



ESPRIT CAPACITY ASSESSMENTS REPORT

RESULTS BASED ON FY16/17 AND FY17/18 (STATUS APRIL 1ST, 2018)

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ESPRIT

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1 INTRODUCTION

The core of our environmental sustainability program is our commitment to detox – zero discharge of hazardous chemicals by 2020. To fulfil our commitment, we have several measurements and programs in place. As part of our program we have started with our capacity assessments in July 2016. Conducted by the Fabric Management team, the aim of capacity assessment visits is to learn more about our mills and support them with the implementation of the Esprit requirements and policies.

The Capacity Assessment visit covers the foundations of an appropriate mill management in three areas: Environmental Sustainability Management, Chemical Management and Production Process Control.

Transparency and constant supply chain monitoring

To fulfil our Detox commitment and our compromise with the Human Rights Watch Transparency Pledge, the first thing Esprit had to do was to map out our Tier 2 wet processes supply chain. We have clear definitions for Tier1, Tier2 and Tier3 suppliers, which are as following:

Tier	Definition
1	<i>Place of fabrication: garment sewing, linking, garment finishing, packaging and storage</i>
2	<i>Spinning, weaving, dyeing, printing, fabric finishing, knitting</i>
3	<i>Raw materials providers: Chemical suppliers, sewing yarn suppliers, machinery suppliers, filament and staple fiber suppliers</i>

We do not place orders directly with these factories. This means, we do not have a contractual agreement with our Tier2 mills but as they are business partners of our direct vendors, they also have to fulfil our requirements, among others, for sustainability and product safety. In July 2016 we finished the first round of our supply chain mapping and established a process to update the monitoring performance in the mentioned areas in an ongoing way. Since then, we publish our full supplier list (including Tier1 and Tier2) on our website and make sure, that every six months an updated version is uploaded.

After we have established the monitoring process to identify our deeper supply chain, we then have started a series of one day audits in our Tier2 wet process mills, followed by around two days of documentation finalization, prioritizing those wet facilities that have a massive chemicals usage and so that they highest impact in our detox commitment: dyeing, printing and fabric finishing. However, we extended our capacity assessment program also to tanneries, spinning and weaving mills to cover all wet process mills.

This report is part of the Right-to-Know principal that drives our company and explains how we fulfill our detox commitment. Therefore, we present the results of our findings and the methodology behind the audits.

2 METHODOLOGY

Our technical audit program is conducted by our Fabric Management Department. In one-day capacity assessments, our staff is analyzing the following areas by our own audit protocol:

- **Environmental Sustainability Management:** assessment related with the handling of waste water, solid waste and energy management.
- **Chemical Management:** assessment mainly based on Esprit RSL¹ & MRSL² Guideline implementation up to the right level.
- **Process Control:** related with internal controls on technical quality parameters, such as color fastness for example.

We are using our own audit protocol for the capacity assessments, including our own scoring system. Before we visit the factory and conduct the audit, our Fabric Management Team is studying documentation from the mills upfront and the direct vendors are involved in the process as well, to make sure that the audit and the process of generating the scores is most transparent. We therefore have developed also a standard operational procedure for our capacity assessments.

As mentioned above, the technical audit consists of three parts, Environmental Sustainability Management, Chemical Management and Process Controls. Each part has a set of relevant questions and each question has a score of 100, 50, 0 or N/A.

N/A applies when the question we asked about a process is not relevant to that factory, so for example a dying and finishing unit won't answer questions that are only relevant for spinning units. By customizing the questionnaire, we want to ensure that the scoring is fair and not influencing the final result in a negative way for the mill. After the assessment, our Fabric Management department prepares a summary for the mill, including the scores. Please find below the grading including an example:

Score	Grade	Description
85- 100		Passed if no Critical Issue found
70- 84		Passed if no Critical Issue found. Follow up needed
60-69		Passed if no Critical Issue found. Close follow up is needed
59 or below		Factory quality level is below average & not recommended for Esprit
Part A Score	81.25	sustainability
Part B Score	64.71	chemical management
Part C Score	61.42	process
		Total Score
		69.13

2.1 Improving factories and ongoing checks

After every assessment, our Fabric Management Department hands over a corrective action plan to the fabric mill and works together with the mill on improvements. After six months to one year, we repeat the audit to check if the proposed corrective measures have been taken. Our audit schedule depends on the scoring.

