

SOCIAL REPORT

for fiscal year

1ST OKTOBER 2011 - 30TH SEPTEMBER 2012

for the membership in the
Fair Wear Foundation

hessnatur

www.hessnatur.com

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OCTOBER 1ST, 2011 - SEPTEMBER 30TH, 2012

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in the Fair Wear Foundation





Ladies and Gentlemen,

Fair and humane working conditions are not yet a matter of course in the worldwide clothing and textile industry, despite the problem being addressed with increasing vigour today - within the sector, by public, and in media. Coalitions for action call attention to grievances. Journalists research on-site in textile factories for television, newspapers, and blogs. Consumers scrutinize the production conditions of textiles ever more critically and include this into their buying decisions.

To think and to act in a sustainable way, and thereby centre the focus of commercial responsibility on ecology, economy and social awareness, has been the basis of hessnatur's existence since its founding in 1976. In order to track fair working conditions in production sites worldwide and continuously strive toward their improvement, hessnatur intensified its commitment to social standards in 2002, after 15 years of dedication to the environment. In 2005, hessnatur became the first German company to join the Dutch Fair Wear Foundation (FWF). The Fair Wear Foundation is an independent, multi-stakeholder organization with the purpose to improve working conditions in clothing production operations worldwide - regardless whether in China, Turkey, or even Germany. FWF auditors support our own in-house experts by monitoring operations in sewing facilities, whereby they inspect and document the adherence to hessnatur's social standards.


The implementation of good working conditions cannot be achieved by facility monitoring alone, however. Our approach also includes the consideration of conditions within the structural organization of hessnatur, as well as the education of suppliers, management, and employees. Building upon social standards seminars for German suppliers in the 2010/11 fiscal year, for instance, a day-long seminar was held in Istanbul for all of hessnatur's Turkish suppliers in fiscal year 2011/12. The event was presented with the help of Fair Wear Foundation, and the goal of the seminar was to further increase the awareness of social standards among our partners, as well as to train management more precisely in hessnatur's principles for socially fair working conditions. Additionally, the planning of production time frames for manufacturing facilities could be improved through a change in our procurement processes, relieving suppliers in times of peak production.

These measures are exemplary of hessnatur, both in our commitment to advocating the high standards we place on our production in all countries, as well as in sharing those standards with all our partners, worldwide.

The 2011-2012 Social Report at hand documents our work, as well as the current status of our efforts towards a social and fair textile production.

Best regards,


Marc Sommer,
Chairman and Managing Director


Maximilian Lang,
Chief Executive Officer

CON

TENT

1. ZUSAMMENFASSUNG: ERREICHTE ZIELE 2011/2012	8
2. ÜBER HESSNATUR	10
2.1 Meilensteine	10
2.2 Der ökologische Anspruch	11
3. DIE HESSNATUR-SOZIALSTANDARDS	13
4. WIE SETZEN WIR SOZIALSTANDARDS UM?	14
4.1 Die Zusammenarbeit mit hessnatur-Lieferanten	14
4.1.1 Die hessnatur-Lieferanten	14
4.1.2 Auswahl neuer Lieferanten	14
4.1.3 Zusammenarbeit mit Agenten	14
4.1.4 Lieferanten und Produktionsländer	14
4.1.5 Warum nicht nur Produktion in Europa?	15
4.2 Das Monitoringsystem zur Umsetzung von Sozialstandards	16
4.2.1 Informationsaustausch mit den Lieferanten	17
4.2.2 Bestätigung der Sozialstandards	17
4.2.3 Betriebskontrollen vor Ort	17
4.2.4 Das Beschwerdesystem	18
4.2.5 Datenmanagement	18
5. INTERNE ZUSAMMENARBEIT	19
5.1 Bereichsübergreifend: Das Lieferantenbewertungsgespräch	19
5.2 Der Bereich Einkauf	19
5.2.1 Integration von Sozialstandards in die Einkaufsentscheidungen	19
5.2.2 Der hessnatur-Produktionszyklus	20
5.2.3 Never-out-of-Stock-Produkte	21
6. AKTEURE ZUR ÜBERPRÜFUNG VON SOZIALSTANDARDS VOR ORT	21
6.1 Die Fair Wear Foundation	21
6.1.1 Audits durch die Fair Wear Foundation	22
6.2 Prüfung durch unabhängige Gutachter und andere Organisationen	22

6.3 Betriebsbesuche durch hessnatur	22
6.4 Beschwerdemanagement	24
7. MONITORINGMASSNAHMEN BIS 2012	24
7.1 Betriebsbesuche innerhalb der EU	25
7.2 Betriebsbesuche außerhalb der EU	27
8. MASSNAHMEN ZUR VERBESSERUNG VON SOZIALSTANDARDS 2011/2012	31
8.1 Lieferanten-Trainings	31
8.1.1 Day of Social Standards: Türkei	31
8.1.2 Worker Education Program (Fair Wear Foundation)	32
8.2 Bachelor-Arbeiten	32
8.3 Neue Prozesse	33
8.4 Multistakeholder Meeting	33
9. KOMMUNIKATION	34
9.1 Interne Kommunikation	34
9.2 Externe Kommunikation	34
9.2.1 Corporate Social Responsibility Panel in Dhaka, Bangladesch	34
9.2.2 Externe Kommunikation	34
9.2.3 Katalogkommunikation 2011/2012	34
9.2.4 Newsletter Serie - Sozialstandards	35
9.2.5 Sozialstandards bei „Sinnvoll Genießen“	35
10. WER MACHT WAS BEI HESSNATUR?	36
11. ACHT FRAGEN AN EINE NACHHALTIGE TEXTILPRODUKTION	36
FAKTEN UND ZAHLEN	40
ORGANISATION DER HESS NATUR-TEXTILIEN GMBH	41
IMPRESSUM	42

1. SUMMARY:

GOALS ACHIEVED IN 2011/2012

Responsibility is one of the central values anchored both within hessnatur's business philosophy, as well as in its daily business practices. We also take on that same accountability for the production facilities in which we have our products manufactured. Our membership as the first German affiliate in the Dutch multi-stakeholder organization, the Fair Wear Foundation, helps us achieve this. Since joining in 2005, we have actively engaged and participated in the development of management systems as well as the capabilities for implementing and securing social standards along the textile supply chain. It is a work of processual character, nevertheless the achievements of past years simply urge us to keep rolling up our sleeves and help production facilities

in their ability to implement our high requirements. Our computer supported management system, developed by hessnatur and awarded for Best Practice by the Fair Wear Foundation, allows us to place our focus on facility inspections on site, recording results systematically, and to concentrate with suppliers toward continual improvement.

We at hessnatur also strive for constant improvement, and we were able to contribute signifi-

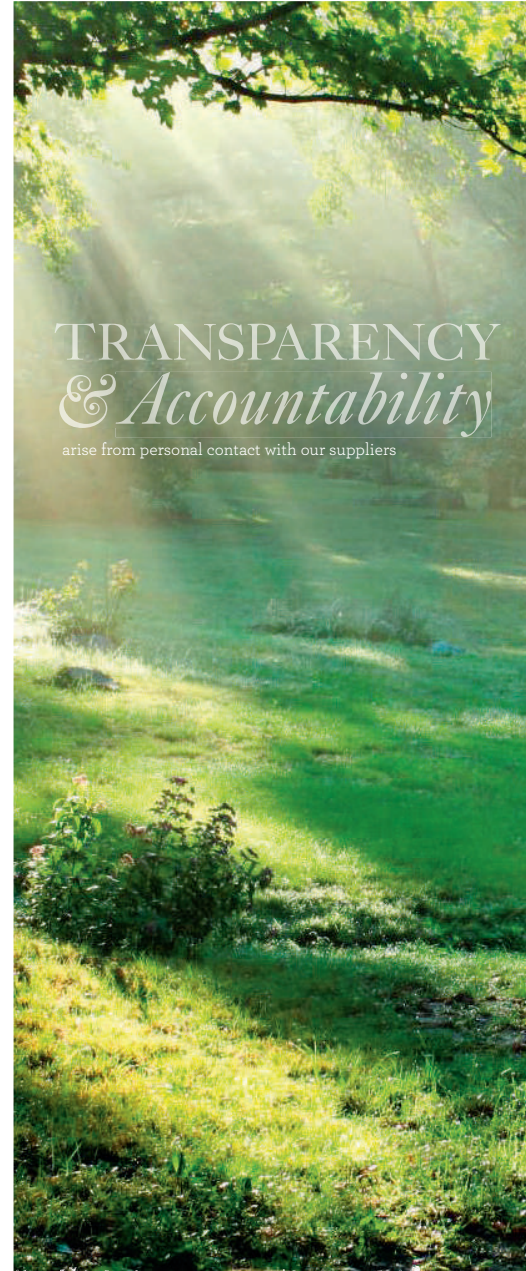
cantly through adjustments in several processes. In fiscal year 2011/2012, we were able to institute two essential improvements. First, Never-out-of-Stock products (NOS) were introduced. The advantages of this concept are manifold. For production, specifically, this means that suppliers are able to plan with more simplicity and reliability. They can create a more constant workload, manufacturing more products in times of lower demand. Two specific benefits result: it abates seasonal fluctuations and relieves in times of peak production. Secondly, through the introduction of systems acquiring real-time production status, we hope to provide a further positive influence on overtime hours. The issue of working hours and the analysis of the information we are able to acquire will be a key focus of our work in the coming year.

The close collaboration of our various departments is characteristic of hessnatur. In regard to suppliers, constructive cooperation between the Purchasing Department and Corporate Responsibility is especially noteworthy. Through these departments, all of hessnatur's suppliers are evaluated biannually. Criteria such as fit, price, and communication are taken into consideration, along with ecological and social values. The evaluating board then decides equitably whether work with a supplier will be further expanded, or dismantled.

