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SUSTAINABILITY AND RESPONSIBILITY

SEPARATE NON-FINANCIAL REPORT PURSUANT TO SECTIONS 289, 315
HANDELSGESETZBUCH (HGB – GERMAN COMMERCIAL CODE)

LEGAL REQUIREMENTS AND COMPLIANCE WITH STANDARDS

The TOM TAILOR Group's business activities are based on the principles of good and responsible corporate governance with an emphasis on integrity and requiring ethical behaviour from each and every employee. Protecting human rights is an integral part of the principles according to which we do business. The TOM TAILOR Group is committed to sustainable corporate development and is fully aware of its special role and responsibility for addressing various stakeholder needs along the entire value chain. In addition to the financial performance of the Company, non-financial factors are also critical.

In order to create transparency and meet the specific information needs of all stakeholders, the TOM TAILOR Group has prepared this report for the Group on the relevant non-financial aspects (separate non-financial report) in accordance with the CSR-Richtlinie-Umsetzungsgesetz (CSR Directive-Implementation Act – Act to Strengthen Non-financial Corporate Disclosure in Management Reports and Group Management Reports). The reporting period for this separate non-financial report is the 2017 financial year (1 January to 31 December 2017).

The TOM TAILOR Group complies with legal requirements in particular, taking into account their relevance for the Company. No widely recognised standard has been implemented to date, because the strategic focus of the TOM TAILOR Group's management has been on reinforcing the Company's operations and finances in a highly competitive environment and on restructuring the Company to ensure economic viability into the future. The TOM TAILOR Group intends to update the internal control and monitoring systems regarding material issues in the medium term and to link these more closely with the financial strategy overall.

For a description of diversity in the composition of the Management Board and Supervisory Board (section 289f of the HGB), please see the "Corporate Governance Declaration" contained in the Group management report that is combined with the management report (hereinafter: "combined management report").

BUSINESS MODEL AND VALUE CHAIN

Detailed information on the Company's legal and organisational structure, business model, strategy and control is provided in the combined management report section entitled "Fundamental Information about the Group" of the 2017 annual report of TOM TAILOR Holding SE.

SUSTAINABILITY PLAN AND RESPONSIBLE CORPORATE GOVERNANCE

In a global industry such as textiles, corporate responsibility towards employees, customers, suppliers and the environment is of particular significance. The TOM TAILOR Group embraces corporate responsibility: it is integral to all processes at the Company and is an underlying factor in the Company's long-term financial success. The TOM TAILOR Group's approach to business includes a well-balanced human resources policy and maintaining relationships with business partners along the entire value chain based on a foundation of trust. We place great emphasis on decent, safe and fair working conditions at our supplier operations as described in the section entitled "Responsible action in the supply chain", on reducing the environmental footprint in the production and procurement process as well as on high product quality.

The Management Board is responsible for sustainable corporate governance. Issues relating to material aspects of sustainability are reported directly to the Management Board, and the employees responsible for these work with the Management Board and the respective Executive Management Team to define the appropriate strategies.

In the markets where our products are manufactured, the TOM TAILOR Group has a team that through training programmes works directly with suppliers to achieve compliance with sustainability standards, e.g. the amfori Business Social Compliance Initiative (BSCI).

The TOM TAILOR Group's corporate responsibility includes, in particular, identifying and minimising the risks associated with business activities, products for third parties and the environment that arise along the supply chain. This is a continuous process for the TOM TAILOR Group, and the Company is engaging in dialogue with its stakeholders to address their needs and generate value for all stakeholders of the TOM TAILOR Group.

RISKS ALONG THE SUPPLY CHAIN

As an international company, the TOM TAILOR Group systematically analyses risks that could adversely affect the Group's net asset, financial position and results of operations. Detailed information about this topic is provided in the "Risks And Opportunities" section in the combined management report.

However, the TOM TAILOR Group's business activities and/or products and services may give rise to events that additionally or exclusively have serious negative effects on employees, third parties or the environment. Supply chain risks are analysed and countermeasures defined in view of our corporate responsibility for sustainability.