Mills with a green score: These are the ones where the total audit score is ≥ 85 points. In this case, the mills will be re-audited twice per year, including follow-up calls between the visits. We call this the

¹ Restricted Substances List

² Manufactured Restricted Substances List

“maintenance audit”. In case any part of the audit is not reaching an individual score of 85 points, our Fabric Manager has to propose corrective measurements that have to be implement after a specific time frame (longest one year, depending on the issue also earlier).

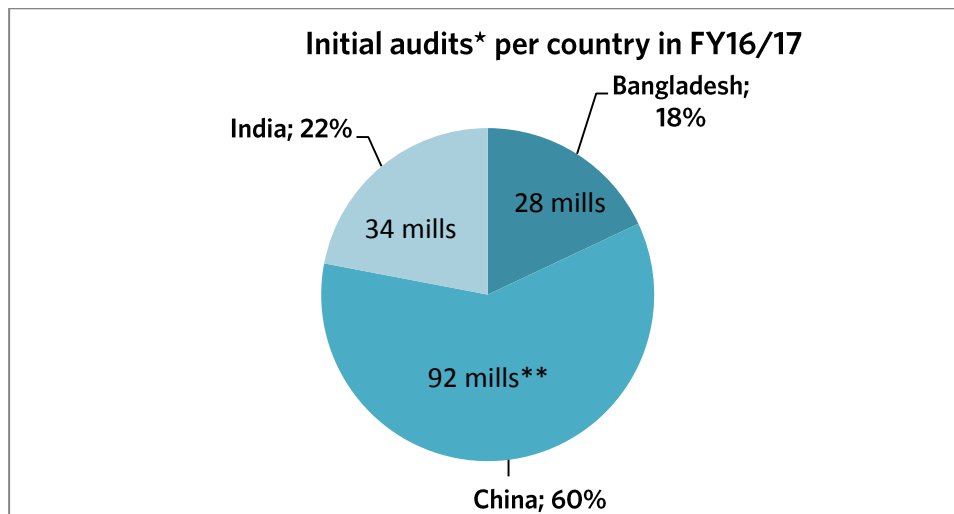
Mills with a yellow or orange scoring: These are the mills where the global score is between 60-84 points. Those mills need to work further to achieve the greatest compliance label with the Esprit Minimum Requirements and policies. Our Fabric Managers define corrective measure for each area where the mill is not in ≥ 85 points range. In maximum one year, the mill has to fully implement the corrective measures to solve the non-compliance issue. Our Fabric Management team follows-up with the mill in a re-audit in that specific time frame.

Mills with a red scoring: These are the mills where the global score is below 59 points. These mills need a lot of support from our Fabric Management team. Therefore, we create a comprehensive corrective action plan to introduce profound improvements to the factory. Together with the mill, we are working on these improvements in a time frame of six months. After these six months, all corrective actions are checked by the Fabric Manager. In cases, a mill refuses to work on the corrective actions or we do not see the needed improvements after the re-audit process, we stop the collaboration.

2.2 Coverage of countries

In FY 16/17 we have audited in total 154 factories in Bangladesh, China, India, South Korea, Pakistan and Vietnam (including re-audit):