An important component of our work is our personal contact with suppliers and production facilities. In order to better and more intensively support them, we have reduced our regular suppliers by 20% from the last fiscal year (from 102 to 83). Our goal is to personally visit our suppliers more often. Within the year under review, travel destinations by members of Corporate Responsibility included Turkey, Nepal, and Bangladesh, among others. But German production facilities were brought under scrutiny as well. Our focus is placed clearly upon production operations in so called "high risk" countries, where labour laws tend to be controlled and enforced less frequently. Nevertheless, it is also essential for hessnatur to maintain a detailed insight into close-by production facilities in Germany and the rest of Europe.

In addition to audits and personal visits on site, trainings are taking on an increasingly important role. Building upon the success of our social

Turkish suppliers voiced definite interest in seminars for their employees. The declared goal: to internalize and successfully implement social standards throughout the entire enterprise.



standards seminar for German-speaking suppliers in fiscal year 2010/2011, we were able to initiate a "Day of Social Standards" in Turkey. Together with Fair Wear Foundation, we utilized the day in Istanbul to speak at length about hessnatur's monitoring system and the requirements for membership in the Fair Wear Foundation. We had plenty of time as well to exchange ideas with the 35 representatives of our Turkish suppliers, discussing both methods which were working well and practices which were in need of improvement. A rewarding day, all around. Furthermore, we were able to actively foster our suppliers last year by supporting their participation in the Fair Wear Foundation's "Worker Education Trainings". Two Turkish suppliers and an operation in China have already successfully participated in this program/training. In Macedonia, yet another production site is taking part in a special project by the Fair Wear Foundation analysing the relationship between productivity and wages.

The results of two bachelor dissertations have contributed to our further development over the last year. One thesis, discussing the issue of "Grievance Management Systems in the Textile Industry - Optimizing the 'bottom-up' approach to securing international labour standards at hessnatur" produced valuable approaches to how we might further develop our own complaints management system. The second thesis, entitled "How can intercultural trainings contribute to a raise of awareness for social standards? - The development of a practical training model", provided tangible information about optimal preparation and execution of training seminars in differing cultural environments, such as China or Turkey.

All things considered, we look back on a year of considerable achievement and significant insight. And we look forward to the endeavours of fiscal year 2012/13!



They stand by the name, and behind the philosophy: in celebration of the 2010 anniversary, hessnatur's employees form the company logo.

2. ABOUT HESSNATUR

hessnatur is a provider of strictly natural clothing and textiles, headquartered in Butzbach (Hesse) and operating a branch office - Hess Natur-Textilien AG - in Switzerland. Core markets are Germany, Austria, and Switzerland, as well as the U.S.A., which is serviced via an online shop. The company employs a staff of 343, and generated net revenues of approximately 70 million Euros in the fiscal year of October 2011 to September 2010. The products offered by hessnatur range from outer clothing for men, women and children, to nightwear and underwear, home textiles, baby clothing and accessories. Channels of distribution are our catalogue, online shop, and three retail stores in Butzbach, Munich, and Hamburg. Founded in 1976 by Heinz Hess in Bad Homburg (Hesse), hessnatur distinguishes itself through a holistic approach to business. Equal respect for humankind and the natural world, dedication to the manufacture of high quality, lasting products in a consistently ecological and socially ethical method, and open, transparent communication with customers, suppliers, employees, and the public are all exemplary to our corporate philosophy.

2.1 MILESTONES

1976 - 1985: Focus on FABRIC

THE FOUNDING YEARS OF HESSNATUR
The birth of his first son inspires him to set up the company: Heinz Hess begins providing the world with natural clothing to protect young life against toxins and stress factors. His vision: Strictly natural clothing for a healthy life in tune with nature.
1976 - Foundation of hessnatur as a mail order company for natural merchandise

1985 - 1992: Focus on FINISH

THE BOUNDARIES of ecological feasibility are expanded. Elimination of chemical finishes. The ecological quality guidelines drawn up by hessnatur lay the foundation for a new clothing culture.

Since 1990: Focus on RAW MATERIALS

ASSUMING RESPONSIBILITY from the sowing of the seeds right up to the wardrobe. The launch of the world's first organic cotton project marks the start of numerous other ecological, social and cultural projects initiated by hessnatur around the globe:
1991 - World's first organic cotton project in Sekem (Egypt)
1994 - Organic cotton project in Senegal

1995 - Organic cotton project in Peru
1997 - Re-cultivation of Hesse's indigenous Rhön sheep (Rhön biosphere reserve, Germany)
1998 - Organic cotton project in Turkey
2005 - New organic cotton project in collaboration with Helvetas in Burkina Faso
2006 - Organic linen project in Hesse (Germany)

since 1995: Focus on DESIGN FROM THE „GREEN“ NICHE

into the world of fashion. The quality, design, durability and accountability of its textiles allows hessnatur to progress beyond its traditional „green“ image and become a provider of colourful, stylish and top quality fashions made from natural textiles.
1997 International Design Prize awarded by the federal state of Baden-Württemberg for hessnatur's wedding dress

since 2002: Focus on SOCIAL STANDARDS

HUMANE WORKING CONDITIONS
Social Standards are starting to be a key focus and become transparent. hessnatur develops an innovative control system in a pilot project together with the Clean Clothes Campaign whereby an independent organization controls decent working conditions in the production environment. 2005 - hessnatur is the first German company to become a member of the Fair Wear Foundation

since 2006: ENTREPRENEURIAL DEDICATION & distinctions

2006 & 2010: Awarded with the "Familie und Beruf" (Family and Occupation) audit. An additional audit took place in 2012. The patronage for the award is held by the Federal Ministry for Families.
2008: hessnatur wins the first German Sustainability Award under the category of Purchasing
2009: Verbraucher-Initiative (Consumer Initiative) Gold Medal & MINNE Marketing Award
2010: Stiftung Warentest (a German consumer organization) test winner for a basic organic cotton tee for women, under the category of Corporate Responsibility
2011: TÜV certificate for health and

occupational safety and inclusion into the federal state of Hesse's the list of "100 Businesses for Climate Protection"
2010 & 2011: Fair Wear Foundation's Best Practice Award for hessnatur's innovative, internally developed monitoring system (2010), for a detailed analysis of seamstress and seamster wages in our production facilities worldwide (2011)

since 2008: Focus on EXPANSION

2008: First catalogue and Internet presence in the USA
Cooperation with designer Miguel Adrover and presentation of "Hidden in Nature" by hessnatur at the New York Fashion Show
2010 to 2012: Collections with the internationally known designers Eviana Hartman and Clodagh

since 2010: FOSTERING UP AND-COMING TALENT

since 2010: The Humanity in Fashion Award (HIFA) is solicited by hessnatur as the first European design prize for green and sustainable fashion, and is since then awarded yearly. The distinction is endowed with a grant of 25,000 Euro and the development of a capsule collection at hessnatur.



2.2 THE ECOLOCAL OBLIGATION

We only use pure, top quality natural fibres, such as pure new wool, cotton or linen, which are preferably cultivated and/or farmed in organic conditions. These include bans on the use of artificial fertilizers, harmful defoliants, and pesticides. The further processing of the fibres is also subject to stringent ecological requirements. For example, the use of chemical refining agents, such as moth protection or easy-care finishes, chlorine bleach or optical brighteners, is strictly forbidden. The elimination of harmful and/or polluting substances in the cultivation of the fibres and production of the textiles represents an active and measurable contribution toward protecting both the environment as well as workers in production.



SKILLS & Quality

are more important to us than the lowest price

3. HESSNATUR'S SOCIAL STANDARDS

HESSNATUR has summarized its requirements for good working conditions in the social standards it has drawn up for all suppliers. These are based on the core labour rights defined by the International Labour Organization (ILO) and explicitly govern the working conditions in supplier operations.

hessnatur has been a member of the internationally active Fair Wear Foundation (FWF - for more details, see www.fairwear.nl) since 2005. As part of its membership, a monitoring system to assure compliance with our social standards in the sewing facilities has been developed and anchored within the company. The Corporate Responsibility department, headed by Rolf Heilmann, is responsible for implementing and monitoring our social standards at hessnatur. The Fair Wear Foundation, which consists of trade union representatives, NGOs and manufacturers' associations, monitors the work performed by hessnatur, checking and ensuring that it is correct. Moreover, a multi-stakeholder board, created to ensure the involvement of national interest groups, monitors the implemen-

tation of our social standards in Germany. In addition to the Fair Wear Foundation and hessnatur, the Clean Clothes Campaign and IG Metall (Metalworkers' Trade Union) are also represented on this board.

hessnatur's social standards and statutory regulations

hessnatur's social standards govern numerous issues that are equally addressed by local legislation in the countries of manufacture - but sometimes varyingly. In cases of discrepancies between hessnatur's social standards and local legislation, the more stringent regulation always prevails. Sometimes, however, local legislation is contradictory to hessnatur's social standards. Some countries, for example, impose legal restrictions on trade union freedom. In such cases, hessnatur works with the Fair Wear Foundation to identify alternative solutions and venture into new territory. An example in the area of trade union freedom: In "Workers' Training Seminars", which are conducted by FWF experts, employees are informed about their rights and their means of asserting them. In addition, the installation of in-house complaints systems encourages dialogue between employees and management.

1. Voluntary employment

No forced labor, slave labor or the employment of prisoners (IAO Conventions 29 and 105). Workers may not be forced to deposit a "bond" or their ID papers with their employer.

2. No discrimination in employment conditions

Each employee must be allowed the same opportunities and treatment, irrespective of race, skin color, gender, religion, political views, nationality, social origins or other distinguishing features (IAO Conventions 100 and 111).

3. No child labour

Children may not be employed. All workers must be at least 15 years old or past compulsory school age (IAO Convention 138). Any child labor that may have to be dismissed must be provided with sufficient financial support for the interim period and reasonable opportunities to acquire an education.

4. Respect of the freedom of association and the right to collective wage negotiations

Observance of the right of all workers to set up or join trade unions and to negotiate collective wage agreements (IAO Conventions 87 and 98). Workers' representatives may not be

discriminated and must be afforded access to all workplaces necessary for them to perform their representative duties (IAO Convention 135 and Recommendation 143). Employers shall adopt a positive attitude toward the work of trade unions and an open-minded attitude toward their activities in respect of employee organization.