The likelihood of serious adverse effects on our employees, the community or the environment caused by the stages in the Group's supply chain that the TOM TAILOR Group can control directly – product development, logistics and warehousing, sales and administration – or in connection with our products is very low due to our business model. And this is true of our sales activities via established partners as well. These types of risk are therefore immaterial with regard to sustainability. Nonetheless, we take responsibility by managing external risks and refining methods for avoiding such risks posed by our business operations. These mostly comprise responsibility for our employees, and environmentally friendly practices in logistics, warehousing and central administration and in the distribution facilities.

In contrast, the TOM TAILOR Group's business activities and products are associated with typical textile industry and fashion business risks arising in the production process. These include the risks associated with environmental and social issues in particular. Since the Company does not operate its own production facilities, but instead outsources product manufacturing to selected suppliers located primarily in Asia, the Company only has indirect access and indirect opportunity to minimise and prevent these risks at this stage of the value chain. At the same time, occurrence of these risks could also have effects on the reputation, and on the net assets, financial position and results of operations of the TOM TAILOR Group. The TOM TAILOR Group therefore makes the utmost effort from its perspective to limit, and possibly, eliminate these risks for all parties involved.

In general, social and environmental risks may arise at suppliers, or suppliers' employees may experience serious negative

effects, including on their health, for reasons including poor, inhumane working conditions or insufficient industrial safety measures. By recognising the amfori BSCI Terms of Implementation, all of our suppliers commit to manufacturing our products in their facilities under decent working conditions within the meaning of the amfori BSCI Code of Conduct. Working conditions are monitored by TOM TAILOR employees from our purchasing offices and external agencies accredited by amfori BSCI. The TOM TAILOR Group is an active member of the amfori BSCI. Furthermore, strict external and internal standards are in place governing the raw materials and supplies used to manufacture products for the TOM TAILOR Group – e.g. the REACH Regulation or AQL 1.5 (Acceptable Quality Limit) as defined by the ISO 2859 standard – and the impact of these products on human health and the environment. Strict quality control by employees of the TOM TAILOR purchasing offices and spot checks in our physical test department ensure that our products comply with the relevant standards and requirements. More detailed information about this topic is provided in the section entitled “Responsible Action in the Supply Chain”.

STAKEHOLDER DIALOGUE

A regular exchange of information with stakeholders is vital for the TOM TAILOR Group. Our key stakeholders are business partners, employees, capital market participants, regulators and societal interest groups that all make a variety of demands on the TOM TAILOR Group at the national and international levels. The Company engages in target group-oriented, regular dialogue offering the appropriate depth of information to improve transparency concerning corporate decisions and thus build trust. In addition, this dialogue helps the Company to identify trends early on and to align its sustainability activities with the material interests of stakeholders and enable them to participate in the Company's value creation.



FINANCIAL RESPONSIBILITY AND VALUE ADDED STATEMENT

Financial responsibility is a core component of corporate strategy and company management. Business success is what ensures the continued existence of the Company. Value can be created for all stakeholders of the Company only if the Company is successful in pursuing its profitable growth strategy. That in turn provides a solid foundation for the TOM TAILOR Group in the long term. The TOM TAILOR Group conducts its ongoing business and other activities as a company in the interests of its stakeholders, thereby generating direct value for them. The Company is an employer of executives and qualified employees in various areas. Moreover, the Company provides training and promotes continuing education, employee health and flexible working conditions. The Company makes considerable direct, monetary value contributions to the employees of the TOM TAILOR Group in the form of what it believes is fair and performance-focused remuneration. Based on its business performance, the TOM TAILOR Group also addresses lender requirements by making interest payments. Our long-term goal is to enable investors to share directly in the parent company's performance through dividend payments from sustainably positive income. TOM TAILOR also makes contributions to the government in the form of various corporate taxes, thereby contributing value to society. As the Group's earnings improve, the value contributed also automatically increases.

This business performance as a whole is measurable in a value added analysis. Exceeding the narrow view of purely financial parameters based on the financial key performance indicators mentioned in the combined management report, the value added statement measures the direct potential of the Company to create value for its stakeholders. Firstly, a value added analysis shows that the TOM TAILOR Group's operations have created value (output approach). This is calculated by subtracting all purchased inputs (including management and Supervisory Board remuneration) and depreciation, amortisation and impairment losses from the Company's total operating revenue (revenue plus other

operating income). In the 2017 financial year, the TOM TAILOR GROUP generated value added of EUR 239.2 million (2016: EUR 147.3 million).

