

A close-up photograph of cotton bolls on a branch. The cotton is bright white and fluffy, contrasting with the brown, dried leaves and the dark branch. The background is a soft-focus field of more cotton plants under a clear sky.

# SO URCI NG RE PORT

2020/2021





# PREAMBLE

**Dear Readers, dear Friends of Takko Fashion,**

We look back on a turbulent year. The Corona pandemic keeps us busy professionally and economically. The crisis has clearly shown how globally our economy operates, highlighted interdependencies and once again brought close cooperation across national borders and continents into focus. One thing has become very clear during the past business year: Sustainable and trusting cooperation is an essential way to overcome crises together. Takko Fashion has been working with more than half of its production sites for more than five years. These economic relationships, which are based on close exchan-

ge and joint solutions with our suppliers, have strengthened us in our sustainable actions during the Corona crisis.

The crisis may have undoubtedly complicated activities in our sustainability efforts, but it has made it all the more clear how important it is to work together for more sustainable action and the strengthening of social standards in the production countries. Takko Fashion has therefore further intensified dialogue and cooperation with its suppliers over the past year in order to find creative solutions to the challenges of the pandemic in a spirit of partnership in the short term - and to achieve the best possible transparency in all steps of the textile value chain as well as to continuously optimise it in the long term.

Buying sustainable and responsibly produced fashion should not be a question of price. Takko Fashion believes that everyone should be able to afford quality and responsibly produced clothing. Each and every one of our Takko Fashion colleagues is committed to this mission. Good and safe working conditions in our production countries are our top priority. We rely on trusting cooperation with our long-term business partners and are consistently expanding these. Accordingly, we check compliance with our standards through regular and partly unannounced audits with our own and external audit teams. The basis for the cooperation as well as the audits in the factories are our Code of Conduct and the legal regulations on working conditions and work safety.

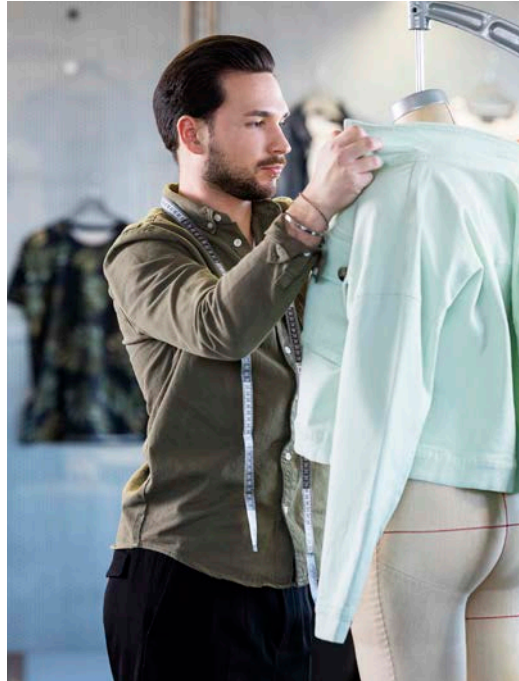
In 2011 we became a member of the Fair Wear Foundation. Back then we were the first German discount fashion brand to join the FWF and we are still unique in that respect today. The multistakeholder initiative acts as an independent partner helping us to improve conditions at the factories where our garments are made and reviews our implementation progress. We are proud to be making a positive contribution to improving working conditions in the textile industry and we value the insights we have gained through regular dialogue with the Fair Wear Foundation and other allies, such as the Transition Accord signatories and the members of the Partnership for Sustainable Textiles. We believe that constructive collaboration helps both us and our partners to continuously optimise processes and gradually move closer to achieving our common objectives.

In our Sourcing Report, we regularly and publicly inform about our activities in the areas of social responsibility and sustainability. It documents the progress we have made in sustainably improving long-term working conditions in the textile industry and the goals we have set. Read on to discover how smart discount fashion retailing and sustainability can be two sides of the same coin.

Kind regards,  
Your Takko Fashion Team



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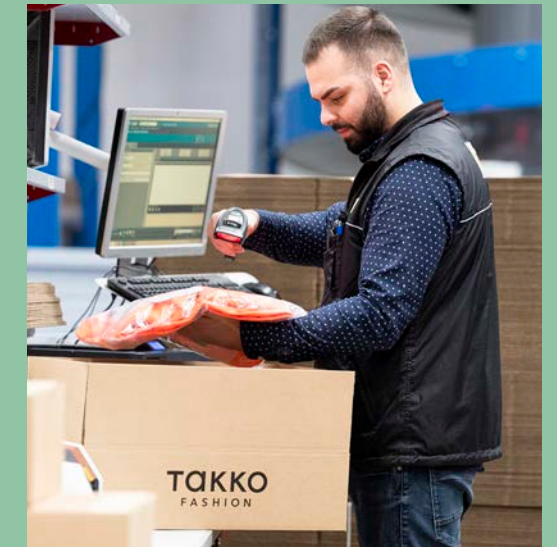
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# SMART & SUSTAINABLE

## THE FABRIC SUCCESS IS MADE OF

Since opening our first store in 1982 we have evolved into one of the most successful discount fashion retailers in Europe. Today we sell practical basics and wearable trendy styles for fashion and cost-conscious families at more than 1,900 stores in 17 European countries. We sell private label collections created by our in-house designers

and product managers and we are a fully vertical retailer. With its mix of fashionable collections, attractive quality and a relaxed shopping experience, Takko Fashion offers a high level of customer focus. In our diverse collections, the whole family can find clothes they can feel absolutely comfortable in. We offer a full range for women, men and children clothing, from fashionable outerwear, lingerie and accessories, children's and baby clothing to swimwear and sportswear.

At Takko Fashion we firmly believe that buying quality and responsibly produced fashion should not be a matter of price. It is important to us that everyone - regardless of their personal budget - can participate in a modern fashion lifestyle. And with a good feeling, because we are committed to good and safe working conditions in the production of our fashion articles. All of our 18,000 Takko Fashion colleagues are dedicated to this goal - quality and responsibly produced trends at an attractive price - every day!

### Smart Sourcing, Strong Partnerships

Our sourcing department in Friedrichsdorf is responsible for the procurement of our garments and for compliance with our stringent ecological and social standards. This is the reason why it works hand-in-hand with the procurement compliance team, which collaborates with our partners to monitor compliance and continuously improve working conditions in the garment-producing countries. We are also supported by our local CSR teams in China, Bangladesh, India and Myanmar. In our offices abroad, more than 20 colleagues are actively working on procurement compliance issues. In principle, we aim to distribute our orders to our fixed set of suppliers, this applies especially to our long-standing production partners. In this way, we strengthen existing relationships and motivate our partners to invest further in improving working conditions.

The shipping department focuses on eco-friendly order consolidation because 'smart shipment' is another of our priorities. We always ensure that low-emission means of transportation are used and systematically optimise our goods flows. Our products often travel across long distances before they arrive at our distribution centres and stores. The choice of transportation therefore has a decisive impact on our carbon footprint. This is why we ship almost "97 percent" of our freight consignments by sea and make sure that container capacity is optimally utilised. For transport, our goods are packaged in bundles in larger quantities in cardboard boxes, which are later reused in our logistics centres for the re-stocking of the goods.

When we deliver the garments to our stores we focus on sustainability by transporting them in reusable rolling containers to avoid additional packaging waste. Not only should the route from Asia to Europe to our shops be as sustainable and resource-saving as possible, but the transport of our articles to the customer's home should also be as environmentally friendly as possible. That's why we ship our online orders in cardboard boxes and paper bags made from recycled materials.

Smart is to constantly improve in these aspects and to continuously optimise our processes, structures and systems for a more sustainable and responsible use of resources. Smart is also taking social responsibility and constantly and consistently improving working conditions in the production countries.

**It's smart! It's Takko Fashion!**



# CORPORATE FACTS

COMPANY:  
**TAKKO GROUP**



PRINCIPAL SHAREHOLDER: **APAX PARTNERS**

ONLINE SHOP:  
**TAKKO.COM** (DE)

ESTABLISHED  
**1982**



MORE THAN **20**  
INTERNATIONAL  
CSR COLLEAGUES



March 2021 figures

# OUR VALUE CHAIN

## TAKKO FASHION PRODUCTION CYCLE



**Trend Sourcing:** Our in-house designers seek inspiration for new Takko Fashion styles in the fashion capitals around the globe.

**Design:** The product management team at our Telgte headquarters reinterpret the latest trends to reflect the needs and preferences of our customers.



**Price Negotiation and Nomination:** Our designers' finished styles are sent to the production procurement team in Friedrichsdorf. They place our orders globally and ensure that our products meet our quality standards and pricing policy. In addition to quality and price-performance ratio, the working conditions in the production facilities play an essential role in the awarding of our orders. Orders are only placed with suppliers who meet our social standards and occupational safety regulations. Our international offices in the garment-producing countries coordinate the execution of our production orders.

We only buy finished goods, which means that we don't procure the raw materials and components for our products ourselves; this is done by the factories or our partners. Cost sheets are used to calculate the purchase prices for our products. We prefer to place our orders during the low season rather than at peak times. This allows our suppliers to plan and coordinate their orders on a more long-term basis, thus taking advantage of synergies in their procurement. Our standard lead time is seven to nine months depending on product and style.



**First Sample:** Before garments are approved for production the manufacturer sends samples to our purchasing team. Our technical quality assurance department then conducts tests to assess the quality, fit, design and other characteristics of the samples.

**Production:** Once the garments have passed the quality inspection they are approved for production. The production of the articles in the production countries is continuously monitored by our colleagues from the Quality Control department.



**Transport:** The finished items are shipped in containers to the Port of Hamburg and from there to our nearby central distribution centre in Winsen. The next leg involves transportation to our German distribution centre in Telgte as well as to our Slovakian distribution centre in Senec. In the last stage of their journey the items are delivered to our stores: around 1,900 in 17 European countries. Products purchased via our web shop are dispatched from our Winsen central distribution centre.



**Our customers:** Our customers can discover their new favourite pieces by Takko Fashion once the products arrive at the stores or are available in our German online shop. In our stores, we are increasingly avoiding the distribution of plastic bags and offer our customers paper bags made of recycled material. We also use cardboard boxes and paper bags made from recycled materials for shipping online orders.

**Recycling:** Since we plan our articles and store stocking in great detail during the design phase and when ordering from our suppliers, Takko Fashion has very little remaining stock. Goods that we could not sell in one season are brought together in our central warehouse and distributed to our shops again at the beginning of the following season. This means that the amount of leftover stock is very small, less than one percent. These goods will be recycled by a processor and returned to the retail cycle. Through reliable quality and timeless styles, we also aim to allow our customers to wear their Takko Fashion items for as long as possible.



# OUR QUALITY STANDARDS

## QUALITY FIRST!

We know that our customers expect dependable quality at affordable prices from Takko Fashion. That is why two of our top priorities are comprehensive quality assurance throughout the entire production process and compliance with high ecological standards on a voluntary basis.