5. Payment of a living wage

The wages and other benefits paid for a normal working week must be at least commensurate with the minimum wage stipulated by law or applicable for the industry. As a requirement with processual character, the wages must be adequate to cover the basic needs of the workers and their families, with some left over for them to spend freely. All possible measures must be taken to achieve this goal.

Penalty deductions from wages are not permitted, nor are any other deductions that are not stipulated by national laws without the express permission of the affected workers. All workers are provided with clear written information on the wage conditions prior to commencing their jobs and with precise details of their wages for each payment period.

6. No excessive working hours

Working hours must be defined in line with applicable laws and standards prevailing in

the industry. Workers may not be forced to work more than 48 hours per week on average; they must be given at least one day off within a period of 7 days. Overtime must be voluntary and may not exceed 12 hours per week, may not be demanded at regular intervals and must always be reimbursed by paying overtime in addition to the normal wage.

7. Ethical working conditions

The work environment must be safe and hygienic; the best possible health and safety protection must be promoted at the workplace, taking account of the latest findings for the sector and any specific risks. Physical abuse, threats of physical abuse, unusual penalties or disciplinary measures, sexual and other harassment and any form of intimidation by the employer are strictly forbidden.

8. Regulated employment relationships

The legally stipulated work and social obligations toward employees in respect of regular employment relationships may not be circumvented by implementing unilateral contracts that are only binding on the employees or training programs that do not really focus on teaching skills or on regular employment. Younger workers shall be given the opportunity to attend training programs.

4. HOW DO WE IMPLEMENT SOCIAL STANDARDS?

THE 3-PILLARED MODELL		
Communication/ Stakeholder dialogue	Verification & temporary assessment	Implementation & continual cooperation
<ul style="list-style-type: none"> - Communication/ Stakeholder dialogue - FWF membership - Association work - Communication and exchange with suppliers - Round-tables - Social projects 	<ul style="list-style-type: none"> - Verification & temporary assessment - Supplier visits - Census of all production centres - Screens (internal) - Audits (external) 	<ul style="list-style-type: none"> - CAP implementation (Corrective Action Plan)* - Implementation of specific issues - Training seminars - Raising awareness of owners/management and employees in production sites
COMMUNICATION	NOTATION & ASSESSMENT	MANAGEMENT & IMPROVEMENT

*The "CAP" is a list of improvement measures which must be implemented in the facility. Together with the supplier, individual solutions are arranged for each respective facility.

4.1 COOPERATION WITH HESSNATUR'S SUPPLIERS

4.1.1 hessnatur's suppliers

Establishing stable, long-term partnerships forms the basis for our cooperation with our suppliers. 87 percent of hessnatur's 83 suppliers have already been working together with hessnatur for longer than one year. In fact, 51 percent of suppliers have worked together with hessnatur for 5 years or more. This is necessary in light of the fact that hessnatur's manufacturers are generally real experts in processing certain natural fibres, such as silk, or in respect of individual product groups; sweaters, for example, or socks, jackets or coats. Specific ecological and processing technology expertise is built up over years of cooperation. The maxim holds true for hessnatur: For us, skills and quality are more important to us than the lowest price.

4.1.2 Selection of new suppliers

Although we constantly strive to cooperate for the long term with our suppliers, sometimes a change to a different manufacturer is unavoidable. This might be because of our quality standards, for instance, or do to technical requirements or changes in the manufacturing

range. Great care is taken when selecting new suppliers. Shared between the Executive Office, the Purchasing Department, and Corporate Responsibility, there is a clearly agreed upon guideline for suppliers, which stipulates, for instance, that we have products manufactured in certain countries only in conjunction with a corresponding social project (see Bangladesh, p. 27). As a general rule, facilities are visited by hessnatur staff before the cooperation begins with a new supplier, thereby ensuring that the manufacturer can meet hessnatur's quality, ecological and social requirements. A procedure coordinated by the Purchasing Department and Corporate Responsibility also comes into play. Among other things, this procedure sees to it that no initial production begins before the Corporate Responsibility team has inspected and approved the supplier.

4.1.3 Cooperation with agents

hessnatur collaborates with local agents in certain production countries - Turkey, Thailand and Peru. They organize and monitor production on behalf of hessnatur and act as important contacts for the manufacturers. The agents therefore receive very intensive training focusing on the ecological and social requirements of hessnatur. This occurs both at hessnatur as well as on-site in the production facilities. Additionally, these agents work together particularly closely with the respective hessnatur "experts" - Purchasing, Quality Assurance and Corporate Responsibility.

4.1.4 Suppliers and production countries

In fiscal year 2011/2012, hessnatur worked with 83 clothing suppliers entailing a total of 117 sewing facilities. 52 percent of those production facilities are situated within EU member countries. The number of suppliers is necessitated by the wide spectrum of products offered by hessnatur, ranging from outer clothing for men, women and children, to baby clothing and home textiles. Added to which, as already mentioned, some manufacturers specialize in certain natural fibres or product groups. This specialization assures the high ecological and technological processing standards necessary for production.

EU-COUNTRIES		NON-EU-COUNTRIES	
Country	No. of sewing facilities	Country	No. of sewing facilities
Austria	1	Bangladesh	1
Bulgaria	3	Belarus	1
Czech Republic	7	Bosnia	1
France	3	Brazil	1
Germany	26	China	11
Hungary	2	India	2
Ireland	2	Croatia	2
Italy	1	Macedonia	4
Lithuania	4	Mongolia	1
Poland	4	Nepal	2
Portugal	3	Peru	8
Romania	3	Thailand	3
Scotland	1	Turkey	18
Slovenia	1	Ukraine	1
TOTAL	61	TOTAL	56

Table 1: Number of sewing facilities per country of production, as of 27. 09.2012

4.1.5 Why don't we only manufacture in Europe?

hessnatur's cooperation with suppliers in critical countries, such as China or Nepal, raises certain questions. Why do we not manufacture more in Europe? The reasons are various. Many "specialists" for processing certain fibres happen to be located in countries where these fibres are cultivated. For example, hessnatur mainly purchases garments from China that is made from indigenous fibres, such as silk, hemp, or precious hair, such as cashmere. Both cultivation and processing of these fibres are largely performed in China at this time; they are scarcely obtainable in other countries, and it is logical to keep the processing of these fibres within a region of cultivation and expertise.

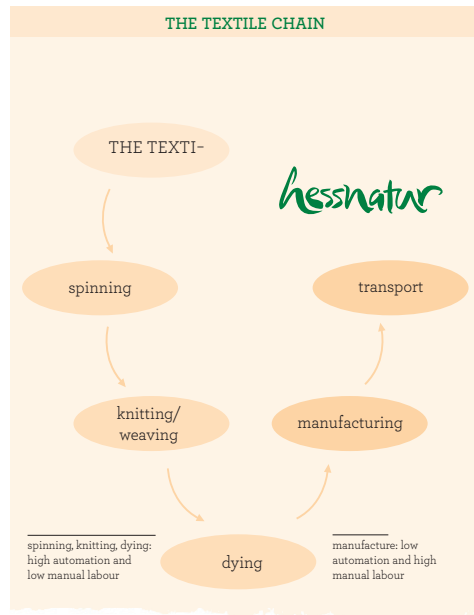
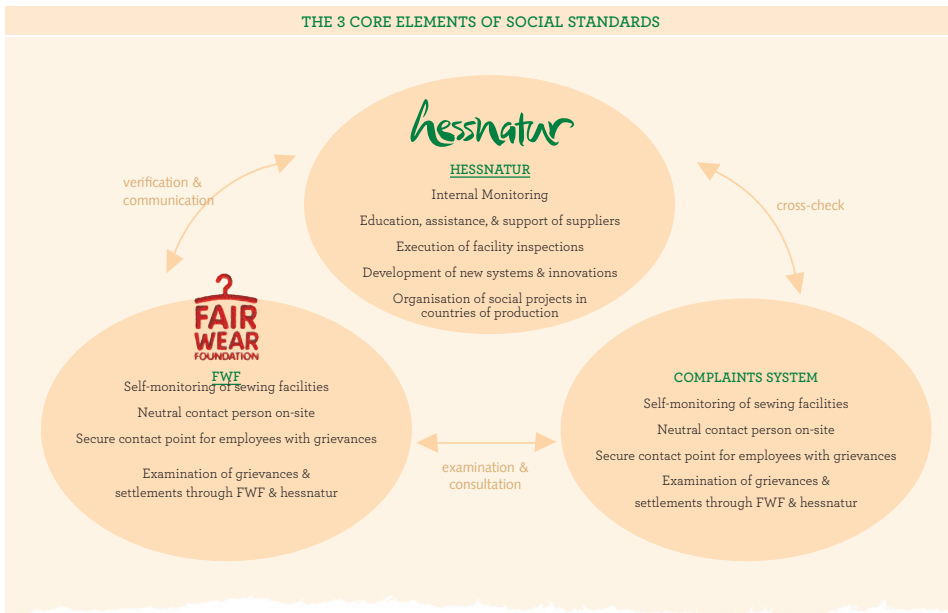
Centres of competence for cotton processing, for example, are presently located in Turkey; for jersey and nightwear, in Germany and the Baltic region. At the same time, clothing manufacturers, especially in Germany, are increasingly shutting down. Expertise is being lost. As such, there is no way of avoiding a further shift of production abroad, especially in light of the diverse range of products offered by hessnatur.

In critical production countries, hessnatur conducts intensive screens of working conditions within facilities, chooses new suppliers meticulously, and commits itself to specific projects within those countries. hessnatur cooperates with Nepra e.V. in Nepal, for instance - a German association which cares for ostracised victims of leprosy. In the workshops of the Ne-

palese partner association, New SADLE, leprosy victims and healthy employees work together, where they receive free medical care, child care, and educational opportunities. hessnatur supported the enterprise in converting the hand-dyeing process to non-toxic dyes and schooled the facility in technical know-how for textile production. Moreover, we have textile products produced there every year for our collection, such as scarves or Pashmina-shawls, which are known for their exceptional quality and whose sales support the New SADLE project.

hessnatur's inclusion of precious Pashmina-shawls fosters appreciation for the work of New SADDLE e.V. workshops in Nepal.