Secondly, the analysis indicates which groups of stakeholders benefit from specific direct value added contributions. By far the largest share (81.6%) of the value generated by TOM TAILOR's business activities in 2017 was paid to employees as wages and salaries. Other value added contributions benefited investors and society (in the form of taxes). In the reporting year, 7.1% of the added value was reinvested in the TOM TAILOR Group to sustainably strengthen the Company.

Value added analysis

	2017		2016		YoY change	
Generation	EUR million	in %	EUR million	in %	EUR million	in %
Sales revenue	921.8	96.0	968.5	96.8	-46.7	-4.8
Other revenue	38.2	4.0	32.3	3.2	5.8	18.1
Total operating revenue	959.9	100.0	1,000.8	100.0	-40.9	-4.1
Cost of materials	384.1	40.0	441.0	44.1	-57.0	-12.9
Depreciation, amortisation and impairment losses	39.2	4.1	83.1	8.3	-44.0	-52.9
Other expenses	297.5	31.0	329.4	32.9	-31.9	-9.7
Inputs	720.7	75.1	853.6	85.3	-132.8	-15.6
Value added	239.2	24.9	147.3	14.7	91.9	62.4
<i>Distribution</i>						
Employees	195.3	81.6	220.2	149.5	-24.9	-11.3
Company	17.1	7.1	-73.0	-49.6	90.1	123.4
Lenders	15.3	6.4	16.3	11.1	-1.0	-6.0
Shareholders	0.0	0.0	0.0	0.0	0.0	0.0
Government	11.5	4.8	-16.2	-11.0	27.7	171.1
Value added	239.2	100.0	147.3	100.0	91.9	62.4

MATERIALITY AND DIMENSIONS OF RESPONSIBILITY

In determining the content for the separate non-financial report, the TOM TAILOR Group identified and compiled the material issues required for understanding the course of business, the Company's business performance and situation of the Company as well as for understanding the effects on the non-financial aspects of the Company's activities. Based on this, and taking into account the business model and their relevance to the management of the day-to-day operations of a medium-sized textile company, the following focus areas of the sustainability dimensions for the TOM TAILOR Group have been determined:

- Ethical responsibility and compliance
- Responsibility to employees
- Responsible action in the supply chain

ETHICAL RESPONSIBILITY AND COMPLIANCE

Compliance with applicable laws and impeccably ethical behaviour by all employees are important to the TOM TAILOR Group in order to maintain confidence in the Company by customers, business partners, capital market participants and other stakeholders, prevent reputational damage and financial loss and contribute to the safety of the Company and its employees. For this reason, the TOM TAILOR Group is in the process of setting up a compliance management system. This compliance management system is intended to ensure adherence to locally applicable laws, internal regulations, ethical principles and voluntary obligations. The TOM TAILOR Group's Management Board considers compliance to be one of its principal responsibilities. A compliance officer reporting directly to the CFO of the TOM TAILOR Group, who is responsible for compliance at the Company, supports the Management Board in setting up an efficient compliance management system and continually improving that system.

The compliance management system involves analysing the compliance risks facing the TOM TAILOR Group and taking measures to reduce these risks, such as risks relating to cartel law or corruption. This is accomplished by means including employee training based on the training needs of individual employees. Currently, compliance training is being developed and will be carried out through an e-learning programme in 2018. The e-learning programme will initially be offered to employees in the German companies and subsequently rolled out throughout the Group. Moreover, a training programme on antitrust law was held in December 2017 for employees in Germany who deal with aspects of this issue. The Company is also working on efficient and centralized policy management and internal guidelines, for example regarding the signing of contracts. The goal is to provide employees a framework in addition to existing laws that defines the conduct expected and required from them. A Code of Conduct that communicates the Company's values to employees, such as transparency, integrity and respect, is currently being written.

Supervisors, the Management Board, individual departments and the Compliance unit promote awareness of the statutory and ethical responsibilities of each and every TOM TAILOR Group employee.

This effort is undertaken in the Company's day-to-day business and by way of specific communication measures such as interviews with the Compliance Officer on the intranet in which compliance-related questions are asked. Communication initiatives such as these make employees aware of the importance of conduct in conformity with rules and regulations on an ongoing basis. They will be conducted regularly and the programme expanded.