All of our carefully produced garments undergo comprehensive quality tests and inspections before they arrive at our stores or are posted online in our web shop. In fact, our own quality standards are more stringent than those prescribed by law.

The products are initially checked in the production countries before being sent to our in-house quality assurance department in Germany for further inspection. We check for compliance with requirements for physical properties such as colourfastness, seam durability and shrinkage, as well as adherence to the hazardous substance limits that are defined by the legislators and consumer organisations.

All processes which have a decisive influence on the quality of our products are performed by us. Optimised production and inspection processes enable us to develop, source and supply large volumes of high-quality products.

During the production of our articles, our colleagues in our respective foreign offices continuously check compliance with our quality standards. Just as we also monitor compliance with social regulations and give specifications on work safety and working conditions in general to our suppliers, we also provide them with information material for the proper and environmentally friendly handling of chemicals in textile production. We regularly monitor compliance with these strict chemical management requirements.

Close collaboration between all departments involved in the development of our products is very important in this process. They are excellently networked, which improves product quality, shortens times to market and allows us to exploit synergies.

*„We are absolutely committed to product quality. If we identify non-conformities during the production process, going against our high standards, we instruct our partners to remediate them. We monitor production activities very closely in a continuous improvement process.“*

*Our team is broadly based: We have colleagues at our different locations in Germany and in our foreign offices in Asia who are responsible for compliance with quality standards. Through the intensive cooperation of the entire team, we can provide our partners in the production countries with simple solutions without generating high costs for them and together sustainably improve the ecological as well as social standards in production.“*

**Dörte Michalski, Manager Quality Control**





# CERTIFIED QUALITY



## OUR QUALITY SEALS

When we manufacture our garments our main priorities are sustainability and quality. That's why we focus on:



### Carefully selected raw materials:

Our products are manufactured with care from selected materials.



### Systematic hazardous substance testing:

We perform some hazardous substance testing in-house and engage external service providers to conduct additional independent tests.



### Comfortable fit:

The use of fabrics that feel pleasant in combination with fit checks ensure that our garments offer excellent comfort in wear.



### Clearly defined social standards:

We obtain undertakings from all partners of their compliance with legal requirements of safety and working conditions during the production of our garments.

More than half of our products, especially from the children's and underwear ranges, are OEKO-TEX certified and thus conform to exceptionally high quality standards. Our new-born range also includes GOTS-certified items which are produced organically and comply with high social standards.





### GOTS (GLOBAL ORGANIC TEXTILE STANDARD)

GOTS is a globally recognised processing standard for textiles made from organic fibres. Certified products must contain a minimum of 70 percent organic fibres and meet strict environmental criteria, ranging from the procurement of organically cultivated natural materials to environmentally and socially responsible production. Takko Fashion's new-born range includes GOTS-certified items which are produced organically and comply with high social standards.



### OEKO-TEX® STANDARD 100

The OEKO-TEX® Standard 100 was introduced in 1992 as a globally recognised testing and certification system for raw materials, interim products and finished products in the textile industry at all stages of processing. It also extends to accessory materials. The OEKO-TEX® Standard 100 certifies a level of freedom from hazardous substances that exceeds statutory requirements. All components of the products tested must pass the OEKO-TEX® Standard 100 tests to obtain certification. More than half of the Takko Fashion products are already OEKO-TEX certified.



### BETTER COTTON INITIATIVE

We aim to manufacture our garments in the most ecofriendly way possible. As a member of the Better Cotton Initiative we support sustainable cotton production. The BCI is a cotton sustainability programme involving environmental and human rights organisations, as well as retailers and brands. The BCI provides training to farmers on more sustainable farming practices, such as how to conserve water and minimise the use of pesticides. It also educates the farmers on issues such as occupational safety.



The BCI uses a chain of custody model called 'mass balance', which means that when an order is placed one farmer somewhere must produce the amount of cotton ordered to a Better Cotton standard, but the cotton supplied does not necessarily come from that farmer. Through our membership of the BCI we pursue the global objective of supporting sustainable cotton production methods. Since joining the Better Cotton Initiative, we have saved around 5 billion litres of water and 3,000 kilograms of pesticides by sourcing sustainable cotton. In the 2020/21 financial year, more than a third of the cotton included in Takko Fashion clothing was BCI certified. We aim to continuously increase this proportion in the future.



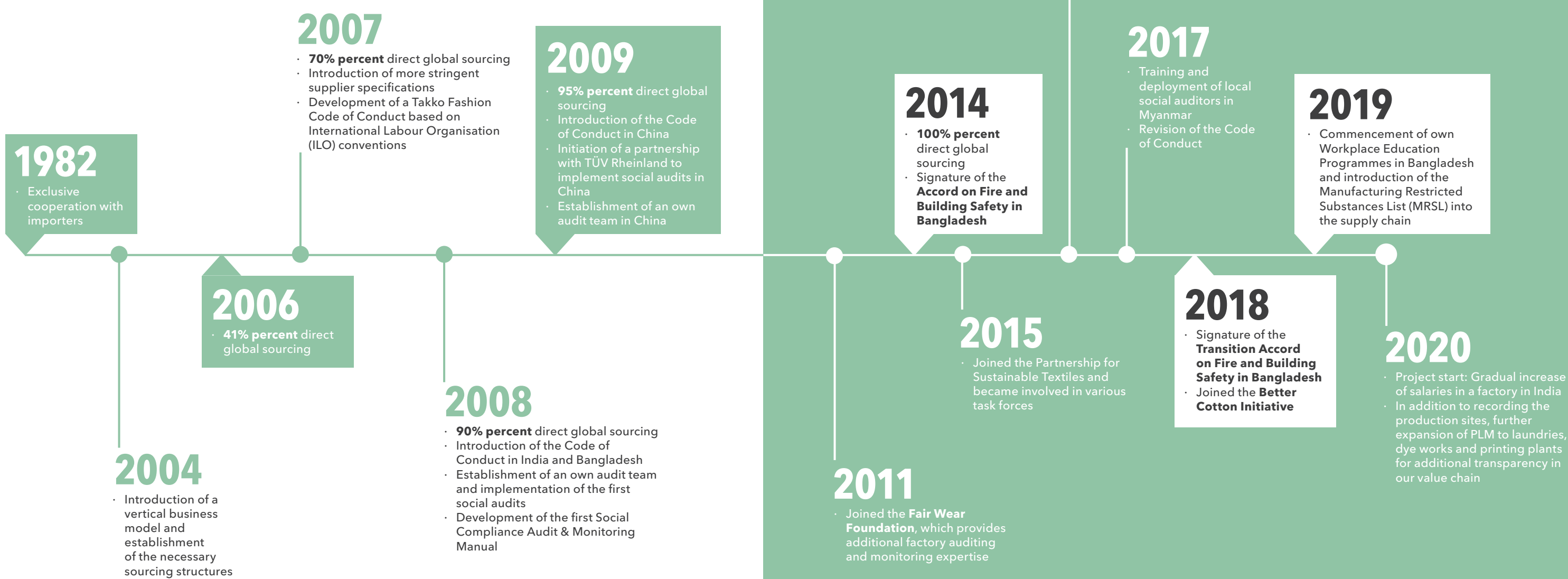
### FUR FREE RETAILER PROGRAM

Our clothing and our accessories are 100% free of animal fur. That is why we joined the Fur Free Retailer Program, in the interest of animal welfare. The leading global initiative for distinguishing fur-free companies shows customers from over 25 countries which producers of fashion products observe the principles of animal ethics. Fair treatment of animals is important to us. That's why at Takko Fashion we do not use animal materials to a large extent.



# CONTINUOUS DEVELOPMENT

## THE HISTORY OF OUR SOURCING PROCESS





# OUR GOALS FOR THE 2021/2022 BUSINESS YEAR

## WHAT WE HAVE ALREADY ACHIEVED AND WHAT WE ARE BUILDING ON

So far, we have been able to achieve a lot to continuously improve working conditions in the production sites of our business partners. In the 2020/2021 business year, we have also implemented several projects and measures to further expand transparency in our supply chain and advance social standards.

Thus, in the 2020/21 financial year we have introduced a cost sheet tool to record cost sheets into our Product Lifecycle Management (PLM). The cost sheets include CMT prices (cut/make/trim).

With the help of systematic order entry process, we now register not only the production sites but also all laundries, dye works and printers in our PLM. This means we can identify the wet process subcontractor used by each partner to finish the products in each order and increase the level of transparency in our supply chain. Despite the challenges posed by the Corona pandemic, with difficult travel and temporary border closures, we also began conducting audits of our wet process suppliers in Bangladesh last year. We will continue to pursue this development in the future.

Together with an Indian production site, we started a project last year to implement living wages. The project has set itself the goal of gradually raising the wages of all workers at the production site within the project period of five years. We successfully launched the project with our partner in India last financial year and will continue it this year.

In recent years we and our partners like the Partnership for Sustainable Textiles and the Fair Wear Foundation have implemented many positive changes and important projects. We intend to build on this progress and continue improving working conditions at the garment-making factories.

In the past, our audits of production facilities in Pakistan for building safety have been difficult and sometimes complicated. As there is no uniform legislation for building safety in Pakistan, our audit reports at our partners in Pakistan have not been standardised so far. We would like to change this - in order to standardise the requirements for building safety and to sustainably establish this important topic among our partners and production sites. Therefore, we will establish a uniform standard for building safety for all our production sites in Pakistan this financial year. To this end, we are taking into account the current situation and our previous audit reports in Pakistan, the respective legal requirements as well as our own regulations on the topic of building safety. The goal is to define our own building safety manual in Pakistan, which will serve as a guideline for our suppliers and according to which all our building safety audits will be conducted in the future.

Sustainability, social and ecological responsibility, transparency in the supply chain - these are all issues that we have been addressing for a long time and that we would like to advance even further in the future. However, in



addition to our projects to improve working conditions, occupational safety and ecological standards, it is also important to talk about these topics - with our customers, our employees and our partner companies. We cannot improve working conditions, support climate goals and promote sustainable action on our own, but only together. It is therefore important that we talk about sustainability! During the new business year, we will therefore inform even more about our efforts, projects and cooperations

around the topics of sustainability and social responsibility. We want to strengthen communication about these topics in order to bring their importance to the forefront for all of us. Our membership in the Fair Wear Foundation will play an important role in this: On our social media channels, our website as well as in the shops at the point of sale, we want to draw even more attention to our cooperation with the FWF.



# SOURCING STANDARDS

## OUR CODE OF CONDUCT

Our Code of Conduct guarantees that our partners comply with our standards of fairness, honesty, and responsibility in all aspects of their business activities. In most cases our standards surpass the legal requirements in the production countries. Compliance with our Code of Conduct is checked by regular - also unannounced - audits at the production sites. We also regularly review our Code of Conduct and amend or update it when necessary.

Taking responsibility for our corporate activity is an important pillar of our company's policy. It is our view that in a global economy social responsibility of international companies is not only restricted to sales markets but must also apply in all regions where they operate, wherever possible. We take the subject of working conditions and social responsibility very seriously at home and abroad.