4.2 THE MONITORING SYSTEM TO IMPLEMENT SOCIAL STANDARDS

So far, hessnatur has only monitored working conditions in sewing facilities. Unlike the upstream production phases, such as spinning, knitting, or dyeing, the sewing of clothes is scarcely automated to this day. This involves a substantial amount of manual labour – often under pressure due to time and cost restraints. The working conditions in these facilities, therefore, deserve exceptional attention, as physical, human labour is primarily called for.

The assurance of hessnatur's social standards is built upon three core elements (see graphic).

This means:

- hessnatur is responsible for implementing and monitoring social standards in sewing facilities.
- The Fair Wear Foundation inspects the work performed by hessnatur and performs audits of production facilities on behalf of hessnatur.
- The impartial complaints handler gives workers added security.

For hessnatur, a management system for social standards must have:

- The provision of comprehensive information to the manufacturers on our standards, the means of implementing them, and the function of the monitoring system
- a written confirmation by the manufacturers of their acceptance of, and compliance with, our social standards
- regularly performed facility inspections
- the introduction of the FWF complaints system in sewing facilities
- administration and evaluation of monitored data

4.2.1 Information exchange with suppliers

The exchange of information with suppliers forms the basis for jointly implementing our social standards in sewing facilities. New suppliers, in particular, are provided with very detailed information. In addition to the standards themselves, all suppliers also receive information pertaining to hessnatur's monitoring system, as well as the ensuing requirements and responsibilities for the suppliers. Queries can be discussed with hessnatur's contacts at any time.

At the same time, the suppliers provide comprehensive information relating to the sewing facilities (e.g. headcount, status of implementation of social standards, etc.). These details form the basis for the planning of monitoring measures.

4.2.2 Confirmation of social standards

Each and every manufacturer is provided with hessnatur's social standards and must confirm them in writing. No cooperation without confirmation.

In addition, each facility is provided with a copy of our social standards in the local language for posting on staff information boards.

4.2.3 Facility inspection

Facility inspections provide comprehensive "snapshots" of the status of implementation of our social standards in production operations. They form the basis for intensive advanced work on the standards. The facility inspections examine both occupational safety and facility documentation: employment contracts, wage settlements, insurance documentation, and work hour records. Audits performed by the Fair Wear Foundation also include interviews with workers. In addition to the audits performed by the Fair Wear Foundation and other independent experts, hessnatur is increasingly conducting its own facility inspections, in which the

"hessnatur-screen" serves to further implement social standards.

The selection of facilities for inspection focuses primarily on operations in critical countries and suppliers who are particularly important for hessnatur.

Inspections are also conducted when there are indications of problems in a sewing facility – for example when staff complaints are received.

SIMPLE MEASURE, HUGE IMPACT - ERGONOMICALLY CORRECT CHAIRS.

Whoever works all day sitting down – whether in front of a computer screen or at a sewing machine – knows how important a role posture plays for health. Ergonomically designed chairs can help, but are frequently in short supply – especially in sewing facilities. And retrofitting the factories usually involves extensive costs. But they are costs that pay off. As part of the improvement measures agreed with hessnatur following a facility inspection in Turkey, the sewing facility purchased new, ergonomically correct chairs for its workers. Shortly thereafter the factory manager discovered that the work of the sewing staff had improved and become more efficient. Not to mention the improved health in the workspace.

Facility inspections identify areas in need of improvement at a given sewing facility. Accordingly, a Corrective Action Plan (CAP) is drawn up on the basis of the audit report – irrespective of whether the report relates to an audit performed by the FWF or an inspection conducted by hessnatur. The CAP represents a list of improvements that must be implemented at the facility. Individual solutions are drawn up for the respective operations in cooperation with the suppliers. These include a clear time schedule to determine which measures must be implemented by which deadlines. hessnatur commits to the implementation of the Corrective Action Plan together with the supplier. The latter submits regular reports on the status of implementation and documents its progress. Additionally, a follow-up audit is performed on site, either by a FWF audit team or by hessnatur staff.

The full implementation of hessnatur's social standards in a facility is a process that can take several months or even years, depending on the general conditions prevailing in the respective country of manufacture



Humankind is
PART OF A
 greater **WHOLE.**



If the social standards are not implemented in full, hessnatur provides implementation assistance and support in order to improve the situation at the facility and establish fair working conditions. The cooperation with the supplier is only terminated if these efforts do not produce the desired success or if facilities fundamentally contravene hessnatur's social standards. Visits to production facilities are normally planned, scheduled, and carried out on site by hessnatur. Additionally, a "Verification Audit" is provided by the FWF, which differs from a "normal" audit in that the Fair Wear Foundation, rather than hessnatur, selects which supplier is to be audited, and when. In this way, both the work of the supplier on site, as well as hessnatur's hand in the implementation of social standards in regards to that supplier can be monitored.

4.2.4 Complaints system

The FWF complaints system serves as an additional safeguard for social standards by giving the workers in the facilities the means of approaching an impartial contact outside the facility if problems arise. The Fair Wear Foundation trains these "complaint handlers". They review grievances and forward them to hessnatur via the FWF in Amsterdam. hessnatur then develops a solution together with the affected suppliers. The system is introduced within the facility and the on-site representative is announced publicly. This occurs in three possible ways:

- when facility audits are performed by the Fair Wear Foundation
- when FWF contacts visit the facilities
- by including the name and details of the contact on the copies of hessnatur's social standards, which are posted in the local language

In addition, hessnatur encourages in-house complaints systems and supports the on-going dialogue among management and staff. In fiscal year 2011/2012, hessnatur supervised a bachelor's dissertation on this subject. The focus of the work lay in the analysis of grievance management systems in the textile industry (chapter 8.2, page 32). Based on the outcome of the research, potential points of optimisation were developed for both the sector as a whole, as well as individually for hessnatur.

4.2.5 Data management

The data collated in hessnatur's monitoring system - for example the addresses of sewing facilities, data, and results of facility inspections - are recorded and administered within the framework of a specially developed computer management system. That way it is possible to ensure transparency along the supply chain. Moreover, the data management grants us further possibilities to work on sustainable solutions for ethically correct working conditions.

The data is always treated with necessary care and security measures.

5. INTERNAL COOPERATION

Universally applicable: all hessnatur employees are trained in the characteristics of hessnatur. This is also the case in regards to social standards. Accordingly, new employees are informed about the company's social standards and monitoring program in an annual "essentials class". Additionally, further information is made available to departments working within relevant fields. This applies to Purchasing - as key contact with suppliers - as well as Customer Relations and in the Shops. Thus, effective cooperation and information can be assured.

5.1 INTER-DIVISIONAL SUPPLIER EVALUATION MEETING

Twice a year, coinciding with our peak seasons, a supplier evaluation meeting takes place. Multiple departments are involved, including Purchasing, Engineering, Accounting, and Corporate Responsibility - in charge of the implementation of social standards and the ecological quality of materials. The various aspects of doing business with suppliers are appraised. Was the quality satisfactory? Did the supplier deliver on time? Were there any problems with working conditions, for example complaints from workers or anything detected during a facility inspection? Finally, this inter-divisional evaluating board decides equitably whether work with a supplier will be further expanded, or dismantled.

5.2 THE PURCHASING DEPARTMENT

Alongside the many other departments of hessnatur, Purchasing is especially important. Reporting to the head of the Purchasing Department are buyers for hessnatur's host of materials, as well as the members of the Disposition, Customs Handling, and Purchase Controlling Departments.

The purchasers have a particularly intense working relationship with hessnatur's suppliers. On the basis of suppliers' individual evaluations, the purchasers decide who may produce what for hessnatur. To ensure that hessnatur's suppliers have proper social standards operating in their production facilities, the Corporate Responsibility department works closely and cooperatively with Purchasing. In the case of a severe infraction against hessnatur's social standards on the part of a supplier, it is the Corporate Responsibility team's right and obligation to call attention to the matter, and have orders stopped if necessary.

5.2.1 Integration of social standards into the purchasers' decisions

In addition to general evaluations of suppliers, a daily evaluation between the purchasing staff and the Corporate Responsibility department is essential. Provisions for suppliers are defined in general, but specific solutions must still be developed time and time again. Close cooperation within hessnatur is fundamental.



Cocoons from certified organic farming in China

• **Procedures in selecting new suppliers**
As already described, there are endless reasons why hessnatur should choose to work together with a new supplier. Finding a supplier suitable for hessnatur is the job of the Purchasing Department. Only when social standards are inspected can the facility become a new supplier for hessnatur.

• **Supplier guide**
The supplier guide is the standard manual for all suppliers. It contains all information regarding the requirements for hessnatur, be they ecological, terms of delivery, buying conditions, or social standards. The supplier guide must be signed by every supplier of hessnatur. No signature, no partnership. This is ensured by both the Purchasing Department as well as Corporate Responsibility.

• **Audit planning**
A new audit plan is prepared at the beginning of every year. The plan establishes which supplier is to be visited, informed, and monitored for social standards, and how this is to be accomplished. The plan is continually coordinated with Purchasing. An important note is that audits are not performed during a supplier's peak production period. This guarantees that the management, as well as the employees, truly have the time to devote to issues regarding social standards during a facility tour.

5.2.2 hessnatur's production cycle

Along with supplemental catalogues (Baby collection, Summer collection, Christmas catalogue, plus a special theme catalogue), hessnatur sends out two main catalogues each year: Spring/Summer and Fall/Winter. The following example outlines the production cycle for a Spring/Summer catalogue.

STAGE	TIME FRAME
<u>internal collection planning</u>	January to February
<u>Supplier evaluations</u>	March
<u>Design development / Sample orders from suppliers</u>	March/April
<u>Samples to hessnatur / Sample evaluation</u>	April/May
<u>Product selection</u>	July
<u>Production approval / Orders for the entire season</u>	July
<u>Merchandise delivery</u>	November/December

5.2.3 Never-out-of-Stock-products

In addition to the production cycle described above, hessnatur has also introduced Never-out-of-Stock products (NOS) beginning in fiscal year 2011/2012. NOS articles are products like Basic T-Shirts, which we offer continuously in our assortment. This allows suppliers to better plan the time frames of their production processes. The more consistent production workload abates seasonal fluctuations and relieves in times of peak manufacture.