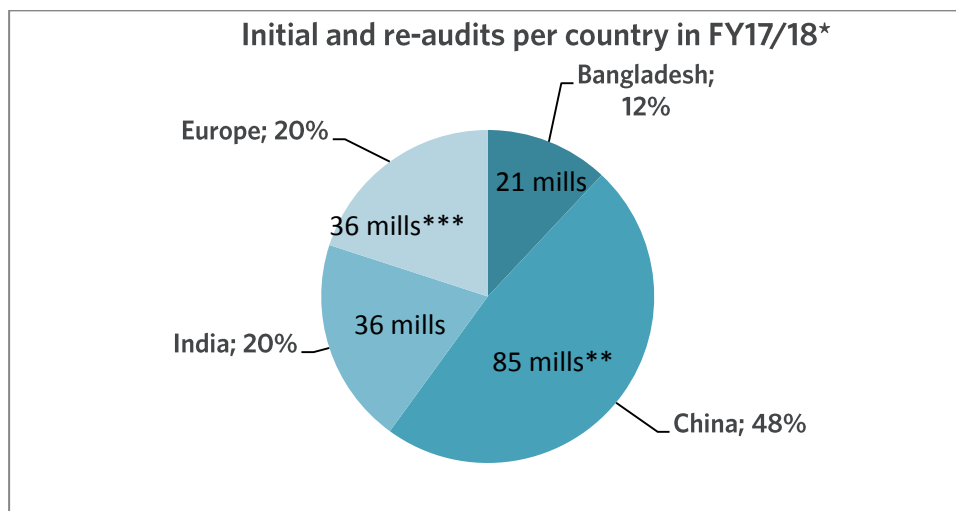
Initial and re-audits FY16/17



**As this was our first year of audits, there were not re-audits in FY16/17.

** China region includes also South Korea, Vietnam and Pakistan

In FY 17/18 we have conducted so far 133 initial audits in wet process factories in Bangladesh, China, India, Pakistan, Portugal, South Korea, Turkey and Vietnam. Additionally, 45 follow-up audits to ensure the corrective measures have been conducted.



* Status April 01st, 2018

**China region includes also South Korea, Vietnam and Pakistan

** Europe region includes Portugal and Turkey

Detailed overview of initial and re-audits in FY 17/18 (status April 01st, 2018)

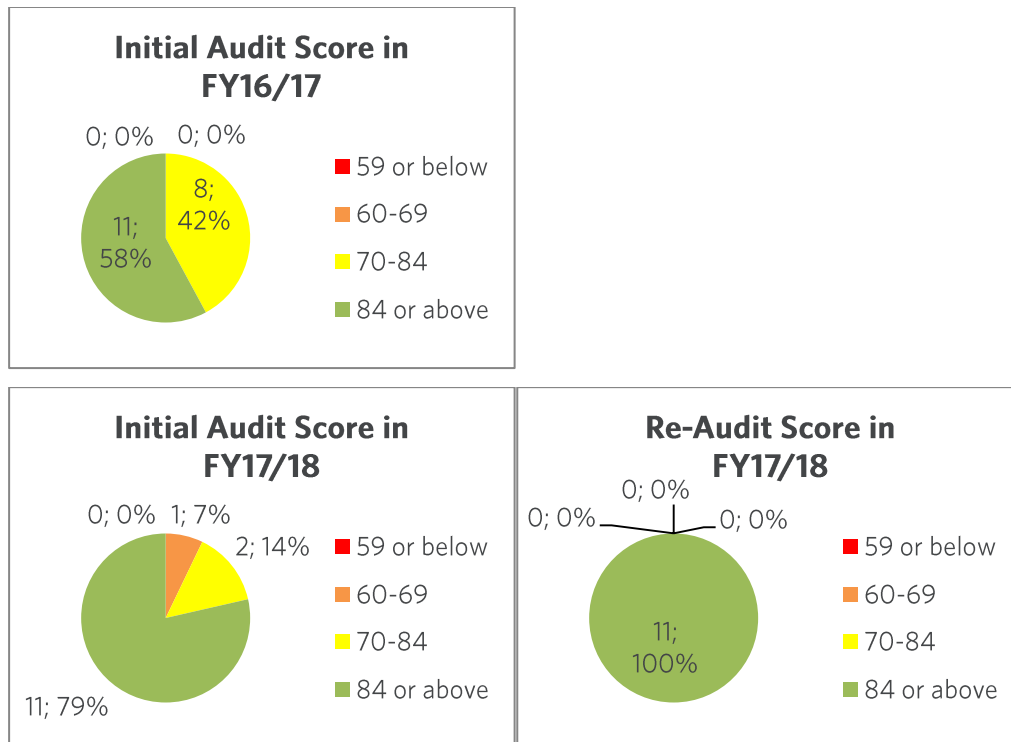
Country	Amount of initial audits	Amount of re-audits
Bangladesh	14	7
China*	54	31
India	29	7
Europe**	36	0
	133	45

3 RESULTS

We would like to give a general overview of the results per country and more details of the findings in the factories. Every region and country has its specific problems towards sustainability, processing and chemical management. We highlight the most relevant problems we identified in our audits.