Therefore Takko Fashion joined the Fair Wear Foundation and is signatory of the partnership for sustainable textiles.



Takko Fashion is committed to:

- a standard of excellence in every aspect of the business and in every part of the world,
- ethical and responsible management in all operations,
- respect for the rights of all individuals,
- respect for the environment and
- compliance with building and fire safety.

Consistent with our brand values we expect the same commitments to be shared by all suppliers and producers of Takko Fashion products ("business partners") and that they conduct themselves with the utmost fairness, honesty and responsibility in all aspects of their business.





**1. FAIR LABOUR CONDITIONS**

**1.1 EMPLOYMENT IS FREELY CHOSEN**

Business partners shall not engage in any form of servitude, forced, bonded, indentured, trafficked or non-voluntary labour.

Business partners will risk allegations of complicity if they benefit from the use of such forms of labour by their business partners.

Business partners shall act with special diligence when engaging and recruiting migrant workers both directly and indirectly.

Business partners shall allow their workers the right to leave work and freely terminate their employment provided that workers give reasonable notice to the employer.

Business partners shall ensure that workers are not subject to inhumane or degrading treatment, corporal punishment, mental or physical coercion and/or verbal abuse.

All disciplinary procedures must be established in writing and are to be explained verbally to workers in clear and understandable terms.

**1.2 NO DISCRIMINATION**

Recruitment, wage policy, admittance to training programs, employee promotion policy, policies of employment termination, retirement, and any other aspect of the employment relationship shall be based on the principle of equal opportunities.

Business partners shall not discriminate, exclude or have a certain preference for persons on the basis of gender, age, religion, race, caste, birth, social background, disability, ethnic and national origin, nationality, membership in unions or any other legitimated organization, political affiliation or opinion, sexual orientation, family responsibilities, marital status, diseases or any other condition that could give rise to discrimination.

In particular, workers shall not be harassed or disciplined on any of the grounds listed above.

**1.3 NO EXPLOITATION OF CHILD LABOUR**

There shall be no use of child labour both directly or indirectly (e.g. by use of subcontractors or daily workers). The age of admission to employment shall not be less than the age of completion of compulsory schooling and, in any case, not less than 15 years. There shall be no forms of slavery or practices similar to slavery, such as the sale and trafficking of children, debt bondage and serfdom and forced or compulsory labour.

Business partners must establish suitable age-verification mechanisms as part of the recruitment process, which may not be in any way degrading or disrespectful to the worker.

**SPECIAL PROTECTION OF YOUNG WORKERS:**

Young workers between the age of 15 and 18 shall not perform work which, by its nature or the circumstances in which it is carried out, is likely to harm their health, safety or morals.

Business partners should ensure that their working hours do not impede their attendance at school, their participation in vocational orientation approved by the competent authority or their capacity to benefit from training or instruction programs.

Business partners shall set the necessary mechanisms to prevent, identify and mitigate harm to young workers; with special attention to the access, young workers shall have to effective grievance mechanisms.

**1.4 FREEDOM OF ASSOCIATION AND THE RIGHT TO COLLECTIVE BARGAINING**

Business partners will respect the rights of employees to associate, organize and bargain collectively in a lawful and peaceful manner. The workers have the right to negotiate as a group with their employer.

Business partners must not punish workers who express their opinions and wishes.

When the right to freedom and association and collective bargaining is restricted under law, business partners must not hinder other forms of collective bargaining and workers' organizations. Workers' representatives shall not be the subject of discrimination and shall have access to all workplaces necessary to carry out their role.

**1.5 PAYMENT OF A LIVING WAGE**

Wages and benefits paid for a standard working week shall meet at least legal or industry minimum standards and shall always be sufficient to meet basic needs of workers and their families and to provide some discretionary income.

Wages are to be paid in a timely manner, regularly, and fully in legal tender. The level of wages is to reflect the skills and education of workers and shall refer to regular working hours.

Deductions from wages for disciplinary measures shall not be permitted nor shall any deductions from wages not provided for by national law be permitted. Employees shall be adequately and clearly informed about the specifications of their wages including wage rates and pay period.

**1.6 NO EXCESSIVE WORKING HOURS**

Hours of work shall comply with applicable laws and industry standards. In any event, workers shall not on a regular basis be required to work in excess of 48 hours per week and shall be provided with resting breaks in every working day and at least one day off for every seven-day period. Overtime shall be voluntary, shall not exceed twelve hours per week, shall not be demanded on a regular basis and shall always be compensated at a premium rate.

### 1.7 HEALTH AND SAFETY

A safe and hygienic working environment shall be provided, and best occupational health and safety practice shall be promoted, bearing in mind the prevailing knowledge of the industry and of any specific hazard.

Business partners shall take all appropriate measures within their sphere of influence to ensure the stability and safety of the equipment and buildings they use, including residential facilities to workers when these are provided by the employer as well as to protect against any foreseeable emergency. Business partners shall respect the worker's right to exit the premises from imminent danger without seeking permission.

Business partners shall ensure adequate occupational medical assistance and related facilities.

Business partners shall ensure access to drinking water and sanitary facilities, fire safety and personal protective equipment and adequate lighting & ventilation free of charge.

Business partners will treat each employee with dignity and respect. Physical abuse, threats of physical abuse, unusual punishments or discipline, sexual and other harassment, and intimidation by the employer is strictly prohibited.

Vulnerable individuals such as – but not limited to – young workers, new and expecting mothers and persons with disabilities shall receive special protection.

Business partners will also ensure that the same standards of health and safety are applied in any housing that they provide for employees.

### 1.8 LEGALLY-BINDING EMPLOYMENT RELATIONSHIP / NO PRECARIOUS EMPLOYMENT

Business partners shall ensure that their employment relationships do not cause insecurity and social or economic vulnerability for their workers. Work is performed on the basis of a recognized and documented employment relationship, established in compliance with national legislation.

Before prior to employment, business partners are to provide workers with understandable information about their rights, responsibilities and employment conditions, including working hours, remuneration and terms of payment.

Business partners shall not use employment arrangements in a way that deliberately does not correspond to the genuine purpose of the law. This includes – but is not limited to – either apprenticeship schemes where there is no intent to impart skills or provide regular employment or seasonality or contingency work when used to undermine workers' protection or labour-only contracting.

Younger workers shall be given the opportunity to participate in education and training programs.

Furthermore the use of sub-contracting may not serve to undermine the rights of workers.

### 2. PROTECTION OF THE ENVIRONMENT

Our business partners must follow all environmental laws and regulations applicable in the country where they do business. Business partners must possess the required environmental permits and licences for their operations. Business partners must always adhere to the applicable standards and legal regulations concerning the treatment of chemicals or other hazardous substances, as well as their disposal. Our business partners are obligated to reduce emissions or negative impacts on the environment caused by production. We expect our business partners to act responsibly when it comes to preserving natural resources, and demand continuous improvement of environmental performance.

### 3. OTHER LAWS

Business partners fulfil all valid laws and regulations, including anti-corruption laws and anti-money laundering laws as well as those concerning the manufacture, price calculation, sale and delivery of products. All references to „valid laws and regulations“ in this Code of Conduct cover local and national legislation, regulations and directives, as well as applicable contracts and voluntary industry standards.

### 4. SUBCONTRACTORS

Business partners must not engage subcontractors for the manufacture of Takko merchandise or components thereof if the subcontractors have not signed this Code of Conduct and have been approved by Takko for production.

### 5. MONITORING AND COMPLIANCE

Business partners will authorize Takko Fashion and its designated agents (including third parties) to engage in monitoring activities to confirm compliance with this Code of Conduct, including unannounced on-site inspections of manufacturing facilities and accommodation provided by the employer, reviews of books and records relating to employment matters, and private interviews with employees. Business partners will retain all documentation that may be needed to demonstrate compliance with this Code of Conduct on site.

### 6. FAIR WEAR FOUNDATION AND ACCORD ON FIRE AND BUILDING SAFETY IN BANGLADESH

Before starting a business relationship with Takko Fashion, business partners have to guarantee their compliance with Fair Wear Foundation and the Accord on Fire and Building Safety in Bangladesh standards.

### 7. PUBLICATION

Business partners will take appropriate steps to ensure that the provisions of this Code of Conduct are communicated to employees, including the prominent posting of a copy of Fair Wear's Code of Labour Practices as well as the Worker Information Sheet in the local language and in a place readily accessible to employees at all times.





# SOURCING MODEL AND ORGANISATIONAL STRUCTURE

## OUR SOURCING STRATEGY

We only allow our products to be manufactured at factories we have inspected and found to be safe. For this reason we have established a clearly defined organisational structure for our sourcing process and ensure that our supply chain is as transparent as possible. We continuously build our relationships with partners and, at the same time, improve the factory workers' working and living conditions.

To this end, we have set up the Procurement Compliance Team at our Friedrichsdorf site, a department specifically responsible for this area. It is supported by our local CSR teams, which are active in our foreign offices in China, Bangladesh, India and Myanmar, and by the Fair Wear Foundation.



*„Only together can we sustainably improve working conditions in the factories. That is why we rely on long-term partnerships and trusting cooperation with our suppliers. A contact person is always available for our business partners - sometimes directly on site or from our CSR team in Friedrichsdorf. Through regular audits at the production sites, jointly developed action plans for improvements and training directly on site, we can create continuous improvement in social working conditions and a safe working environment for all workers.“*

**Patricia Zülch, Team Leader Procurement Compliance**



### Audit Process

We implement regular audits at the partner production facilities where our garments are manufactured. The social auditors visit the factories to conduct both scheduled and unscheduled audits. In addition to our local auditors we use the services of the renowned auditing firms Sumations and TÜV Rheinland in order to be able to conduct audits in all of the production countries. All audits are based on our Code of Conduct and statutory regulations on workplace safety.



#### Audit Scheduling:

If we are planning a scheduled audit, we contact our partner to arrange a date for the audit and discuss the audit process.



#### Factory Visit:

During the factory visit the current safety standards are inspected, information is obtained from available documents, the documents are checked for accuracy and interviews are conducted.



#### Off-Site Interviews:

Off-site interviews are conducted either after the audit, or in between two audit days. The interviewers talk to factory workers so that they can communicate their personal views.



#### Conclusion:

The audit concludes with the development of a Corrective Action Plan (CAP) with the factory management, including timelines for the improvement of social standards which have to be in place by the next audit. Training and education measures are also organised on the basis of non-conformities.



#### Digital Archiving:

All social audit reports and the corresponding CAPs are stored in our PLM (Product Lifecycle Management) system so that the procurement compliance team can evaluate the social audits.



In the past year, which was marked by the Corona pandemic, we also tried to ensure that our factories were audited wherever possible with the help of extensive hygiene and safety regulations. Despite the difficult conditions caused by the Corona pandemic and extensive hygiene measures, we were able to conduct a total of 385 audits and 27 pre-audits in the 2020/2021 business year. The percentage audit rate measured in terms of FOB (free carrier on board) was 94.7 percent, which is only 2.3 points below the previous year's rate despite more difficult travel conditions, border closures and security regulations in the countries. The monitoring of our production sites and the joint development of action plans for the continuous improvement of working conditions are very important to us. We therefore want to continuously increase our audit score again.