6. CONTRIBUTORS TO THE VERIFICATION OF SOCIAL STANDARDS ON SITE

In addition to supplier visits and inspections executed by hessnatur, we also enlist external, independent experts and entities. These authorities are introduced below. Special attention is given to the Fair Wear Foundation and their audit procedures. Additionally, the hessnatur-screen and complaints management are introduced.

6.1 THE FAIR WEAR FOUNDATION

The Fair Wear Foundation (FWF) is an international organization, headquartered in the Netherlands. The organization's goal is to improve working conditions within the textile industry, as well as to promote social responsibility overall. Businesses which join the FWF commit themselves to implementing and monitoring social standards within their production facilities. What makes the FWF distinctive is its status as what can be termed a multi-stakeholder organization. That is, all aspects of textile production are represented as members: non-governmental organizations (NGOs), labour unions, trade associations, manufacturers, and merchants. Thus, the broadest possible range of stakeholder participation is made possible to engage in the improvement of working conditions in apparel production. Based upon the International Labour Organization's (ILO) core labour rights, the FWF has developed its own social standards, which hessnatur has also adopted. In cases of variation or contradiction between FWF standards and those of local legislation, the higher requirements apply respectively. These social standards, as well as the requirements pertaining to their

implementation are summarized in the FWF's Code of Labour Practices. FWF members formally consent to this code, as well as to the validation of its adherence by the FWF.

The fundamental principles of the FWF's Code of Labour Practices are:

- die Manufacturers take responsibility for their supply chain
- Labour standards meet with the widely accepted ILO conventions and the UN's Universal Declaration of Human Rights
- The implementation of social standards is to be understood as an ongoing process, possibly taking years
- Locally involved parties are to be included in audits and corrective measures
- The implementation of FWF's Code of Labour Practices by members is independently audited ("external inspection" or "verification").

The FWF not only performs audits of supplier operations. Each member company must submit regular reports to the FWF addressing progress or grievances. Furthermore, each member company itself is inspected on a regular basis - once per year.

Distinctions of the Fair Wear Foundation

Audits, meaning facility inspections, are executed by local, FWF trained audit teams from the respective country of production. They are an inherent part of the monitoring system for hessnatur's social standards. As a result, cultural and regional characteristics can be taken into consideration. Communication becomes easier, and trust is higher compared to foreign inspectors.



Experience has shown that employees possess little knowledge of their rights and responsibilities. The FWF educates in this respect through worker training. A neutral system for complaints enables employees to turn to competent, local representatives in order to address problems. The team's audit report is submitted only to hessnatur and is conveyed by us to the supplier or workshop under inspection. During the audit, the shop management must be present. The audit team must have access to the workshop and all other important facilities.

6.1.1 Audits by the Fair Wear Foundation

An audit team usually consists of three inspectors: an administrative inspector, a health and safety inspector, and an inspector who carries out interviews with the employees. An audit takes about 1 ½ to 2 days.

The following dialogues and inquiries occur during an audit:

- Interviews with the management and its staff
- Interviews with several workshop employees; a portion of these interviews are usually carried out away from the workshop
- Discussions with local groups, such as labour unions, trade associations, local authorities, and other involved organizations
- inspections of company documentation, especially those connected to payroll accounting, hiring of employees, and timekeeping
- inspection of safety conditions and hygiene in the workplace

Before the Fair Wear Foundation's audit team submits its report to hessnatur, the results are discussed with the management of the workshop which was visited. If the working conditions within the facility do not meet with required social standards, the audit team prepares recommendations for improvement in the form of a "Corrective Action Plan" (CAP). These recommendations are also discussed with the workshop management.

After the audit, an arrangement is made between the workshop and hessnatur regarding essential improvements. In other words, a time frame is agreed upon within which the Corrective Action Plan is to be implemented. The implementation is then verified through a follow-up visit by the Fair Wear Foundation or an additional audit.

This type of cooperation factors significantly in the hessnatur brand, and is indispensable. Adherence to internationally accepted social standards is a matter of course for both hessnatur and our customers. We are certain that our suppliers, as constructive business partners, share these values and are actively supportive in both the monitoring of social standards as well as the implementation of improvement measures.

6.2 INSPECTION THROUGH INDEPENDENT CONSULTANTS AND OTHER ORGANISATIONS

Since 2009, hessnatur has encouraged all of its suppliers to submit a detailed report on measures for social standards already in place. This procedure also had an added advantage of strengthening ties with suppliers and heightening awareness of fair working conditions.

Many suppliers have disclosed to hessnatur that social audits have already taken place in their facilities, in some cases by internationally recognized and independent organizations. Insofar that our suppliers were agreed, we used these results to mutually implement further improvements to social standards on site. Thus double audits can be avoided, saving time and reducing costs for all parties.

6.3 FACILITY INSPECTIONS BY HESSNATUR

The "hessnatur-screen", a procedure for facility inspection by hessnatur employees, was developed in 2008. The computerized hessnatur-screen is optimized after every facility tour, accommodating the conditions on location as well as our own requirements. In the course of various facility tours, the hessnatur-screen has proven to be a valuable compliment and aid to the preliminary work of FWF audits.

The „hessnatur-Screen“

We don't just want to get to know our manufacturers well, we also want to take a very close look at them. Which is why we perform our own on-site inspections to assess the implementation of our standards. hessnatur experts examine compliance with the social criteria by performing detailed facility inspections that also include occupational health and safety and documentation inspections. The "hessnatur screen" process covers everything from the correct installation of the fire extinguisher right up to inspection of the employment contracts.

Plus face-to-face contact creates a good basis for cooperation in an environment of mutual trust.



6.4 MANAGEMENT OF COMPLAINTS

All hessnatur suppliers receive the code of working ethics at the very start of the working relationship. In addition to the eight social standards written in the local language, it contains contact information for possible complaints. Furthermore, all suppliers and production facilities must verify that the social standards are adhered to, and that the code of working ethics is displayed for the benefit of the company employees. Every manufacturing facility is sent a copy of the code annually, to ensure that employees remain consistently and continually informed. Only when the social standards and contact information for possible complaints are openly displayed can local employees in fact submit complaints.

In fiscal year 2011/2012, a complaint in Turkey was submitted through this system. An employee of a production facility working with hessnatur complained that he had worked for the company for many years and was not fully socially insured. The complaints handler conveyed the grievance to the Fair Wear Foundation, which, in turn, informed hessnatur as well as two additional clients of the supplier. The FWF moderated a dialogue between the employee and the management. Through discussion with the management and the construction of solutions, hessnatur was able to take an active role

in solving the conflict. The employee was reinstated and social insurance paid.

7. MONITORING-MEASURES UP TO 2012

Inspections of social standards are accomplished at hessnatur by means of our internally developed monitoring system. This System, based upon three core elements, has already been detailed at length. The following section concerns itself with the implementations and measures on location with individual suppliers.¹

Depending upon the scope of planned improvement measures, implementation can take several months. In all of the following named production locations, hessnatur worked on the implementation of results from facility inspections in fiscal year 2011/2012. Implementation of results from inspections occurs regardless of the results' origins, whether the supplier was visited by the Fair Wear Foundation, hessnatur, an independent evaluator, or an internationally recognized organization. The following is an overview at the status quo.

¹ Some suppliers are audited multiple times. This report lists results from the latest executed facility inspection.

EU-COUNTRIES	TOTAL number of sewing facilities within the country	Number of facilities inspected for social standards	NON EU-COUNTRIES	TOTAL number of sewing facilities within the country	Number of facilities inspected for social standards
Austria	1		Bangladesh	1	1
Bulgaria	3	1	Belarus	1	1
Czech Republic	7		Bosnia	1	1
France	3		Brazil	1	
Germany	26	8	China	11	10
Hungary	2		India	2	
Ireland	2		Croatia	2	1
Italy	1		Macedonia	4	3
Lithuania	4	4	Mongolia	1	1
Poland	4		Nepal	2	social project
Portugal	3		Peru	8	4
Romania	3	3	Thailand	3	2
Scotland	1		Turkey	18	15
Slovenia	1		Ukraine	1	1
TOTAL	61	16	TOTAL	56	40
		EQUATES TO 26%			EQUATES TO 71%
This equates to an audit of 92% of procurement value (FOB).					

Table 2: Number of production facilities inspected for social standards, as of: 27.09.2012

The following table illustrates audit results of facility tours in detail. These results encompass all facility tours which have taken place over the last three years. Effective: 19.12.2012.²

² Individual facilities with multiple audits are counted singularly.

SYMBOL KEY

- + no findings during inspection
- + multiple shortcomings found during inspection
- improvement measures are realizable on the short term

degree of implementation, resulting in improvements of individual areas.

The percentile values listed on the following tables represent an average figure. They illustrate a trend concerning the implementation status of audit results. Because production centres may have changed, or there have been new audits, it is not possible to place these numbers into a yearly comparison.

The assessment of individual audit results applies to the time frame in which the audit was conducted. Progress has already been made relative to the application of audit results and their

7.1 FACILITY INSPECTIONS WITHIN THE EU

BULGARIA

TOTAL NUMBER of sewing facilities in the country	NUMBER of production sites inspected for social standards			IMPLEMENTATION of improvement measures (%)
	FWF	OTHER	HESSNATUR	
3	1			100%

- + Employment is freely chosen
- + No discrimination in employment
- + No exploitation of child labour
- + Freedom of association and the right to collective bargaining
- + Payment of a living wage
- + No excessive working hours
- Safe and healthy working conditions
- + Legally-binding employment relationships

Since Bulgaria's admittance into the EU in 2007, a considerable amount of legislation regarding social standards has been implemented. The ILO's core labour rights are anchored in the Bulgarian labour code. However, Bulgaria is considered a high risk country in regards to compliance to working conditions (social standards).