3.1 Results Bangladesh

In Bangladesh, we have audited 28 mills in FY16/17 and so far, we have conducted 14 initial audits and 7 re-audits in FY 17/18. Please find below a summary of the results and findings. In general, we found a good cooperation with our mills. After the audit, a corrective action plan is handed over and the mills work on the improvements. In a re-audit, our Fabric Management team is evaluating the improvements. As reflected in the results, the improvements have been implemented very well.



3.1.1 Audit Findings and common problems in Bangladesh region

In Bangladesh, we identified the following most relevant problems in our mills. Below, we list them via audit area:

Common Findings in Sustainability

- No waste inventory and proper store of waste
- No energy reduction planning with written procedure
- No written procedure on waste collection and segregation

Common Findings in Chemical Management

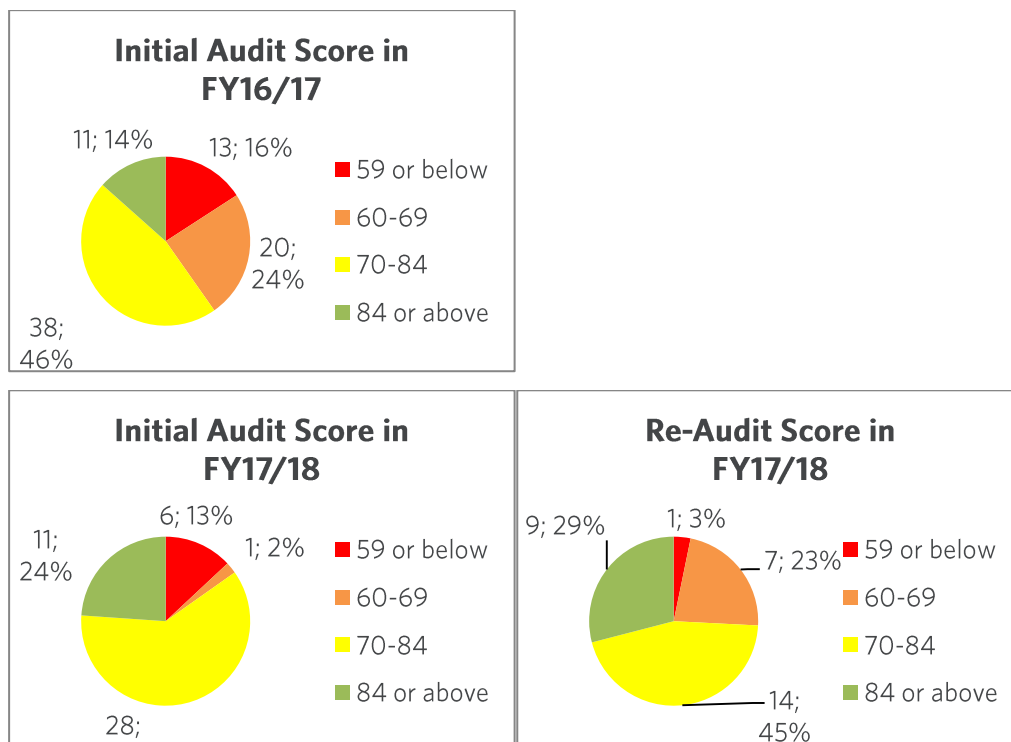
- No Technical Data Sheet and Material Safety Data Sheet are available in chemical store. They are saved in different areas of the factory but not together with the chemicals.
- Chemical information are missing (no original label is labelled on container outside)
- No administrative system at the entrance of chemical store

Common Findings in Processing

- Do not have in-hose test facility (woven and heavy knit)
- No proper record keeping according to Esprit's guidelines for in-house testing

3.2 Results China Region

In China, we have audited 92 mills in FY16/17 and so far, we have conducted 54 initial audits and 31 re-audits in FY 17/18. Please find below a summary of the results and findings. After the audit, a Corrective Action Plan is handed over and the mills work on the improvements. In a re-audit, our Fabric Management team is evaluating the improvements. As reflected in the results, there is progress on improvements in the factories after the initial audit. However, we still found one mill with an unacceptable score after the re-audit. The Master Vendor has been informed about the bad performance of the mill and deactivation process has started.