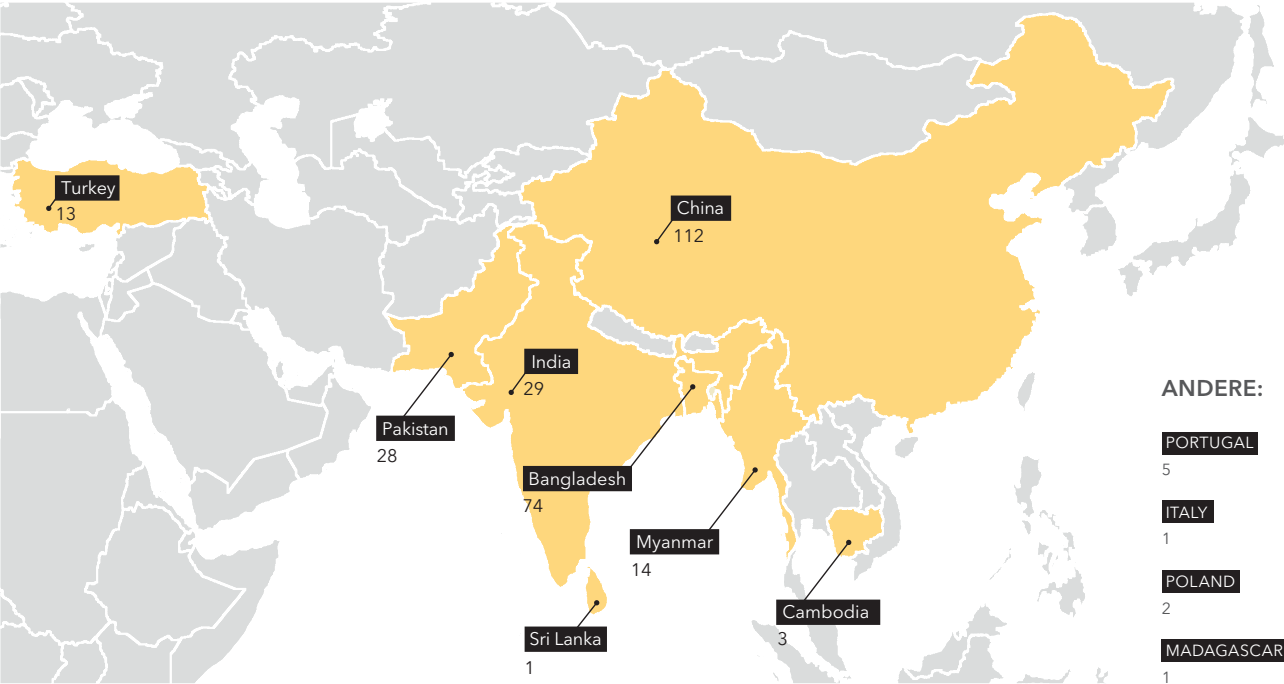
| COUNTRIES    | FULL-AUDITS |
|--------------|-------------|
| Bangladesh   | 273         |
| China        | 69          |
| India        | 27          |
| Myanmar      | 10          |
| Pakistan     | 6           |
| <b>TOTAL</b> | <b>385</b>  |

| COUNTRIES    | PRE-AUDITS |
|--------------|------------|
| Bangladesh   | 4          |
| China        | 15         |
| India        | 3          |
| Portugal     | 4          |
| <b>TOTAL</b> | <b>27</b>  |



Number of Production Facilities

In the 2020/21 financial year, we worked with 283 sewing factories\* to produce our items. We concentrate the majority of our orders on a few production sites: 70 percent of our total order volume was produced by 25 percent of these factories. We have been working with more than half of the factories for more than five years.



\* Not including jewellery suppliers or additional purchases for carnival or stock goods. The figure includes all sewing factories.

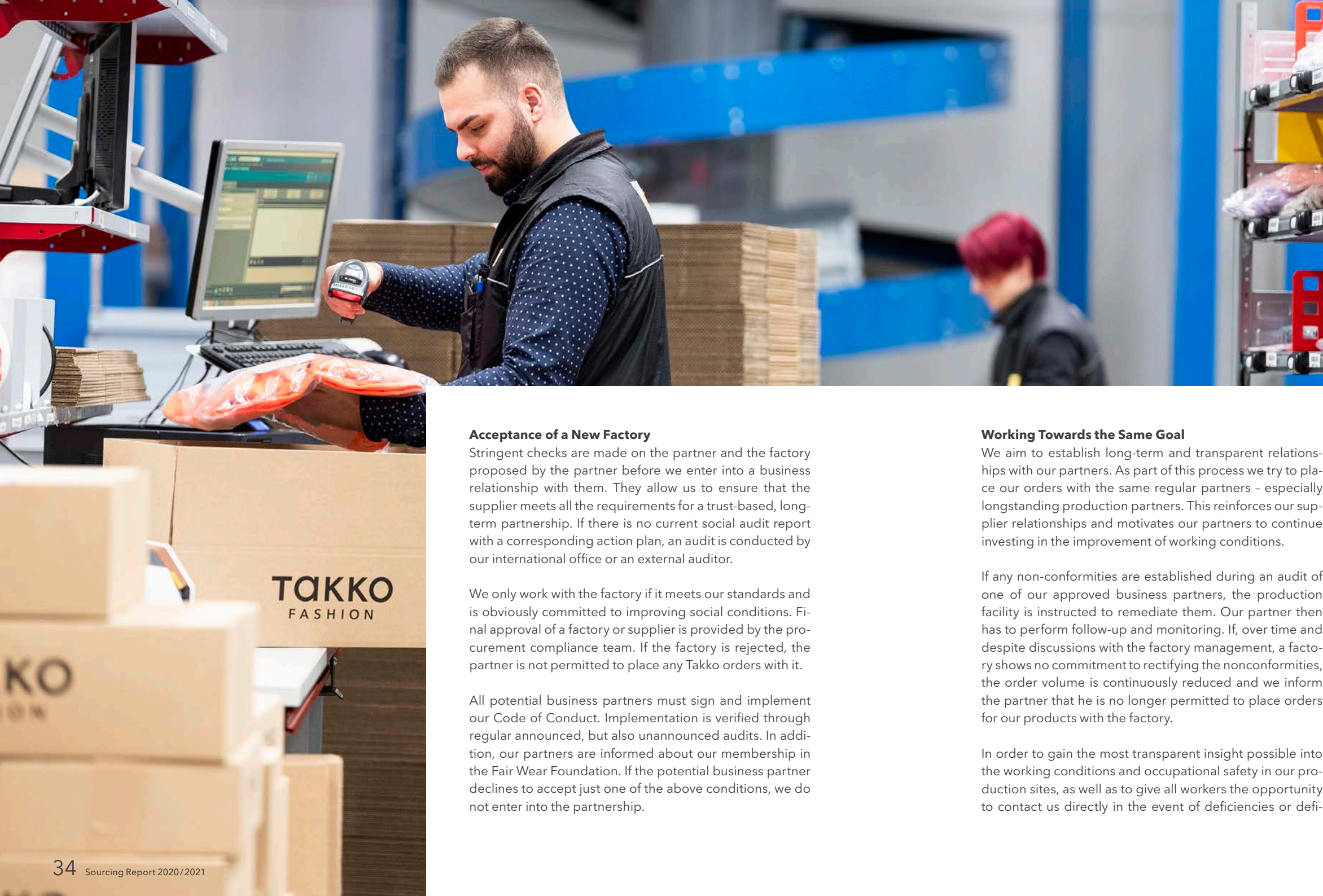
Our Response to the Corona Pandemic

Despite own losses due to the Corona pandemic and the very difficult situation for the retail market in Germany, it was always important to us to find joint solutions with our business partners in the production countries and to support our suppliers as much as possible in coping with additional challenges. Throughout the entire time, our Procurement Compliance and Purchase Team was in an even closer exchange with our business partners in the production countries. We tried to find creative solutions to the challenges of the Corona pandemic in a spirit of partnership. We did not suspend payments, nor did we implement comprehensive cancellations, but found joint solutions together with our partners.

In order to strengthen and support our partners, we have, for example, shortened payment terms and opened letters of credit earlier in the past year, which serve as financing for suppliers. Takko Fashion also made advance payments for suppliers in a difficult financial situation in order to support these suppliers in this Corona-related difficult situation. In addition, we ordered larger volumes from suppliers where we knew that other customers there had to cancel a lot. Takko Fashion also took over orders from other companies that had already been produced. Overall, the crisis has further strengthened us in our sustainable actions and close co-operation with our partners in the production countries.







### Acceptance of a New Factory

Stringent checks are made on the partner and the factory proposed by the partner before we enter into a business relationship with them. They allow us to ensure that the supplier meets all the requirements for a trust-based, long-term partnership. If there is no current social audit report with a corresponding action plan, an audit is conducted by our international office or an external auditor.

We only work with the factory if it meets our standards and is obviously committed to improving social conditions. Final approval of a factory or supplier is provided by the procurement compliance team. If the factory is rejected, the partner is not permitted to place any Takko orders with it.

All potential business partners must sign and implement our Code of Conduct. Implementation is verified through regular announced, but also unannounced audits. In addition, our partners are informed about our membership in the Fair Wear Foundation. If the potential business partner declines to accept just one of the above conditions, we do not enter into the partnership.

### Working Towards the Same Goal

We aim to establish long-term and transparent relationships with our partners. As part of this process we try to place our orders with the same regular partners - especially longstanding production partners. This reinforces our supplier relationships and motivates our partners to continue investing in the improvement of working conditions.

If any non-conformities are established during an audit of one of our approved business partners, the production facility is instructed to remediate them. Our partner then has to perform follow-up and monitoring. If, over time and despite discussions with the factory management, a factory shows no commitment to rectifying the nonconformities, the order volume is continuously reduced and we inform the partner that he is no longer permitted to place orders for our products with the factory.

In order to gain the most transparent insight possible into the working conditions and occupational safety in our production sites, as well as to give all workers the opportunity to contact us directly in the event of deficiencies or defi-

cits, we provide workers in the factories with access to the complaints mechanism of the Fair Wear Foundation. If workers in the production facilities experience violations of the assured working conditions or social standards, they have the option of contacting the Fair Wear Foundation directly as an independent body in addition to the factory-internal complaints system. For this purpose, the hotline numbers with information on the social regulations in the respective national language are clearly displayed in the factories. In addition, we provide information on the contents of the Code of Conduct and the necessary regulations on working conditions and safety in training sessions and social audits. Third parties, such as NGOs, can also report deficiencies directly via the hotline.

We take complaints from the production countries very seriously and examine them promptly in order to ensure a quick improvement. This is done through coordination from Germany, in intensive cooperation with the audit teams on site, the suppliers and the employees of the Fair Wear Foundation.