GERMANY

TOTAL NUMBER of sewing facilities in the country	NUMBER of production sites inspected for social standards			IMPLEMENTATION of improvement measures (%)
	FWF	OTHER	HESSNATUR	
26		1	7	88%

- + Employment is freely chosen
- + No discrimination in employment
- + No exploitation of child labour
- + Freedom of association and the right to collective bargaining
- + Payment of a living wage
- + No excessive working hours
- + Safe and healthy working conditions
- + Legally-binding employment relationships

In the Summer of 2011, we also visited our German suppliers and inspected them regarding social standards. Many relevant issues have already been reliably regulated and controlled through public authorities, like taxation and social security benefits. The issue of wages continues to be on our agenda, as there is no legislated minimum wage in the textile industry in Germany. Wages appear satisfactory, but whether or not all wages paid in the German textile industry constitute living wages remains questionable.



A bachelor's thesis concluded: When cultural idiosyncrasies are considered, training concepts are grasped more quickly.

LITHUANIA

TOTAL NUMBER of sewing facilities in the country	NUMBER of production sites inspected for social standards			IMPLEMENTATION of improvement measures (%)
	FWF	OTHER	HESSNATUR	
4		1	3	97%

- + Employment is freely chosen
- + No discrimination in employment
- + No exploitation of child labour
- + Freedom of association and the right to collective bargaining
- + Payment of a living wage
- + No excessive working hours
- + Safe and healthy working conditions
- + Legally-binding employment relationships

Working conditions are well regulated and monitored by public authorities in Lithuania. Furthermore, Lithuania has been a member of the International Labour Organization (ILO) since 1991. Our visits to production sites there were appropriately positive.

ROMANIA

TOTAL NUMBER of sewing facilities in the country	NUMBER of production sites inspected for social standards			IMPLEMENTATION of improvement measures (%)
	FWF	OTHER	HESSNATUR	
3	3			54%

- + Employment is freely chosen
- + No discrimination in employment
- + No exploitation of child labour
- + Freedom of association and the right to collective bargaining
- + Payment of a living wage
- + No excessive working hours
- Safe and healthy working conditions
- + Legally-binding employment relationships

Since Romania's EU membership in 2007, the country has anchored the ILO's core labour rights not only in the labour code, but also into the constitution. Nevertheless, Romania is considered a country of relatively high risk with regard to social standards. Therefore the Fair Wear Foundation is working with local experts there as well. Although many issues were reported positive, audit results show that there are still improvements to be implemented. Especially issues such as occupational health and safety are seen as areas in need of improvement.

7.2 FACILITY INSPECTIONS OUTSIDE THE EU

BANGLADESH

TOTAL NUMBER of sewing facilities in the country	NUMBER of production sites inspected for social standards			IMPLEMENTATION of improvement measures (%)
	FWF	OTHER	HESSNATUR	
1		1		100%

- + Employment is freely chosen
- + No discrimination in employment
- + No exploitation of child labour
- + Freedom of association and the right to collective bargaining
- + Payment of a living wage
- + No excessive working hours
- Safe and healthy working conditions
- Legally-binding employment relationships

Bangladesh's production facility belongs to Grameen Bank, under leadership of 2006 Nobel Laureate Muhamad Yunus. The facility has already been inspected for adherence to social standards on many occasions, with hessnatur employees on site. At this production site working conditions and contracts are, in comparison to other countries of production, good, although there is still room for improvement. Grameen Knitwear suffered from a fire in the beginning of 2011. The same year saw a short personnel strike. While the "Milky Way Shirt" was produced there for the 2012 Spring/Summer Collection, no production for hessnatur took place for the Fall/Winter Collection because of new decisions regarding the collection.

BELARUS

TOTAL NUMBER of sewing facilities in the country	NUMBER of production sites inspected for social standards			IMPLEMENTATION of improvement measures (%)
	FWF	OTHER	HESSNATUR	
1	1			Zeit zu kurz

- + Employment is freely chosen
- + No discrimination in employment
- + No exploitation of child labour
- + Freedom of association and the right to collective bargaining
- + Payment of a living wage
- + No excessive working hours
- + Safe and healthy working conditions
- + Legally-binding employment relationships

The production site in Belarus belongs to a privately owned, internationally engaged supplier. Despite the fact that we only have a small amount of production in this sewing facility, we decided to have an audit performed there by Fair Wear Foundation in 2012. We were delighted to find the results quite positive, although a few factors in the area of occupational health and safety are to be improved.

BOSNIA

TOTAL NUMBER of sewing facilities in the country	NUMBER of production sites inspected for social standards			IMPLEMENTATION of improvement measures (%)
	FWF	OTHER	HESSNATUR	
1		1		0%

- | | |
|--|--|
| + Employment is freely chosen | + Payment of a living wage |
| + No discrimination in employment | + No excessive working hours |
| + No exploitation of child labour | - Safe and healthy working conditions |
| + - Freedom of association and
the right to collective bargaining | - Legally-binding employment relationships |

Bosnia has ratified all eight core labour rights and has been a member of the International Labour Organization since 1993. Nevertheless, the audit showed quite a few points where improvements are still needed in this fiscal year.

CHINA

TOTAL NUMBER of sewing facilities in the country	NUMBER of production sites inspected for social standards			IMPLEMENTATION of improvement measures (%)
	FWF	OTHER	HESSNATUR	
11	9	1		70%

- | | |
|--|--|
| + Employment is freely chosen | + - Payment of a living wage |
| + No discrimination in employment | - No excessive working hours |
| + No exploitation of child labour | + - Safe and healthy working conditions |
| - Freedom of association and the
right to collective bargaining | + - Legally-binding employment relationships |

China's negative reputation concerning the adherence to social standards compelled us into a close relationship with the production facilities on site, as well as with Fair Wear Foundation. In addition to numerous social audits already performed, an increase in training seminars has occurred since 2011. Through these seminars, our goal is to provide tangible assistance in the implementation of social standards to the production sites. In this way, it was possible to accomplish and implement some improvements. But there is still much to do. Training seminars and audits planned for the next fiscal year should provide support for continual improvement in the years to come.

CROATIA

TOTAL NUMBER of sewing facilities in the country	NUMBER of production sites inspected for social standards			IMPLEMENTATION of improvement measures (%)
	FWF	OTHER	HESSNATUR	
2		1		100%

- | | |
|--|--|
| + Employment is freely chosen | + Payment of a living wage |
| + - No discrimination in employment | + No excessive working hours |
| + No exploitation of child labour | - Safe and healthy working conditions |
| + Freedom of association and the
right to collective bargaining | + Legally-binding employment relationships |

Compared to other southern European countries, the wage level in Croatia is relatively high - a trend which is being supported by the results of audits performed there. Croatia has also been a member of the International Labour Organisation for over ten years and acknowledges the ILO's core labour rights.

MECEDONIA

TOTAL NUMBER of sewing facilities in the country	NUMBER of production sites inspected for social standards			IMPLEMENTATION of improvement measures (%)
	FWF	OTHER	HESSNATUR	
4	3			47%

- | | |
|--|--|
| + Employment is freely chosen | + - Payment of a living wage |
| + No discrimination in employment | + No excessive working hours |
| + No exploitation of child labour | - Safe and healthy working conditions |
| + - Freedom of association and the
right to collective bargaining | + - Legally-binding employment relationships |

To support the implementation of improvement suggestions, Fair Wear Foundation conducted a training at one production site in 2011, resulting in a solid execution of them still pending improvement measures. One Macedonian production centre is currently taking part in a study concerning the 'relationship between productivity and wage'.

MONGOLIA

TOTAL NUMBER of sewing facilities in the country	NUMBER of production sites inspected for social standards			IMPLEMENTATION of improvement measures (%)
	FWF	OTHER	HESSNATUR	
1	1			100%

- | | |
|--|--|
| + Employment is freely chosen | + Payment of a living wage |
| + No discrimination in employment | + - No excessive working hours |
| + No exploitation of child labour | + - Safe and healthy working conditions |
| + Freedom of association and the
right to collective bargaining | + Legally-binding employment relationships |

hessnatur's production in Mongolia focuses primarily on our yak-wool products. An analysis of the audit showed that only small actions in occupational health and safety needed to be implemented. We were positively surprised that the employees were paid quite well.

PERU

TOTAL NUMBER of sewing facilities in the country	NUMBER of production sites inspected for social standards			IMPLEMENTATION of improvement measures (%)
	FWF	OTHER	HESSNATUR	
8		1	3	80%

- | | |
|--|--|
| + Employment is freely chosen | + - Payment of a living wage |
| + No discrimination in employment | + - No excessive working hours |
| + No exploitation of child labour | - Safe and healthy working conditions |
| + Freedom of association and the
right to collective bargaining | + Legally-binding employment relationships |

We have worked with our Peruvian suppliers for many years. Matthias Hess, son of company founder Heinz Hess, has lived in Peru for quite some time. He supervises production centres on site for hessnatur in his capacity as local agent. We were with him in Peru in 2010 and 2012 in order to get a more personal look into conditions there. A great deal has been implemented since our screens in 2010, which we were able to personally attest to in 2012. Particular progress has been made in areas of occupational safety. Peru is nevertheless a high priority for us in the 2012/2013 fiscal year in regards to training and further implementation of social standards.

THAILAND

TOTAL NUMBER of sewing facilities in the country	NUMBER of production sites inspected for social standards			IMPLEMENTATION of improvement measures (%)
	FWF	OTHER	HESSNATUR	
3	2			59%

- + Employment is freely chosen
- + No discrimination in employment
- + No exploitation of child labour
- + - Freedom of association and the right to collective bargaining
- + - Payment of a living wage
- No excessive working hours
- + - Safe and healthy working conditions
- + - Legally-binding employment relationships

Audits for social standards have been performed repeatedly in the Thai production facilities since 2008. Despite good working conditions overall, some points remain a challenge in Thailand, such as living wages and work time regulation. We are working in close communication with the production facilities on these issues. An onsite visit by the Corporate Responsibility team of hessnatur and audits by the Fair Wear Foundation are planned for the coming fiscal year in 2012/2013.