3.2.1 Audit Findings and common problems in China Region

In China region (including Pakistan, South Korea and Vietnam), we identified the following most relevant problems in our mills. Below, we list them via audit are:

Common Findings in Sustainability

- No waste inventory and proper store of waste
- No energy reduction planning with written procedure
- No written procedure on waste collection and segregation
- No third party energy or environmental audit and energy reduction plan

Common Findings in Chemical Management

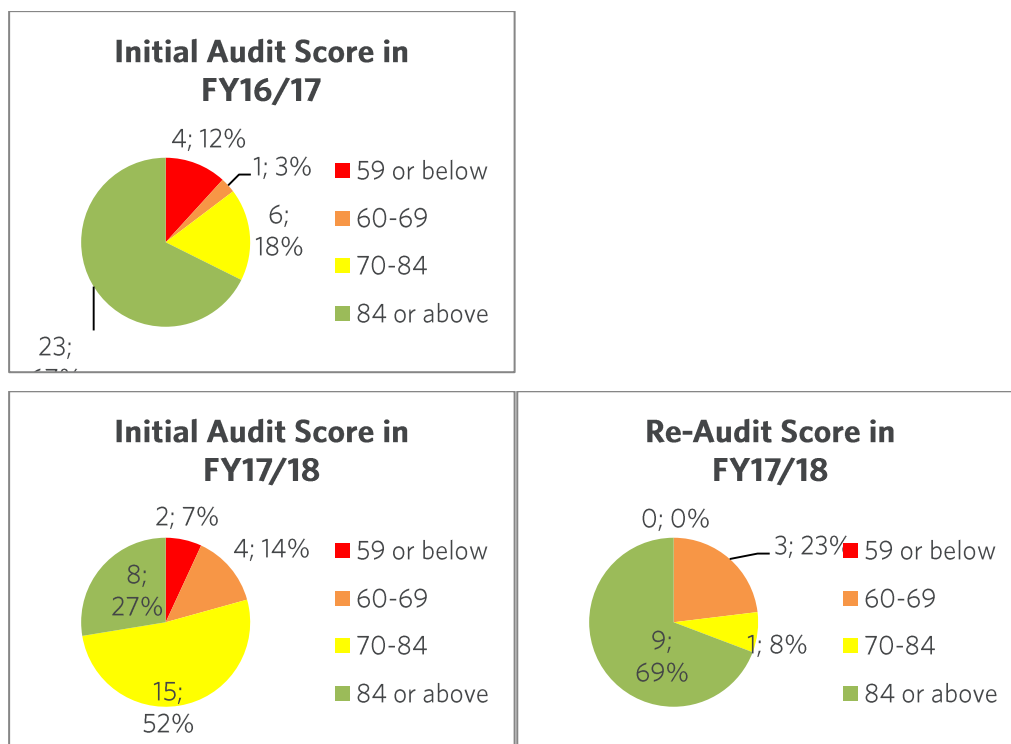
- No Technical Data Sheet and Material Safety Data Sheet are available in chemical store. They are saved in different areas of the factory but not together with the chemicals.
- No comprehensive chemical inventory according to Esprit requirements in our Chemical Management Guideline
- Chemical information are missing (no original label is labelled on container outside).
- Lack of chemical expiry date information
- Safety issue at chemical store

Common Findings in Processing

- No internal testing facilities in place according to Esprit's guidelines for in-house testing
- Available labs are not in right condition and the equipment is not calibrated
- Lack of trained lab technicians
- Some of the Tier 2 mills do not have correct understanding of Esprit' guidelines for testing

3.3 Results India

In India, we have audited 34 mills in FY16/17 and so far, we have conducted 29 initial audits and 7 re-audits in FY 17/18. Please find below a summary of the results and findings. After the audit, a Corrective Action Plan is handed over and the mills work on the improvements. In a re-audit, our Fabric Management team is evaluating the improvements. As reflected in the results, there is progress on improvements in the factories after the initial audit, but we still have to work closely with the four mills that have a result in between 60-84.