### Fair Wear Foundation - Complaints Management

- 1) Event
- 2) Complaint received by FWF
- 3) Examination of the complaint with all parties involved
- 4) Action plan for improvement in the factory
- 5) Implementation of the measures
- 6) Review of measures by FWF
- 7) Complaint and measures are published on the FWF website

In the 2020/2021 business year a total of 30 complaints were published by the Fair Wear Foundation. These as well as corresponding measures can be found on the Fair Wear Foundation Website: <https://www.fairwear.org/programmes/complaints/>.



# CLOSE COOPERATION

## FAIR WEAR FOUNDATION

The Fair Wear Foundation (FWF) is a non-profit organisation founded in 1999 that collaborates with its members and other partners such as trade unions, NGOs, factories, employers’ associations and governments to permanently improve workplace conditions in the garment industry. The FWF has over 80 members in more than ten European countries. It represents more than 130 fashion brands with over 20,000 retail outlets in 80 countries around the globe. Takko Fashion has been working with the Fair Wear Foundation for almost a decade now. In March 2019 we also hosted the FWF’s German meeting,

### Social Audits

A central aspect of our membership of the Fair Wear Foundation (FWF) is the implementation of regular social audits to systematically inspect the factories manufacturing our garments. Verification audits are performed at a later date to confirm that the factories have introduced any requested optimisations. Our activities and progress are assessed by the FWF in the brand performance check and publicly reported on the FWF website.

### Trainings and education

The FWF’s Workplace Education Programme (WEP) educates factory managers and workers on how to improve internal communication processes and optimise grievance mechanisms. The FWF offers both general and countryspecific WEP modules.

### Complaint Management

The FWF has a globally unique complaint management system that can be used simply and directly by factory workers and NGOs if they wish to report any issues needing remediation. All contact details are posted on noticeboards or at central locations in the factories in the



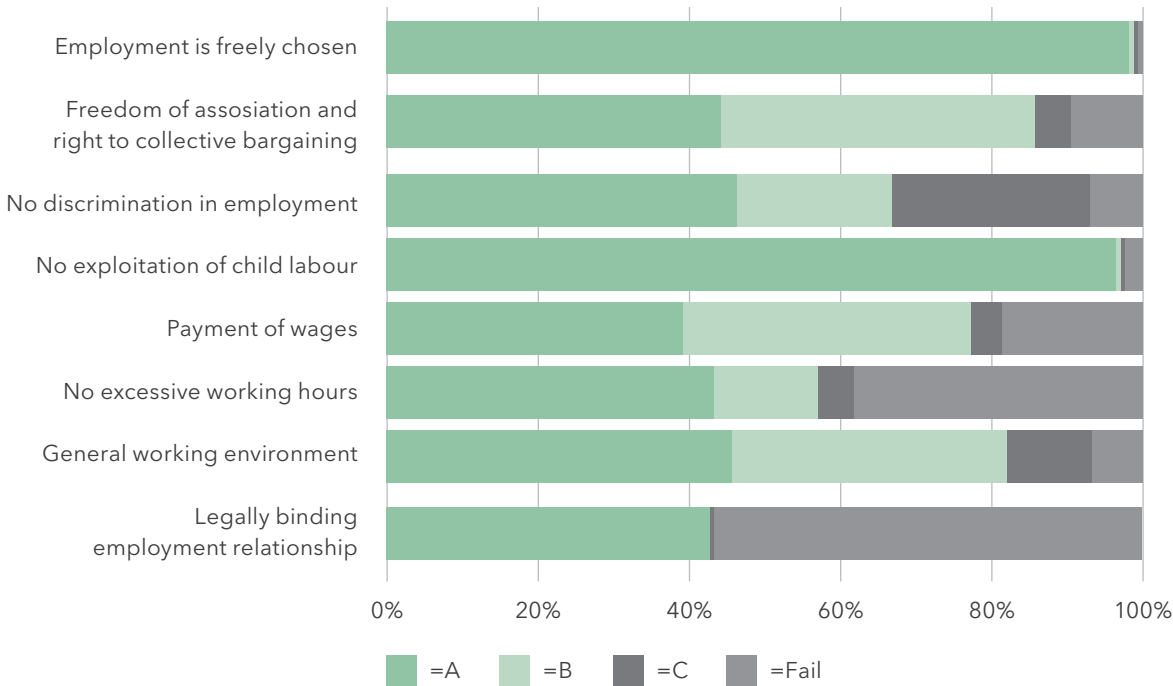
relevant language. Complaints are dealt with promptly in a transparent process. All complaints and the corresponding measures are subsequently published on the Fair Wear Foundation website: <https://www.fairwear.org/programmes/complaints/>

### Myanmar Enhanced Monitoring Programme

While Myanmar has already made progress on civil and political rights in the past, the Fair Wear Foundation - reinforced by the current situation in the country - considers Myanmar to be a high-risk country in terms of labour standards. For this reason, we would like to provide additional specific information on cooperation with production sites in Myanmar as part of the Fair Wear Myanmar Enhanced Monitoring Programme.

Takko Fashion works with 14 production facilities in Myanmar. A close and trusting partnership with the local suppliers is important to us. We pay strict attention to the implementation of our Code of Conduct and the measures to improve working conditions on site. Generally important aspects that particularly give reason for improvement are freedom of assembly, the general working environment and the issuing of binding employment contracts. The chart shows the auditing of our factories along the Code of Labour Practices of the Fair Wear Foundation. Overtime and job losses last year can be directly attrib-

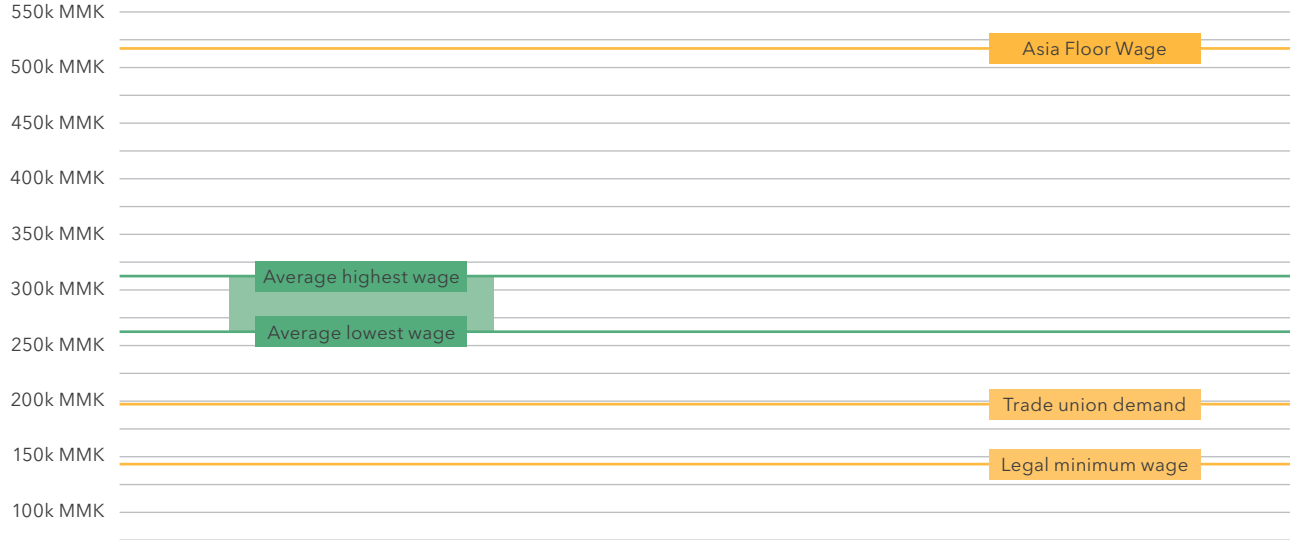
ted to the impact of the Corona pandemic. Deficiencies identified during the comprehensive audits are addressed in timely action plans to correct the deficiencies and sustainably improve working conditions.



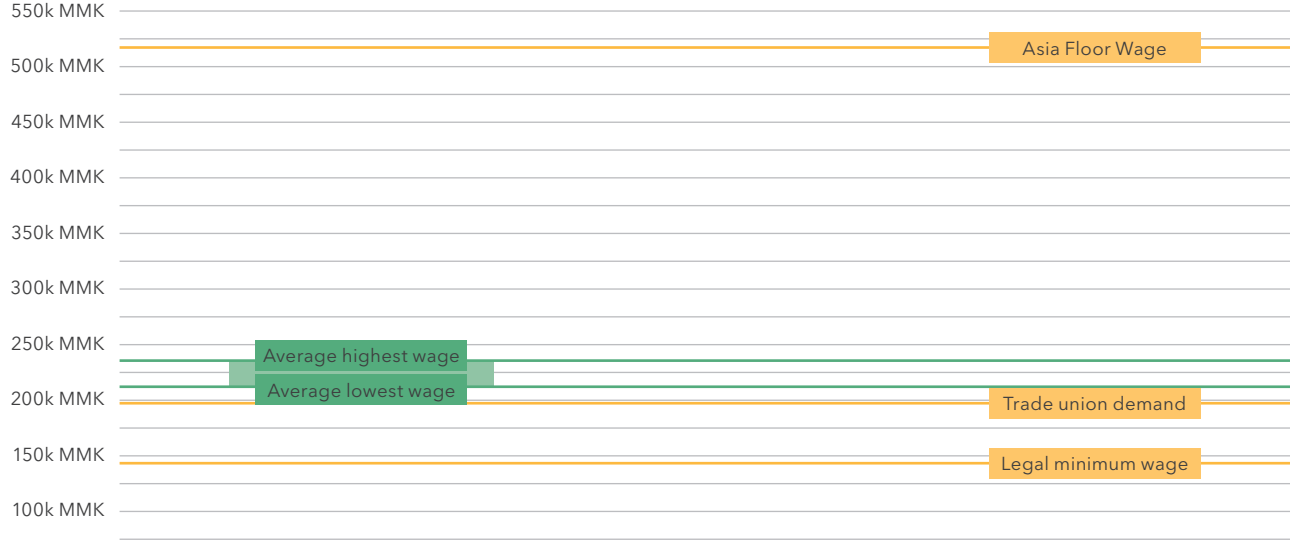
This is the section where we publish the wage ladders for the factories that manufacture Takko Fashion garments under the FWF’s Myanmar Enhanced Monitoring Programme. They also include bonuses and overtime pay. We and the FWF are committed to reducing workers’ overtime hours.