TURKEY

TOTAL NUMBER of sewing facilities in the country	NUMBER of production sites inspected for social standards			IMPLEMENTATION of improvement measures (%)
	FWF	OTHER	HESSNATUR	
18	8	5	2	45%

- + Employment is freely chosen
- + No discrimination in employment
- + No exploitation of child labour
- Freedom of association and the right to collective bargaining
- Payment of a living wage
- No excessive working hours
- + - Safe and healthy working conditions
- Legally-binding employment relationships

Turkey is a country of major focus for hessnatur. Thus we are regularly on site, and participate in close communication with our Turkish suppliers. There is relatively good legal regulation in Turkey, but implementation on the part of employer and employee often occurs only rudimentarily. We therefore devote special attention to the regulation of working hours, adherence to contracts, and social security contributions for employees. Many suggestions for improvement have already been implemented.

UKRAINE

TOTAL NUMBER of sewing facilities in the country	NUMBER of production sites inspected for social standards			IMPLEMENTATION of improvement measures (%)
	FWF	OTHER	HESSNATUR	
1	1			9%

- + Employment is freely chosen
- + No discrimination in employment
- + No exploitation of child labour
- + - Freedom of association and the right to collective bargaining
- + Payment of a living wage
- + No excessive working hours
- Safe and healthy working conditions
- + - Legally-binding employment relationships

Operations in the Ukraine are regularly monitored by the State for issues including observance of occupational health and safety, as well as the correct payment of wages, insurance, and pensions. We wanted to acquire an independent impression, however, and had the Fair Wear Foundation perform an audit. The result was quite positive, with only a few points in need of improvement.

8. MEASURES FOR THE IMPROVEMENT OF SOCIAL STANDARDS 2011/2012

In addition to facility visits and on-site audits at production sites, we supplement our support for suppliers with measures such as training seminars. All these activities share the same goal of raising awareness for social standards and implementing improvement measures, and thus aid in the continual advancement of better working conditions.

8.1 SUPPLIER TRAINING SEMINARS

hessnatur facilitates its suppliers in attending training seminars from the Fair Wear Foundation, as well as hessnatur's own educational courses.

8.1.1 Day of Social Standards: Turkey

At the end of February 2012, a day-long seminar took place in Istanbul with the FWF, the purchasers from hessnatur, and the social standards team, all under the direction of Rolf Heilmann. Turkish suppliers were invited to become better acquainted with hessnatur's philosophy and to exchange ideas about social standards. hessnatur's internally developed monitoring system was clarified in detail, and the criteria for supplier evaluation at hessnatur as well as our wage study were both introduced.

The 35 participating Turkish suppliers brought many worthwhile contributions to the table. The representatives voiced definite interest in seminars for their employees in order to internalise a concern for social standards throughout the entire operation and to successfully implement such standards.

Many agreed with us that social standards constitute a vital role in future commerce. Especially textile production, which is strongly represented in Turkey, must deal with this issue intensively. Despite the positive attitude, however, some participants expressed doubt at the European perspective which hessnatur takes in introducing social standards. In this case, circumstances in Turkey required consideration in order to successfully implement hessnatur's principles. The comments of our participants from the concluding round of feedback were very positive and reflected the motivational attitude inherent to the seminar*:

„The training was very helpful.
We can change things!“

„hessnatur has a good philosophy!“

The "hessnatur-screen" encompasses everything from the correct installation of fire extinguishers to the inspection of employment contracts, which we prefer to validate on location.

KNOWLEDGE *is power.*
INFORMATION *is liberating.*
EDUCATION *is the premise*
of progress, in every society,
in every family. (Kofi Annan)

"This was a very enlightening day!"

"The day sharpened our awareness of social standards, and one realises quite clearly that especially the next generation is more and more interested in the issue. A change in thinking is taking place!"

"Today, I saw the issue of social standards from another perspective. Thank you, hessnatur!"

*(The comments were translated from the Turkish)

8.1.2 Worker Education Program (Fair Wear Foundation)

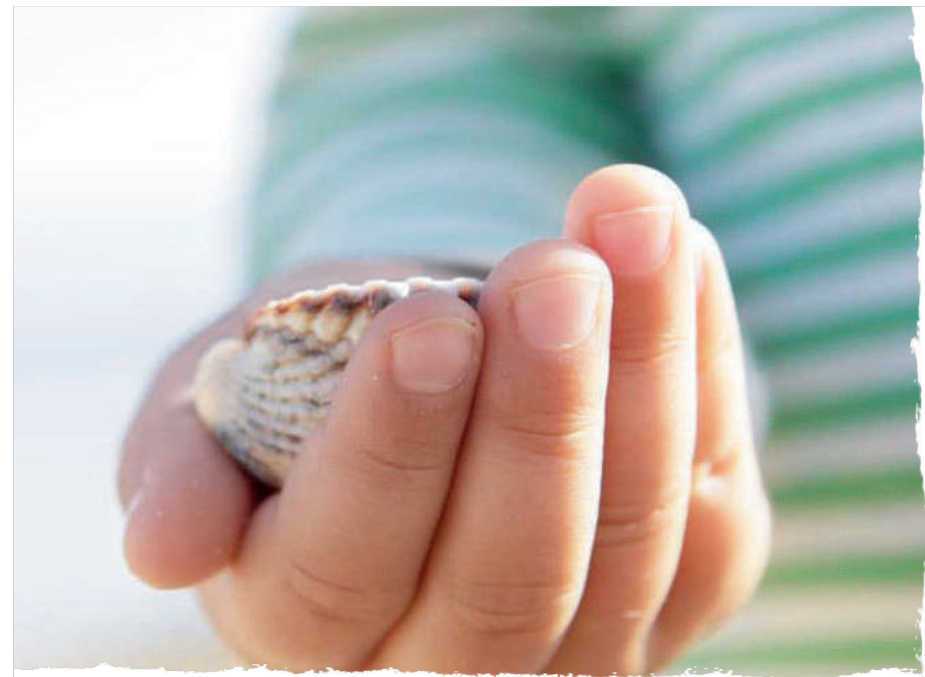
In fiscal year 2011/2012, the Fair Wear Foundation began this new training concept for the employees and management of production centres. Suppliers for hessnatur were present from the beginning, and were able to take part in the very first seminar. The primary function of the Worker Education Program (WEP) is to raise the awareness for social standards. Moreover, both workers and management are informed and sensitised over their respective rights and duties. In addition to the eight core labour rights, important factors in the training are the complaints system and the improvement of internal communication within the operation.

One thing remains clear: An external complaint can only be the last step – capable internal communication and a trustworthy internal complaints system are, therefore, to be strongly supported.

Two of our Turkish suppliers and one Chinese operation have completed the program and are enthusiastic. All things considered, experience shows that it is often not willingness which is lacking, but rather the necessary knowledge across the varying levels of hierarchy

8.2 BACHELOR'S THESES

In February of 2012, a university student supported us with her bachelor's dissertation, "Grievance Management Systems in the Textile Industry - Optimizing the 'bottom-up' approach to securing international labour standards at hessnatur". Her analysis concluded that the basis of a good system is also supported by membership in the Fair Wear Foundation. Nevertheless, further work on the introduction of internal complaints systems in production facilities is necessary. Her study additionally revealed that more information about the system and its function should be provided to employees and management. Facilitating our suppliers in the participation of the WEP is a first step in implementing these findings. We are also working together with our suppliers and the Fair



Wear Foundation on continuously raising awareness in regards to social standards.

The second student's work dealt with the question of, "How can intercultural training seminars contribute to a raise of awareness for social standards? - The development of a practical training model". In her analysis, the student was primarily concerned with the role of differing cultures with regards to the conception and execution of training seminars. She thereby placed her focus upon China and Turkey, concentrating on the issues of freedom of association and the exclusion of excessive working hours. We found it particularly interesting that success can be achieved with varying training methods even in the case of difficult subject matters, and that training seminars play an important role as a tool for raising awareness for social standards. The student chose the words of Kofi Annan to express her thesis best: "Knowledge is power. Information is liberating. Education is the premise of progress, in every society, in every family."

8.3 NEW PROCESSES

In fiscal year 2011/2012, we introduced two fundamental innovations. First - we established the Never-out-of-Stock system, briefly described in

the forward and under point 5.2.3. Second - we can now acquire production status in real time. The programme registers which stage a product has reached along the manufacturing chain. Thus, the Scheduling Department can react early to delays in product delivery, and Corporate Responsibility can analyse the data in the aftermath, and check for a possible correlation with issues of overtime hours.

8.4 MULTISTAKEHOLDER MEETING

Since 2010, the Fair Wear Foundation has been able to attract additional members from Germany, thus creating the opportunity for the second German multi-stakeholder meeting in February 2012. In order to share their activities involving social standards, the German member companies met with representatives of the Fair Wear Foundation, the Clean Clothes Campaign, IG Metall (Metalworkers' Trade Union), and other representatives of social and developmental policy initiatives. Following the presentations, enough time was left to review challenges and ambitions, as well as thoroughly discuss the issue of living wages with all of the participants.

9. COMMUNICATION

In addition to the communication and education we share with our suppliers, it is also important to include and enlighten other interest groups, such as our own employees or customers. Thus we train all of our staff internally on the ecological and social principles of hessnatur. We additionally inform and involve our customers via the internet, our catalogues, in our showrooms, and at events.

9.1 INTERNAL COMMUNICATION

Each year, shortly before the release of a new catalogue, all shop employees and customer service representatives are trained in the products and characteristics of the new collection. There are also numerous opportunities for instruction in our founding principles in textile. Through these opportunities, new employees receive instruction in the essentials of hessnatur (Basic Curriculum). Issues may be enlarged upon through topic-related Curricula, and specifics can be individually examined through Expert Curricula (see graphic).

1. PRODUCT TRAINING	2. INSTRUCTION IN TEXTILE FUNDAMENTALS		
Information pertaining to the new season	Basic Curriculum: textile Grundlagen	Topic-related Curriculum: i.e. textile finishing, social standards, leather	Expert Curriculum: i.e. PETA, vegetable dying, ...
Once per season	4 hr. requirement during induction	As needed 2-4 hrs. twice a year	On request individually arranged

9.2 EXTERNAL COMMUNICATION

9.2.1 Corporate Social Responsibility Panel in Dhaka, Bangladesh

In the course of the German Trade Show in the capital of Bangladesh, a panel for ecological and social standards was assembled at the end of 2011. In addition to experts and advisers, professionals from textile companies were also invited. Attending in the auditorium were representatives from the textile and clothing industries in Bangladesh. The themes discussed included the economic, ecological, and social situation of the country, among others. Clearly in focus was the quality of working conditions, which was enriched by

the pragmatic and effective concepts from Nazma Akter, head of the Awaj Foundation in Bangladesh.