Consideration of current court rulings and an interdepartmental exchange of information on relevant topics ensure that necessary adjustments to the system can be made in a timely manner and employees are informed about changes in requirements. This approach aims to eliminate the possibility of illegal employee conduct from the start and to make staff aware of the extent to which the conduct expected from them is subject to change.

If employees are unsure or have questions about legal requirements, internal company rules or the ethical behaviour expected of them, the Compliance unit along with their department, the legal department and the data protection officer are available to answer these questions.

Systematically implementing TOM TAILOR's corporate values and the legal requirements at all management levels, especially the Management Board, ensures that employees accept the Company's values. Furthermore, this highlights the importance of compliance vis-à-vis the employees. Activities in this context in the 2017 financial year included the Management Board writing a foreword for a compliance article on the intranet or the Chief Executive Officer drawing

Management Board finding a reviewer for a compliance article on the intranet of the Chief Executive Officer drawing employees' attention to an article on compliance on the intranet in a video message.

Supervisors are primarily responsible for monitoring actual employee compliance with legal and internal Company requirements; Compliance also conducts spot checks. The Internal Audit unit is also involved in certain controls. This approach allows for review and optimisation of individual cases as well as of the underlying processes, which are monitored across departments under certain circumstances. Controls such as this may – but are not required to – be carried out based on a specific incident.

Violations of statutory provisions and corporate values may also be reported by employees themselves to various departments, particularly Compliance. TOM TAILOR is currently setting up a more extensive whistleblower system.

The Company has a zero-tolerance policy for misconduct by employees in legal and ethical matters. The term "zero tolerance" at TOM TAILOR Group means that action is consistently taken and appropriate sanctions imposed against any behaviour that violates laws or corporate values, including but not exclusively related to disregard for human rights or cases of corruption. Appropriate sanction must take into account the seriousness of the violation and the local legal situation in each individual case. The range of possible sanctions extends from a warning to termination without notice and/or criminal charges. Claims for damages may also be asserted. Sanctions have already been implemented in 2017.

Compliance violations are investigated fairly and transparently, and appropriate sanctions are imposed. Any subsequent modification of the compliance management system ensures that any gaps in the compliance management system used in such cases are closed.

In 2017 no incidents of corruption or bribery involving TOM TAILOR Group employees were identified by the Compliance Officer or the Internal Auditor up to the time of preparation of this report.

RESPONSIBILITY TO EMPLOYEES

Human Resources Strategy and Organisation

Employees are a company's most important resource and are therefore the key to the success of any enterprise. One of the main tasks of human resources work in the TOM TAILOR Group is therefore to attract good people, systematically develop them and ensure that they remain with the Company for the long term.

In organisational terms, the personnel department manages and supervises the Group's human resources activities. Personnel management in operations in the business units and departments is the responsibility of each supervisor. They work with the personnel department to define target agreements, promotion opportunities and areas of activity for employees and support implementation. In 2017, a performance management tool was developed and introduced for systematically, transparently and efficiently conducting annual discussions and target agreements between employees and managers. The human resources department also advises and supports managers during strategic change processes to protect employee interests and best deploy staff according to their strengths.

The workforce was distributed as follows as at 31 December 2017:

Employees

	2017			2016		
<i>Number of employees on 31 December</i>	<i>Retail</i>	<i>Wholesale</i>	<i>Total</i>	<i>Retail</i>	<i>Wholesale</i>	<i>Total</i>
Germany	3,004	465	3,469	3,480	540	4,020
Core markets outside Germany	1,292	91	1,383	1,515	104	1,619
Other countries	1,067	152	1,219	984	166	1,150
Total	5,363	708	6,071	5,979	810	6,789

Of the total of 6,071 employees, 3,022 worked at TOM TAILOR and 3,049 at BONITA. TOM TAILOR Holding SE also had three Management Board members at the end of 2017 (2016: three Management Board members and three employees).