# WAGE LADDERS

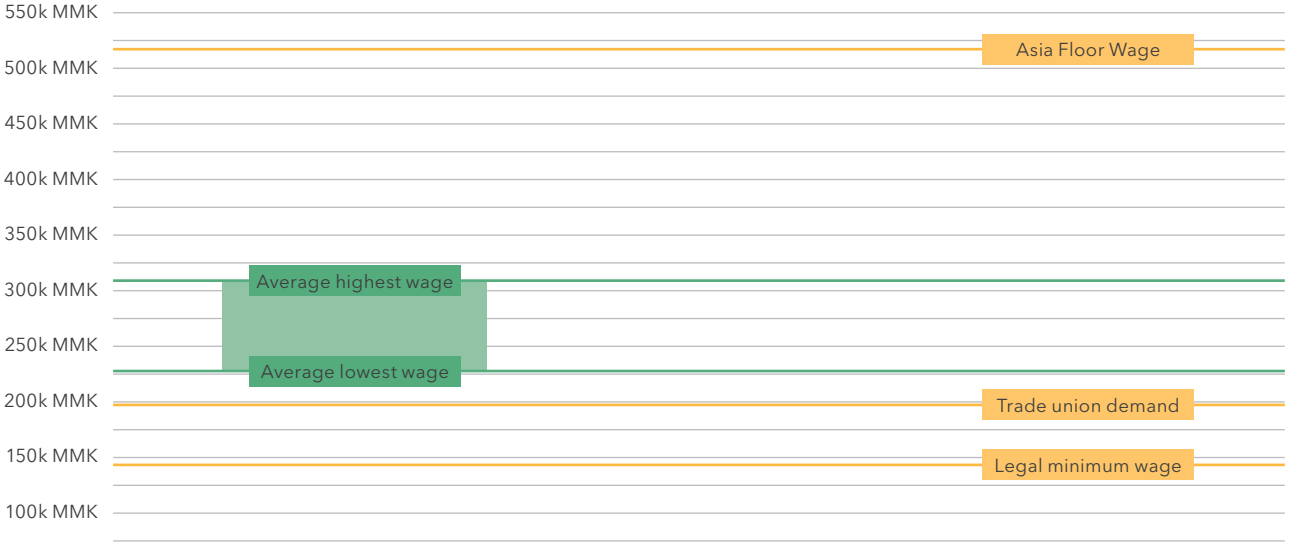
**FACTORY A** n = 977



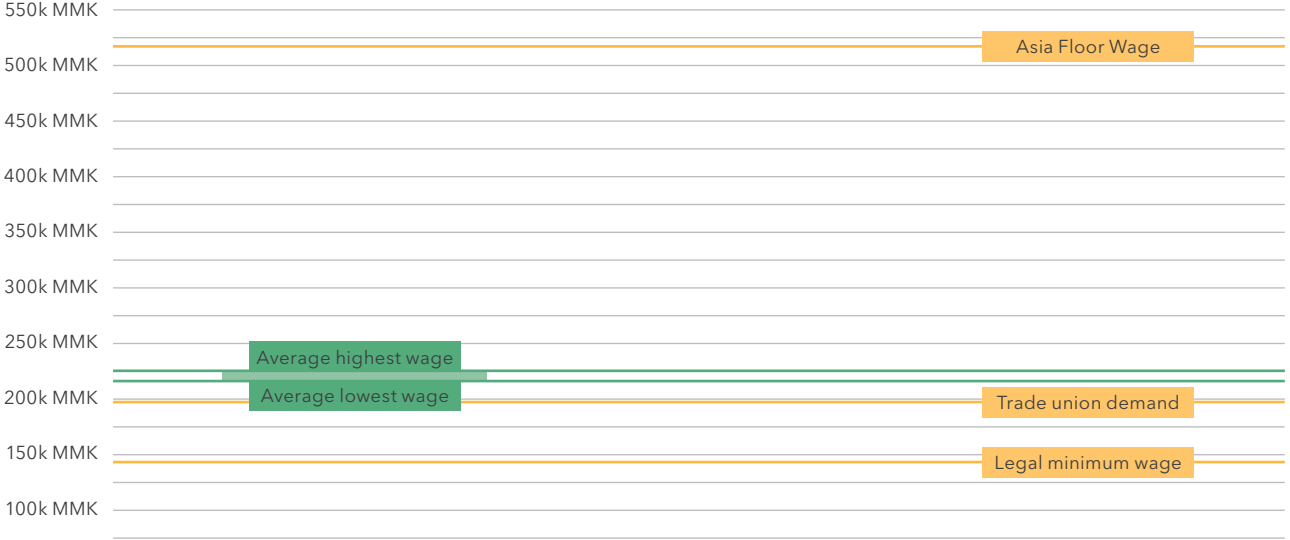
**FACTORY B** n = 390



**FACTORY C** n = 1,179



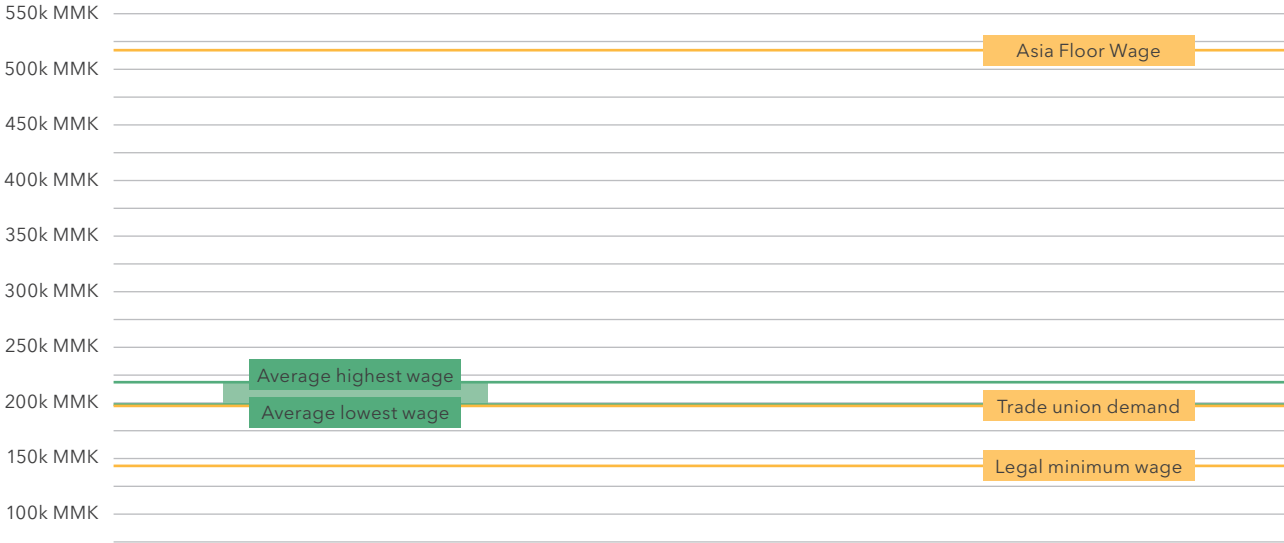
**FACTORY D** n = 379





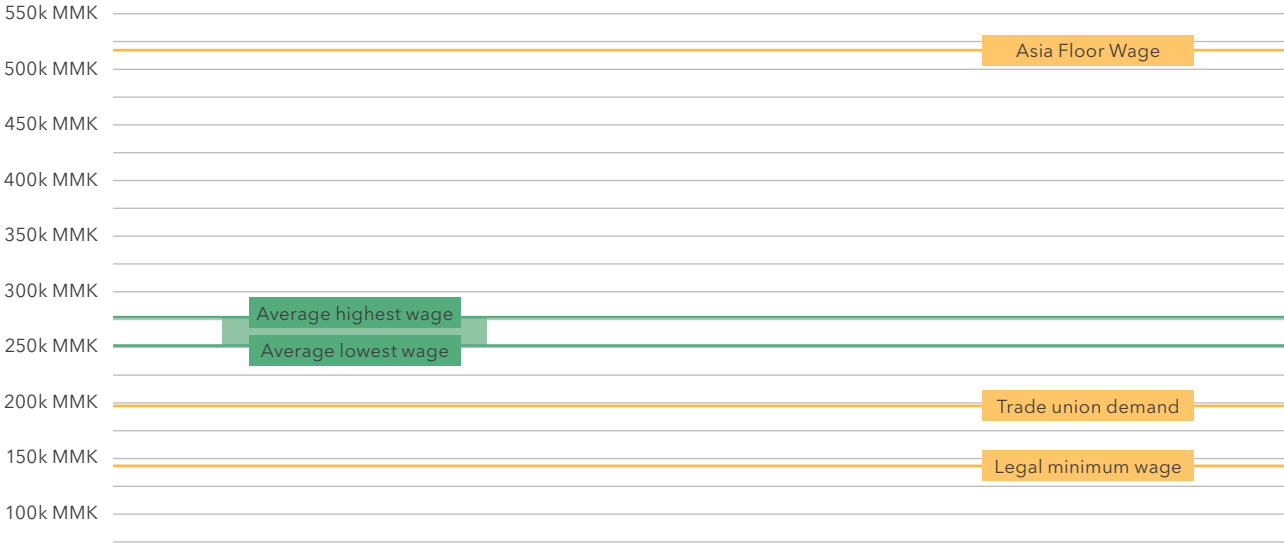
FACTORY E

n = 3.148



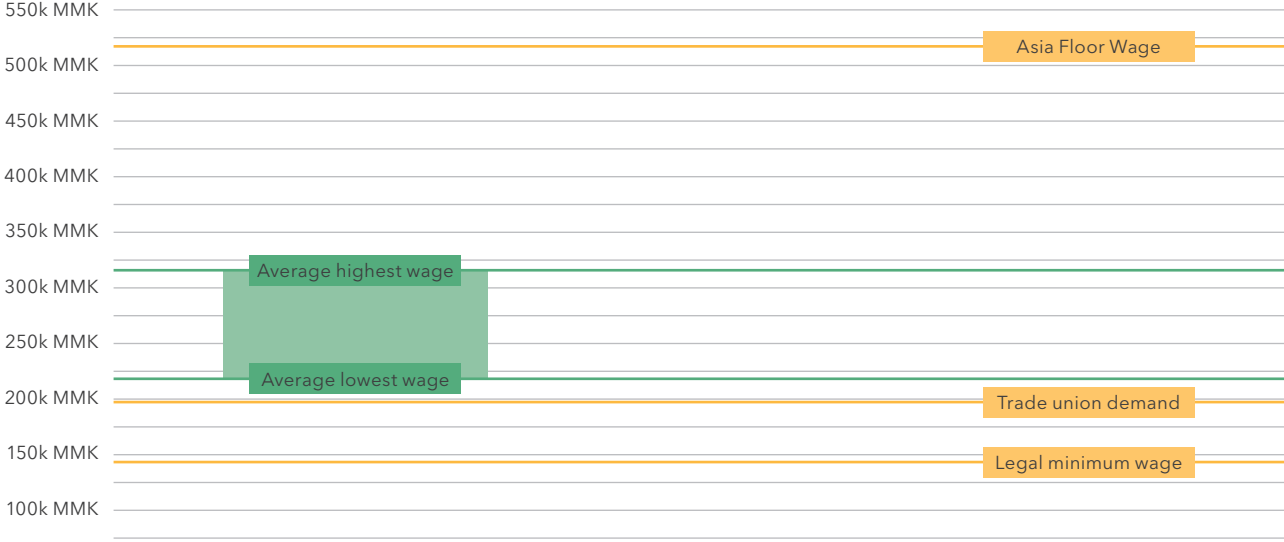
FACTORY G

n = 820



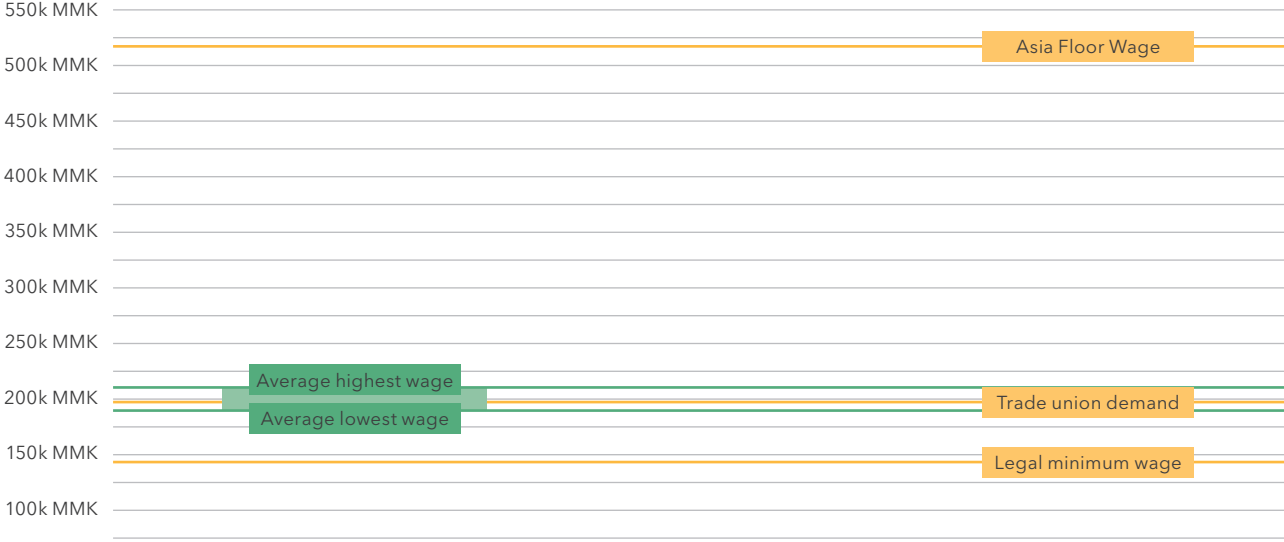
FACTORY F

n = 855



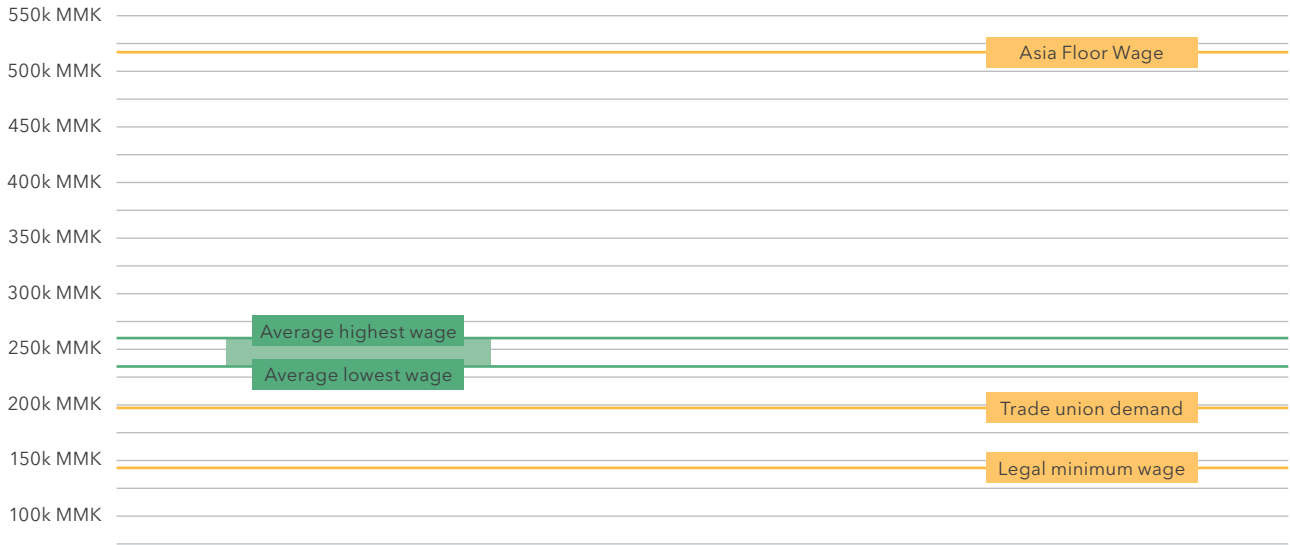
FACTORY H

n = 466



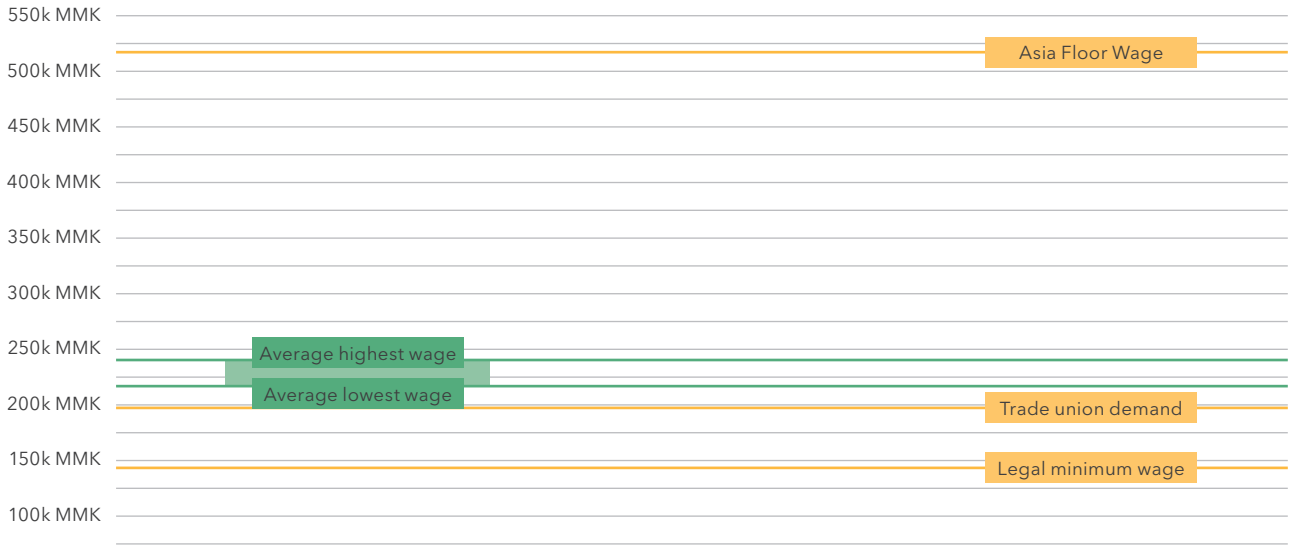
FACTORY I

n = 687



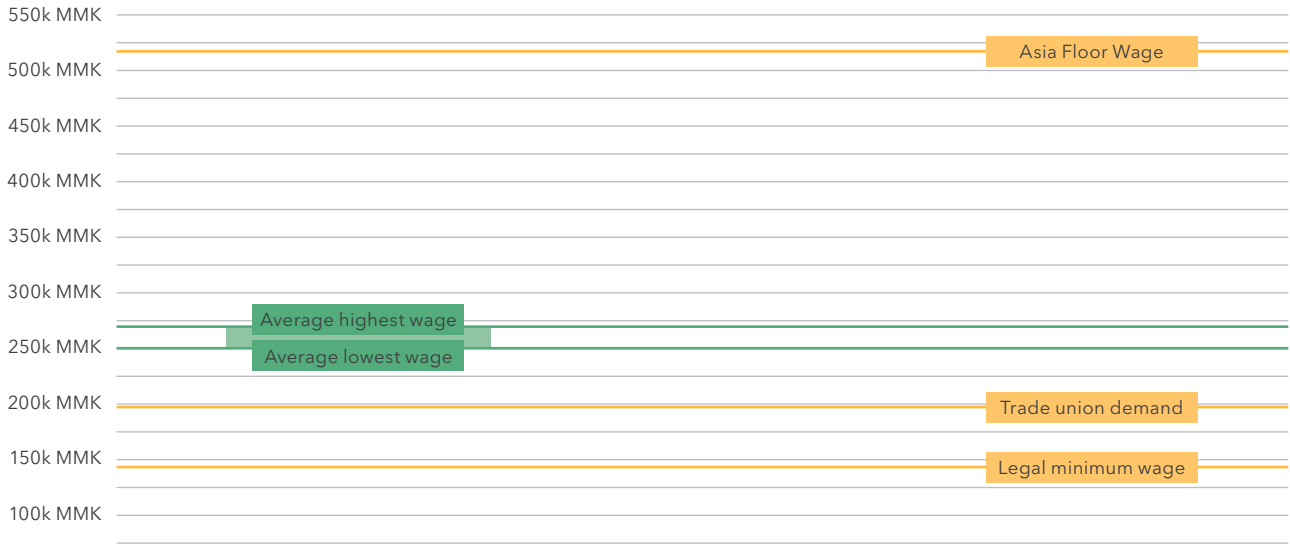
FACTORY K

n = 686



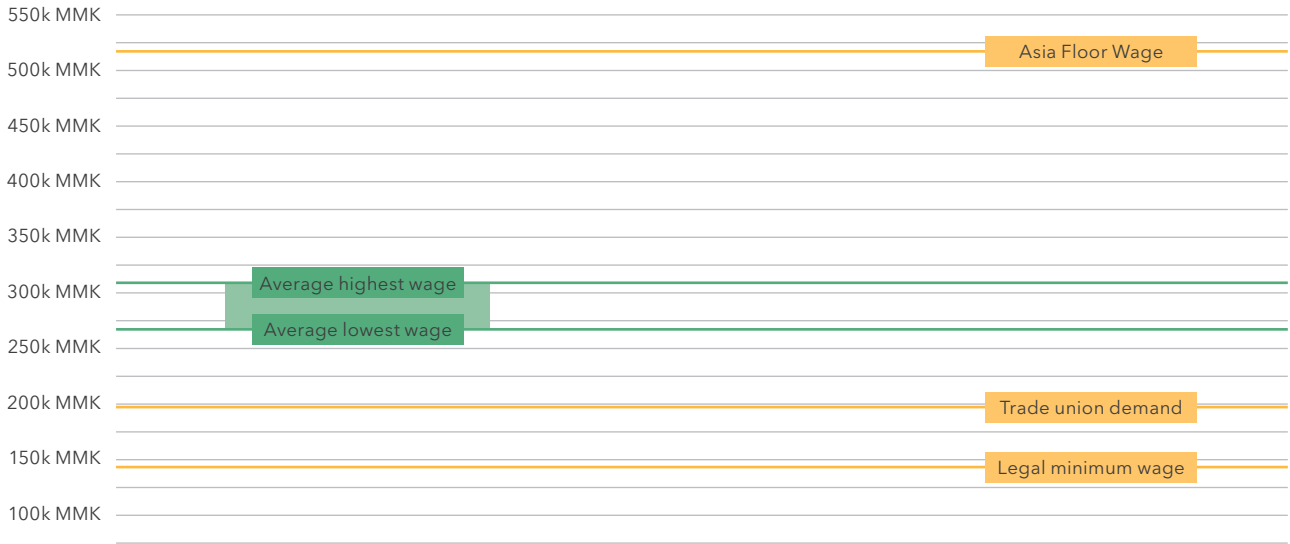
FACTORY J

n = 1.273



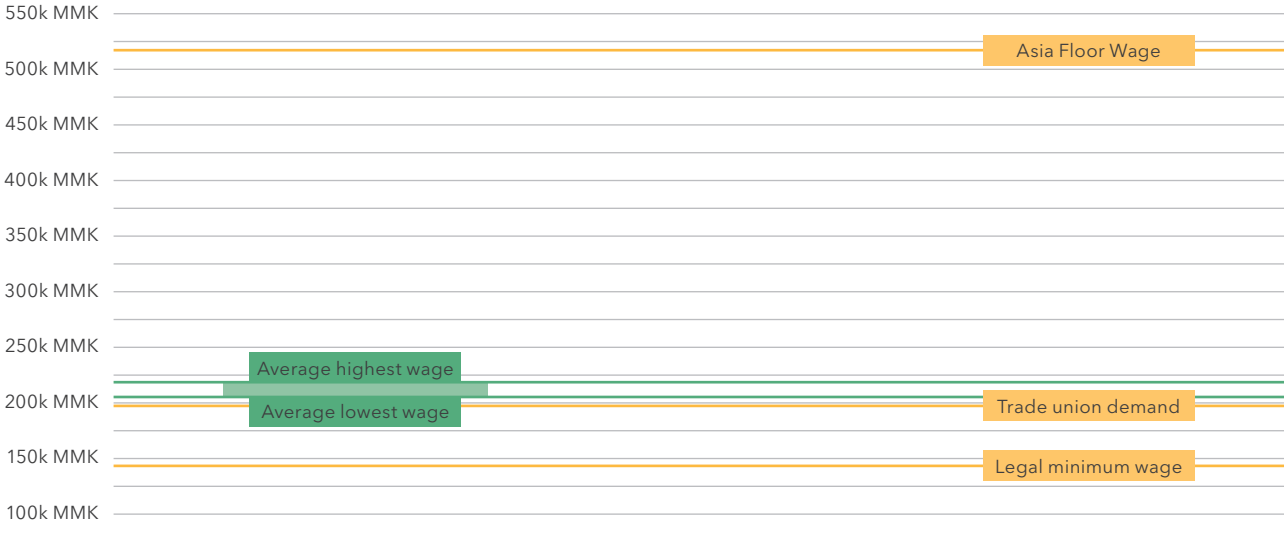
FACTORY L

n = 1.091

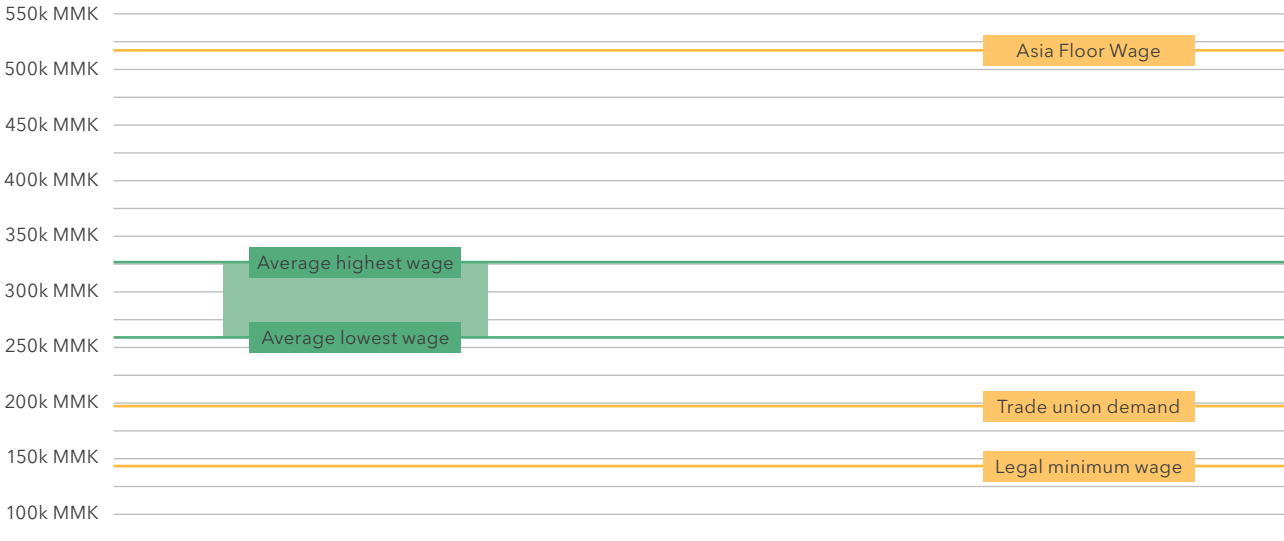




FACTORY M n = 862



FACTORY N n = 1.093



# FOR SUSTAINABLE BUILDING SAFETY

## TRANSITION ACCORD



We became a signatory to the current Transition Accord as part of our efforts to improve working conditions in the textile industry. It follows on from the Accord on Fire and Building Safety in Bangladesh, which was created in the immediate aftermath of the Rana Plaza building collapse in 2013. Like the Accord on Fire and Building Safety in Bangladesh, the objective of the Transition Accord is to permanently improve fire and building safety at the factories.

Regular factory inspections and training for both the management and staff contribute to sustainable improvements in factory safety. During or directly after the first inspection a Corrective Action Plan (CAP) with deadlines is developed. It is presented to the factory owners, the companies with manufacturing operations in Bangladesh and the employee representation bodies.

All companies who source from the factory are responsible for the implementation of CAP measures.

Takko Fashion is responsible for 111 factories and our partners have an active business relationship with 65 production facilities. At the end of the 2020/2021 financial year our remediation rate for non-compliance issues was 96 percent, which is three percentage points above the Accord’s 93 percent average rate of non-compliance issue remediation for all signatories to the Accord (at the end of January 2021).

All factories, whether they are active or inactive, were inspected under the Accord and we will continue to monitor them. We also bear responsibility for full remediation of noncompliance issues until our high standards are satisfied.

### WORKER PARTICIPATION AND TRAINING PROGRAMME

An important part of the Accord in addition to inspections is comprehensive training programmes. The aim is to support factory workers and help factory owners to make their factories safer at their own initiative. The Accord also helps the factories to set up work safety committees for corrective action monitoring.