3.3.1 Audit Findings and common problems in India

In India, we identified the following most relevant problems in our mills. Below, we list them via audit area:

Common Findings in Sustainability

- No waste inventory and proper store of waste (gradually improvement in FY17/18)
- No energy reduction planning with written procedure
- No written procedure on waste collection and segregation
- No third party energy or environmental audit and energy reduction plan

Common Findings in Chemical Management

- Mills do not keep the formal documentation of their chemical inventory according to Esprit's Chemical Management Guideline. Mills are using their own format covering inlet and outlet movement details
- Medium sector mills do not have proper housekeeping of planned store keeping of chemicals and dyes areas
- No mill has guarantee letters from chemical formulators to confirm that chemical complies with the Esprit Manufactured Restricted Substances List / Restricted Substances List

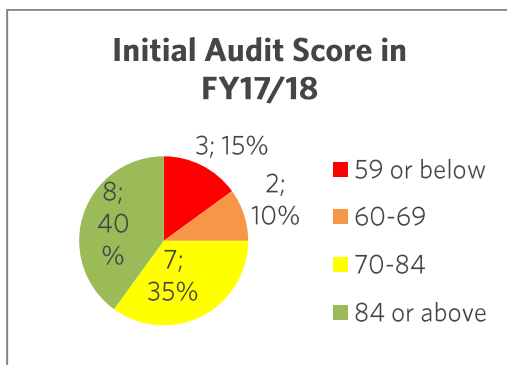
Common Findings in Processing

- Medium sector mills have limited testing facilities and no proper records are kept of tests conducted

- Lack of keeping internal testing record according to Esprit's guideline for in-house testing. Some mills maintain records similar to hand written log books
- Fabrics are tested for basic parameters like pH, absorbency etc. at different stages of production but no records are kept
- No proper record keeping of bulk lots for later shade continuity
- No proper record keeping of bulk lots for later shade continuity in place

3.4 Results Europe

In Europe, including Portugal and Turkey, we have started the audit program in FY17/18. So far, 36 mills have been initially audited. Please find below a summary of the results and findings. After the audit, a Corrective Action Plan is handed over and the mills work on the improvements. In a re-audit, our Fabric Management team is evaluating the improvements.



Common Findings in Sustainability

- Mills do not maintain waste inventory and no waste reduction plan
- No energy reduction planning with written procedure
- No third party energy or environmental audit and energy reduction plan

Common Findings in Chemical Management

- No comprehensive chemical inventory
- Lack of chemical expiry date information
- Mills have no guarantee letters from chemical formulators to confirm that chemical complies with the Esprit Manufactured Restricted Substances List / Restricted Substances List
- Safety aspect at chemical store

Common Findings in Processing

- Mills do not have internal testing facilities or only limited in basic testing except dye houses
- Available labs are not condition and equipment not calibrated
- Some of the Tier 2 mills do not have correct understanding of Esprit' guidelines for testing

4 CONCLUSION

Our technical audit program is key to move our supply chain towards greater sustainability and to fulfil our Detox Commitment. With the capacity assessments we ensure that suppliers understand our Chemical Management Guidelines, the implementation of the Manufacturing Restricted Substances List, Wastewater Guidelines, In-house controls guideline and our testing protocol that we have developed to ensure safe products and a safe chemical use in our supply chain. We established also a program to evaluate the performance of our suppliers. This means, that our Tier1 suppliers are evaluated on the performance of their wet process mills. If the Tier2 mill they work with is not performing in the capacity assessment (and waste water testing), the score for the testing has a direct impact on the vendor performance. This is how we implement a holistically improved supply chain.

So far, more than 50 % of our Tier2 mills have been audited at least once. As our Tier2 supply chain is more flexible than our Tier 1 supplier base, this number is never fully stable. Depending on seasons and trends our products can require different finishing and wet processes. Therefore, the supply chain for wet processes is not as stable as our Tier1 supplier base. In general, it is our aim to build long-term relationships with our direct suppliers and working with them in a collaborative and transparent way. As this is due to different products and seasons more challenging with Tier2 suppliers, we focus on monitoring our supply chain constantly to have it most updated. The capacity assessments are an important tool to build and intensify relationships with our Tier2 suppliers and are therefore an important step to stabilize our deeper supply chain.