Codetermination

The TOM TAILOR Group considers it very important to substantively include all employees in the decision-making process at the Company and to ensure active representation of their interests. TOM TAILOR and BONITA each have their own works councils. TOM TAILOR's Works Council consists of 11 members, nine of whom are women. BONITA's Works Council has nine members, of whom four are women. A further works council at BONITA Retail has 11 members, all of whom are women. In addition TOM TAILOR Holding SE also has a works council with a total of 16 members from 12 different countries. That committee has 11 women.

Thanks to flat hierarchies and an open, collaborative corporate culture, younger employees can take positions of responsibility early on and develop their own ideas. Direct communication with executives ensures short communication chains and quick decisions. During the reorganisation of TOM TAILOR Holding AG as a *Societas Europaea* (SE) in 2017, the Supervisory Board was composed of equal numbers of representatives on the investor and employee sides. This significantly expanded the opportunity for codetermination by employees in the reporting period.

Training and Continuing Education

The TOM TAILOR Group strongly emphasises focused training and promotion of emerging talent in order to proactively address the shortage of skilled professionals. In conjunction with the Management Board, the requirement for emerging talent is determined based on specified criteria one year before vocational training begins. The Company's training plan ranges from conventional professional training options for the head office and the selling spaces alike through internships to trainee programmes for university graduates. These programmes are continually updated. When applying for a vocational training spot, potential new trainees must participate in an assessment centre. During training, all vocational trainees work in various areas of the relevant business in accordance with a schedule set up by the HR department along with executives. In the 2017 reporting period, 29 vocational trainees in five categories of professions such as industry, retail, computer science and warehouse logistics worked at the TOM TAILOR Group. Out of the vocational trainees who finished their training in 2017, 70% were hired on permanently. In addition, 12 interns were able to gain extensive experience in various departments throughout the Company.

In a constantly changing work environment, it is essential that employees continue their professional development. In order for the TOM TAILOR Group to continue preserving its innovative capability, remain attractive for new employees and retain employees for the long term, the Company has created a wide range of continuing education options for its employees. This programme is revised on an ongoing basis and adapted to meet new requirements. In annual performance reviews, the Company determines employees' training requirements and wishes. The options include both professional classes (e.g. textile training) and skills-based development opportunities, such as intercultural competency and soft skills. Moreover, the Company regularly invites external speakers on topics such as motivation and leadership. The TOM TAILOR Group's internal Retail Academy also enhances the skills of its workforce, including executives. This programme consists of four modules, including sales, visual merchandise and management training as well as resource-oriented HR development.

In 2017, a total of 30 trainings were held across Germany attended by around 220 participants. The Retail Academy trained 23 employees from across the Company. The "Leadership Lab" (participants in 2017: 35; in 2016: 34) is aimed at executives in particular and is a multi-module executive development programme for both new and experienced managers. Internal Company events for the entire staff are also regularly held on a variety of topics. A particularly popular format is the lunchtime "brown bag" sessions at which employees in key positions or people responsible for new functions introduce themselves to the staff. Eight of these sessions were held in the reporting period (2016: nine).

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Work-Life-Balance

The health and satisfaction of employees is important to the TOM TAILOR Group. These factors help retain staff for the long term and create an attractive work environment for potential new employees. Twice a year, the TOM TAILOR Group's personnel management team reviews and adds to the variety of health-promoting measures the Company offers and puts into place attractive conditions for balancing work and family life.

This is why the Group launched its "TOM TAILOR goes balance" initiative providing external counselling to employees and also offering a large number of seminars on topics such as stress prevention, health in the workplace and coping with change. Moreover, the TOM TAILOR Group provides financial support to employees for exercise programs such as yoga classes and fitness studio memberships.

Since 2012, employees have also been able to contact an external coaching institute for free, anonymous advice and support on questions or problems related to their job, private lives or families. By introducing this service, the Company supports its employees in overcoming challenging and stressful life situations and so help maintain their health over the long term. With 120 participations in 2017 (2016: 135), this offer again was very popular.

An attractive and flexible working environment is an important factor for successfully attracting and retaining of skilled staff. A good balance between work and family life is a major concern for most of the Group's employees. The TOM TAILOR Group's flexitime, part-time and home office options enable employees to be flexible and customise their work to suit themselves to a large degree. A total of 64% of the TOM TAILOR Group's staff worked part time in 2017 (2016: 65%). At TOM TAILOR this figure was 37% (2016: 35%) and at BONITA 91% (2016: 91%). The "TOM TAILOR goes Family" initiative enables employees to make use of a wide range of free services, including finding emergency childcare and providing counselling through PME Familienservice.