### SAFETY AND HEALTH COMPLAINTS MECHANISM

The Accord has its own complaints system. All factory workers can use it to report complaints directly to the Accord. Workers who submit complaints are protected against discrimination. The Accord case handlers and engineers examine the complaints and assist in the clarification and resolution process.





# FOR MORE DILIGENCE IN THE SUPPLY CHAIN

## OUR MEMBERSHIP IN THE PARTNERSHIP FOR SUSTAINABLE TEXTILES



The Partnership for Sustainable Textiles was founded by the German Federal Ministry for Cooperation and Development. It is a multistakeholder initiative bringing together members from business, associations, NGOs, trade unions, standard organisations and the German Federal Government to improve social and ecological conditions in textile supply networks. The Partnership works

according to a four-pillar strategy:

- Common definition of Partnership goals
- Improvement of overall conditions in the production countries and establishment of policy recommendations for Germany and the EU
- Transparent communication of Partnership progress

- and sustainable textile production
- A partnership platform for progress documentation, measure feasibility review and experience sharing

As part of our membership in the Partnership for Sustainable Textiles, we are committed to taking responsibility for sustainability in our supply chain. Using the regular review process of the Partnership for Sustainable Textiles, we thus aim to effectively prevent and mitigate serious social, environmental and compliance risks in our value chain. The review process and the corresponding reporting have been updated by the Partnership for Sustainable Textiles. According to the new format, we derive targets and measures for the next two years for our company based on an individual risk analysis based on eleven sector risks. These are discussed in qualitative evaluation meetings with the Partnership Secretary. We report regularly

on our goals and progress, which are published on the homepage of the Partnership of Sustainable Textiles: <https://www.textilbuendnis.com/takko-holding-gmbh/>

We collaborate closely with other members in various Partnership initiatives and expert committees. In the Partnership initiative on wastewater, we are continuing our previous work from the Expert Group on Wastewater. Here, for example, we have already agreed on the ZDHC (Zero Discharge of Hazardous Chemicals) Foundational Level wastewater standard. We carry this wastewater standard into the supply chain as a minimum standard for our partners and their production sites.

As a member of the 'sustainable chemicals' expert group we are collaborating with other Partnership members to develop a definition of sustainable synthetic fibres and



