topic specifically, but during 2020 we were asked by an NGO to provide more information on gender equality in factories. With this request we realised that we have never made specific in-depth studies which, however, are necessary. So we will begin to address it with our suppliers, and have also prompted FWF to include specific information on gender discrimination in their audits. This will give us additional tools to tackle the issue.

In the previous years we focused our efforts on establishing the root causes of overtime, and guaranteeing the payment of a living wage in the factories we cooperate with. In 2019 our Apparel Costing Division developed a tool aimed at making sure that the prices we are negotiating for our products enable the factory to pay workers a living wage. In 2020 we piloted the tool with some of our styles and suppliers and corroborated the assumptions that the tool is based on (living wage benchmark, working days, working hours, relationship between direct and indirect labour). It was a big challenge, because our aim is for the tool to become an active and open part of the negotiation, and for this, it would be necessary to carry out in-person discussions. In 2021, we have integrated the tool in the Apparel Division and launched a pilot in the Footwear and Equipment Divisions. In 2022 we will continue this work, and scale it up as much as possible.



ANNEX – FULL FACTORY LIST

(In alphabetical order)

Albania

FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
13689	2018	apparel	Dynafit	0,51%			
15221	2020	apparel	Salewa Wild Country	0,18%			

Austria

FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
8484	2021	apparel	Salewa	0,07%			

Bangladesh

FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
5766	2014	apparel	Dynafit	0,05%	✓	BSCI 2021	
5843	2014	apparel	Salewa Dynafit	11,99%	✓	SUMATIONS 2021	
12454	2018	apparel	Salewa Dynafit LaMunt	3,25%	✓	FWF 2019	
14433	2020	apparel	Salewa	0,40%	✓		

Belarus

FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
33568	2020	apparel	Salewa Dynafit LaMunt	2,18%			

Cambodia

FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
7218	2015	footwear equipment	Salewa	0,41%			

ANNEX – FULL FACTORY LIST

(In alphabetical order)

SOCIAL REPORT 2021
SALEWA – DYNAFIT – WILD COUNTRY - LAMUNT

China

FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
3267	2002	footwear equipment	Salewa	0,32%	✓	FWF 2019	
5023	2014	footwear equipment	Salewa	1,66%	✓	FWF 2021	
5450	2014	apparel	Salewa DynaFit Wild Country	0,23%	✓	BSCI 2021	
5472	2011	apparel	Salewa	3,78%	✓	FWF 2019	2019
6115	2015	apparel	DynaFit	0,24%	✓	BSCI 2021	
7261	2014	apparel	DynaFit	0,16%	✓		
7823	2012	apparel	Salewa DynaFit	3,87%	✓	FWF 2020	
8326	2015	technical hardware	Salewa Wild Country	0,66%		FWF 2021	2019
9725	2015	apparel	Salewa DynaFit LaMunt	1,56%	✓	FWF 2019	
9731	2013	apparel	Salewa DynaFit	1,43%	✓		
12093	2016	apparel	Salewa	0,04%	✓		
12115	2017	apparel	Salewa	0,29%	✓		
14385	2019	apparel	Salewa	0,02%	✓		
33714	2021	apparel	Salewa LaMunt	0,04%	✓	SLCP 2019	
33716	2021	apparel	Salewa	0,07%	✓	ELEVATE 2019	
33717	2021	apparel	Salewa	0,23%			
33718	2021	apparel	LaMunt	0,00%	✓	BSCI 2021	

Czech Republic

FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
12059	2017	technical hardware	Salewa	0,99%	✓		

Germany

FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
10427	2016	apparel	Salewa	0,00%			

India

FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
15309	2020	apparel	Salewa	0,30%	✓	SA:8000 2019	

ANNEX – FULL FACTORY LIST

(In alphabetical order)

SOCIAL REPORT 2021
SALEWA – DYNAFIT – WILD COUNTRY - LAMUNT

Italy							
FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
5416	2005	footwear equipment	Dynafit	10,19%			
5451	2010	apparel	Salewa	0,16%			
5459	2005	apparel	Salewa Dynafit	0,91%	✓		
9682	2015	apparel	Salewa	0,60%	✓		
9728	2012	apparel	Salewa Dynafit	0,11%			
9729	2015	apparel	Salewa Dynafit	0,36%			
33350	2020	apparel	Salewa	0,04%	✓		
33715	2021	apparel	Salewa	0,01%		ELEVATE 2021	

Lithuania							
FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
3854	2011	apparel	Salewa Dynafit	0,07%	✓		
5435	2011	apparel	Salewa Dynafit LaMunt	0,38%			

Myanmar							
FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
11906	2020	apparel	Salewa Dynafit	1,27%	✓	WRAP 2021	
14381	2019	apparel	Salewa	3,32%	✓	BSCI 2020	

Republic of Moldova							
FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
12452	2017	apparel	Dynafit	0.03%			

Romania							
FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
3804	2021	apparel	Dynafit	0,00%			
8996	2019	footwear equipment	Salewa	14,53%		FWF 2019	

ANNEX – FULL FACTORY LIST

(In alphabetical order)

SOCIAL REPORT 2021
SALEWA – DYNAFIT – WILD COUNTRY - LAMUNT

Slovakia							
FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2020	Audit / Year	WEP/Training
9829	2014	technical hardware	Salewa	0,09%			
Slovenia							
FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
2959	2009	apparel	Salewa Dynafit LaMunt	0,86%			
Switzerland							
FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
5417	2007	skins	Dynafit	1,05%	✓		
Taiwan							
FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
2997	2008	footwear equipment	Salewa	0,10%		FSLM 2021	
Tunisia							
FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
14377	2019	apparel	Salewa Dynafit Wild Country	1,25%			
Turkey							
FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
34341	2021	apparel	Dynafit	0,39%	✓		
Ukraine							
FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
34342	2021	apparel	Dynafit	0,03%			

ANNEX – FULL FACTORY LIST

(In alphabetical order)

Vietnam

FWF factory code	Partner since	Division	Brand	% FOB	Visited in 2021	Audit / Year	WEP/Training
3919	2009	apparel	Salewa Dynafit	3,07%	✓	FWF 2020	2019
4568	2013	apparel	Dynafit	0,15%	✓	SUMATIONS 2019	2017
5414	2007	footwear equipment	Salewa	13,02%	✓	SUMATIONS 2021	2018
5421	2013	footwear equipment technical hardware	Salewa	1,97%	✓	FWF 2019	
5645	2012	footwear equipment	Salewa Dynafit	7,49%	✓	FWF 2020	2019
5744	2021	apparel	Salewa	0,87%	✓		
9321	2018	apparel	Dynafit	0,05%		FWF 2019	2019
11333	2016	footwear equipment	Salewa	1,95%	✓	FSLM 2021	2019
12250	2018	apparel	Salewa	0,27%	✓	SUMATIONS 2021	
14386	2019	equipment	Dynafit	0,12%			
14390	2019	apparel	Salewa	0,02%			
33719	2021	apparel	Salewa	0,29%	✓		