RESPONSIBLE ACTION IN THE SUPPLY CHAIN

Organisation and Concept

The TOM TAILOR Group's collections are mainly manufactured in Asia, where the majority of global textile production takes place. The diversified supplier structures in the textile industry require great commitment in order to guarantee decent, safe and fair working conditions at the Asian suppliers. The Company has implemented a system for minimising supply chain risks. This concept rests on supplier certification, the stipulation of standards as well as controls and support for local partners. The Group's Procurement unit is responsible for implementing this concept and controlling its implementation.

The Company has maintained purchasing offices in Asia's most important procurement markets since 2011 via the joint venture TOM TAILOR Sourcing Ltd. to ensure direct contact with its suppliers, regularly monitor these itself based on internally defined schedules and assist them. Bangladesh is the Company's most important procurement market. In 2014, the TOM TAILOR Group opened its own purchasing office in Bangladesh to better control and safeguard local standards. The purchasing office in Dhaka has around 100 employees working for the TOM TAILOR Group, most of whom visit the factories on a daily basis.

In terms of supply chain and suppliers, the TOM TAILOR Group's high external and internal standards, such as amfori BSCI, REACH and mandatory requirements for business partners as well as the strict controls applied ensure that risks are minimised locally. The Company's orders support capacity utilisation at suppliers and create jobs. As a result, the local community receives taxes and contributions.

Principles, Standards and Control

With regard to its production process, the TOM TAILOR Group voluntarily adheres to the principles of the amfori BSCI, which includes all key standards of the International Labour Organisation (ILO) for the protection of employee rights, the UN Global Compact and the UN Declaration of Human Rights. Further elements are the OECD Guidelines for Multinational Enterprises and other internationally recognised treaties. These include a ban on child labour, safe and decent working conditions, fair pay, regulated working times, adherence to local laws, no discrimination and workers' freedom of association to form unions and freely negotiate rates.

Before the TOM TAILOR Group starts working with a new supplier, auditors from the purchasing company TOM TAILOR Sourcing perform in-depth checks of this supplier (Initial Factory Assessment). These inspections are based on the amfori BSCI standards and standards defined by the Company. If the inspection is successful, the TOM TAILOR Group enters into an agreement with the supplier concerned in which the supplier undertakes to adhere to the purchasing guidelines of

the TOM TAILOR Group. These include restrictions or complete bans on the use of animal hair, certain types of down and feathers, real fur, leather and skins, shells, silk from India, cotton from Uzbekistan, mulesing of sheep and the application of sandblasting in the production process.

Depending on the result of the amfori BSCI audit, employees from the TOM TAILOR purchasing offices and agencies accredited by the amfori BSCI will perform regular announced and unannounced supplier audits and checks over the course of the cooperation. If any deviations from the specified standards arise, the supplier will be sanctioned or the employees of the TOM TAILOR purchasing company will draft suitable measures and development plans with the supplier so that the standards are continually improved and complied with again. There were 91 BSCI full audits and 71 BSCI follow-up audits in financial year 2017. In the production markets, 88 regular audits (2016: 116) and 65 unannounced audits (2016: 40) were carried out. All suppliers essentially met the requirements of the TOM TAILOR Group.

In India, the TOM TAILOR Group has been a member of the Tamil Nadu Multi-Stakeholder Group (TNMS Group) since 2012, an association combining individual BSCI members and the Ethical Trading Initiative (ETI). The group is taking a determined stand against Sumangali in southern India. Sumangali is a widespread form of employment in this region, in which young women undertake to work in factories for several years but do not receive the majority of their wages until the end of their multi-year employment. The idea is that the girls save for a dowry, which is a prerequisite for getting married. This widespread practice frequently results in a number of types of forced labour of young women. The TNMS Group is conducting systematic educational campaigns on the ground, including training suppliers, holding discussions with local legislators, NGOs and associations or setting up local community and training centres.