ways to classify fibres as sustainable synthetic fibres, in close consultation with international stakeholders, to address the need for more sustainable synthetic fibres.

In addition, within the Chemical Safety expert group, we are committed to sustainable chemical management and the safe handling of chemicals through targeted education and training at our production sites. To make one of our priority objectives, the implementation of the Manufacturing Restricted Substances List (MRSL), as effective as possible and to monitor progress, we use the insights of a team of internal and external specialists. Our inspections and audits focus, for example, on topics such as the handling of chemicals, the use of personal protective equipment and the treatment of wastewater. The MRSL lists chemical substances which are restricted or banned in the production processes so that manufacturers can avoid using substances which pose risks to humans or the environment.

We have also recently become involved in the circular economy expert group. Here we work together with the other Partnership members to provide best practices and supporting materials for circular products and processes. Through continuous exchange and knowledge transfer, we can gradually transform our business model to be more circular and thus more sustainable.

*„Through the revised review process, the Partnership for Sustainable Textiles is placing greater focus on the due diligence approach of companies. We support this approach by deriving ambitious targets and measures from our individual risk analysis to effectively embed sustainability issues in our value chain. We are proud of what we have already achieved here in the past and look forward to continuing to work on improving social and ecological aspects as an active member of the Partnership in the future.“*

**Dirk Stolz, Specialist Quality Control**





At Takko Fashion we want to make a difference: Buying quality fashion, responsibly made, should not be a question of price. Through our memberships and initiatives, we have already achieved a lot. Yet we know: We are still at the beginning. That is why we continue to work day after day for improved working conditions in the production countries and sustainable materials and processes. In this Sourcing Report, we are happy to give you an insight into what we are already doing and what goals we are still setting ourselves. Since you have read this Sourcing Report, we know that the topic of sustainability in the textile industry is also important to you. Thank you very much for that!

Do you have any questions, feedback or suggestions?  
Then we look forward to receiving your email at **presse@takko.de**.

# IMPRINT

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