Commitment to Fur-Free Collections/Animal Welfare

The TOM TAILOR Group is committed to fur-free collections. This is why the Company has been a member of the FUR FREE RETAILER PROGRAMME (FFRP) since 1 December 2015. The FFRP is an international initiative of leading animal and environmental protection organisations. The programme designates retailers, labels and designers who have made a written commitment not to use fur in their product ranges and helps consumers to find guaranteed fur-free fashion. The programme's German representative is the animal welfare organisation VIER PFOTEN – Stiftung für Tierschutz. When developing new products, the TOM TAILOR Group prohibits the use of fur materials. In the reporting period, the TOM TAILOR Group was therefore able to ensure that no fur was used in its products.

Environmental Issues in the Supply Chain

Environmental protection and good stewardship of resources are important issues for the TOM TAILOR Group. As a textile and apparel company, the Company focuses its environmental activities on its products and the supply chain, because this is where significant risks arise. At the same time, the TOM TAILOR Group can exert a positive influence. Key factors here are the use of chemicals by our suppliers in providing services and manufacturing products, the use of sustainable materials, the durability of our products and compliance with local laws.

Strict Thresholds for the Use of Chemicals

As early as 2015, the TOM TAILOR Group launched its own DETOX initiative to eliminate chemicals that are harmful to the environment from production and gradually replace them with more ecologically sustainable alternatives. This is an issue that is relevant to the entire textile industry. Over the years, the TOM TAILOR Group has developed and introduced various guidelines of its own for the use of chemicals by suppliers. The rules for the use for certain substances in end products were tightened by the TOM TAILOR Group. In some cases, the permitted thresholds are even lower than those permitted by strict European statutory requirements. Moreover, the Company analyses numerous random samples both in its own and in third-party laboratories to ensure compliance with these regulations. In 2017, 30% of orders were spot checked for compliance across all supplier companies. In addition, suppliers are prohibited from using PFCs (perfluorinated compounds) and APEOs (alkylphenol ethoxylates)/NPEOs (nonylphenol ethoxylates). Compliance is ensured by spot checking.

In the interest of furthering the goal of chemicals management, the TOM TAILOR Group plans to take other steps in 2018 such as the introduction of a chemical handbook and arranging supplier training in chemicals management with an internationally known laboratory.

Use of Sustainable Cotton

Since August 2016, the TOM TAILOR Group has been a member of the Better Cotton Initiative (BCI). The BCI is a not-for-profit organisation that aims to reorganise cotton production by establishing better cotton as a mainstream raw material. The initiative aims to not only reduce pesticide use, but also to ensure the efficient use of water and soil resources and fair working conditions. In financial year 2017, the TOM TAILOR Group increased the share of BCI cotton

products to 20%, thus effectively doubling it compared with 2016. The 2017 target of 20% was therefore met in full. This positive result was achieved by the TOM TAILOR Group through close partnerships with the sourcing offices and suppliers as well as by systematically following up on defined targets and measures. The goal is to further increase this share step by step to around 25% in 2018 in accordance with the growing awareness of this issue by customers.

Product durability

Product quality is key to the Company's business success. Good product quality means that clothing will last longer. Seen in terms of the entire life cycle – from growing the cotton to the ultimate disposal of the product by consumers, which depending on product quality may occur sooner or later – this makes a key contribution to protecting the environment. The TOM TAILOR Group offers consumers fashionable apparel with an attractive value proposition that also combines sustainability with what the TOM TAILOR Group considers to be good product quality. In order to meet this goal, the Company monitors the value chain. Items of clothing are subject to a variety of quality controls from production through to delivery to the point of sale in which the general workmanship and fit are checked along with compliance with the TOM TAILOR Group's defined quality and material requirements. Quality is always controlled by the local sourcing offices. The TOM TAILOR Group's products must meet an AQL of 1.5 with regard to workmanship and an AQL of 2.5 in terms of sizing. Goods are not shipped unless they satisfy the specified AQL standard.

These checks verify that our products are of sufficiently good quality, consumers can use our products for a long time and the TOM TAILOR Group can therefore do its part to conserve resources. Around 20% of all items were spot checked for quality at headquarters in 2017. If defective products are discovered, the problem is rectified on site by the supplier or, if the goods have already been delivered to the warehouse, by a third-party service provider. In both cases, the costs that arose were borne by the suppliers.



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