The director of hessnatur's Corporate Responsibility team, Rolf Heimann, lectured on the holistic approach with which hessnatur regards the textile chain. Based on the previous presentation on general conditions in Bangladesh and upon his own external perception, Mr. Heimann appealed to the attending representatives of the textile industry to transform the image of a low-wage country from "cheap" to "good at the price". This new perspective could bring about excellent opportunities for the country, such as the reduction of environmental impact and the creation of better conditions for workers. Moreover, these businesses would rise above their counterparts elsewhere, giving them a competitive advantage by dismantling the fears that western companies have of producing in a "high risk" country. In this way, Bangladesh could lead the trend toward sustainability.

Another important advantage not to be overlooked is the general economical benefit to be gained by all. In conclusion, Mr. Heimann introduced practical examples of how this vision could be implemented in small, manageable stages. Initial measures could lay, for instance, in the areas of occupational safety and ecology

9.2.2 External Communication

hessnatur's social standards and its membership in the FWF are represented in the catalogue, on the internet (www.hessnatur.com and www.hessnatur.info), and in hessnatur showrooms. hessnatur has also been active since 2008 in the form of an online diary on their German and English homepage (<http://de.hessnatur.com/blog> and <http://us.hessnatur.com/blog>) and posts regularly on Facebook (www.facebook.com/hessnatur) and Twitter (<http://twitter.com/hessnatur>).

9.2.3 Catalogue Communication 2011/2012

Social standards have already been related in hessnatur's catalogues a great deal. Interested customers can inform themselves about the textile chain and our social standards, which conform to those of the International Labour Organisation, in our Spring/Summer catalogue (FS 2012, page 143). In our Fall/Winter catalogue, we describe the hessnatur monitoring system and our cooperation with the Fair Wear Foundation (HW 2011/2012, page 328).

9.2.4 Newsletter Serie - Social Standards

hessnatur reports the latest news in the form of a newsletter, which is sent on a weekly basis to customers who have registered for the publication via email.

In 2011, the issue of social standards was the subject of a series which ended in December of the same year. Once a month, reports were made concerning social standards in general, the requirements on the part of hessnatur, the audit process, and experiences on location in production facilities. All twelve entries are still available for perusal via the Social Standards link on the landing page of our online shop.

9.2.5 Social Standards at „Sinnvoll Genießen“ (Savouring Sensibly)

„Sinnvoll genießen 2011“: Nach zwei erfolgreicher „Sinnvoll Genießen 2011“: After two successful product testing events in 2009 and 2010, hessnatur and three Austrian partners - SONNENTOR, Zotter Schokoladen, and Rogner Bad Blumau - invited interested parties to

a three day function. During a stay at Rogner Bad Blumau, fashions from hessnatur were tested, specialities from SONNENTOR and Zotter Schokoladen were sampled, and all amenities of the wellness-hotel, including various spas, were assessed according to their rejuvenation values. Selection criteria for participants included a sustainable lifestyle and an affinity to media, the internet, and social networking. The purpose of the later criterion was primarily so that hessnatur and the three other companies could be actively recommended to others who might be interested, and thus generate new customers. An additional goal of the event was to use the feedback of the participants in order to improve and further develop the products and services presented. In the course of the participating businesses' presentations, attendants were comprehensively informed about hessnatur's textile chain and social standards. In light of the event's great success, a similar function is planned for 2013, with further cooperating partners and new participants.



Organic cotton jersey on entire bolts: insights into the hessnatur textile chain.

10. WHO'S WHO AT HESSNATUR?

Issues of ethical social standards are attended to by Corporate Responsibility. Rolf Heimann is Department Head of "Corporate Responsibility". Kristin Heckmann is responsible for monitoring social standards, as well as supplier support



Kristin Heckmann and Rolf Heimann from the Corporate Responsibility Department

11. EIGHT QUESTIONS FOR A SUSTAINABLE TEXTILE PRODUCTION - 8 ANSWERS FROM HESSNATUR

At the beginning of 2012, Greenpeace activist and "Green Fashion" blogger Kirsten Brodde, together with BSD* advisor Mark Starmanns, posted an article regarding fair working conditions in the textile industry on the Netzwerk Faire Mode blog. Based upon eight questions, the authors introduced the central challenges for sustainable textile production. Among other factors, transparency throughout all of the stages in the value chain was considered. We at hessnatur asked ourselves these questions proactively and answered them publicly in our company blog.

* BSD = business. sustainability. development

1. Is your company aware of its entire production chain?

A definite yes. hessnatur's production chain can be backtracked through all phases up to delivery at our headquarters in Butzbach. Our colleagues at Quality Control govern the process through what we call a Product Pass, which lists all information and authorizations connected

to an item: from organic cotton cultivation, to weaving, dying and knitting, and right up to manufacture. Every hessnatur product in our catalogue and on-line shop is assigned a declaration, stating the fibres' country of origin, the article's country of manufacture, and applied additives and procedures (for instance, mechanical handling or vegetable dyed leather). The Stiftung Warentest praise of the basic T-shirt is a good case in point.

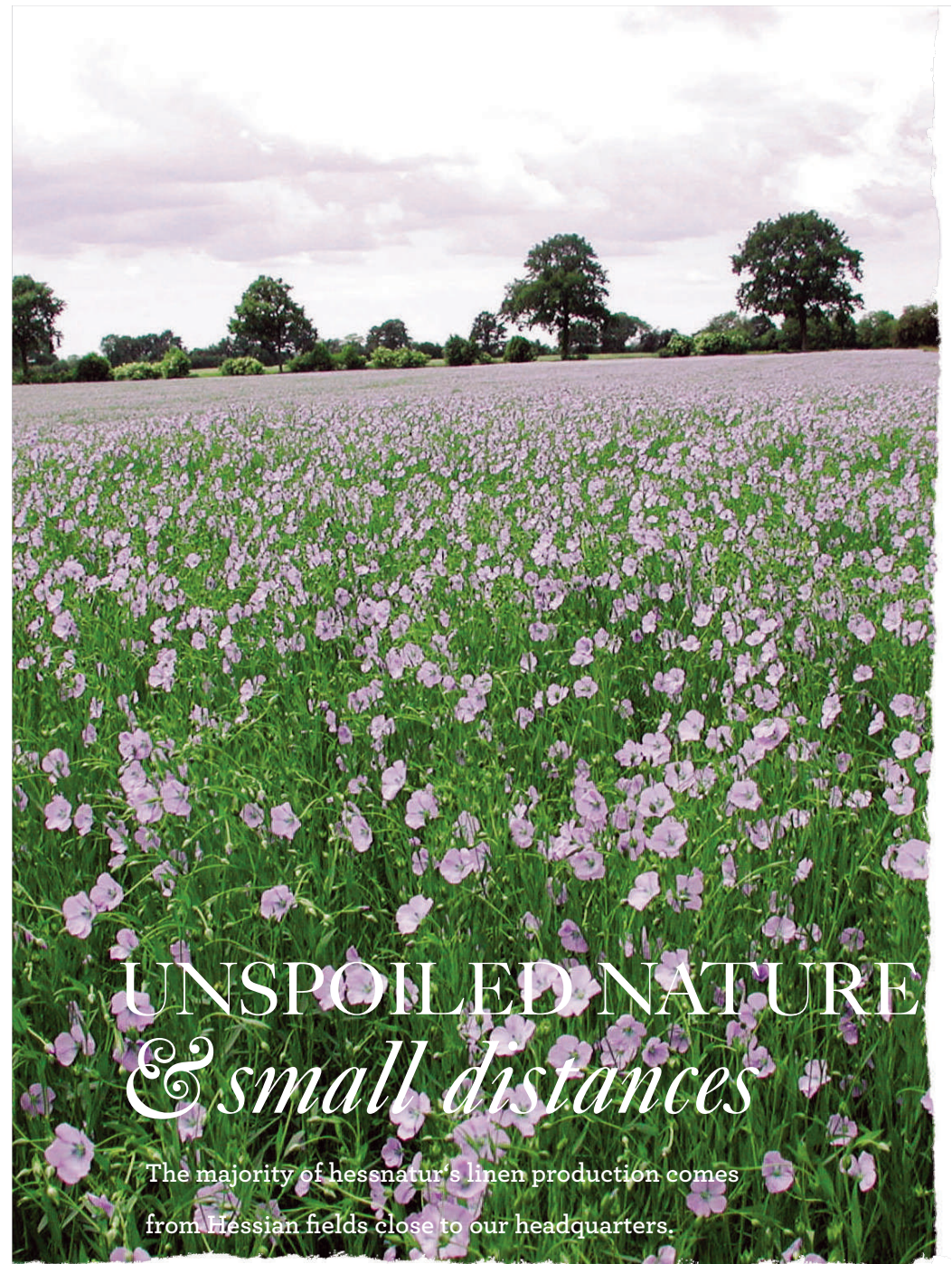
2. Has your company laid down high working standards for all phases of production?

hessnatur's social standards are based on the core labour standards of the International Labour Organization (ILO). They include fair wages, legally-binding employment relationships, freedom of assembly, and prohibition of child labour. Every supplier which manufactures for hessnatur commits itself to upholding these standards, as well as to communicating them to their employees. Implementing and adherence to social standards are monitored on site by our colleagues in the Innovation and Ecology department, as well as by the Fair Wear Foundation (FWF).

3. Does your company seek solutions cooperatively with its competition and critics?

The path to positive change and improvement always starts with small steps. Through our membership in the International Association of Natural Textile (IVN), hessnatur has been adding input toward manufacturing standards and production methods, as well as properties and requirements of natural fibres for years. Channelled through such institutions, accumulated knowledge benefits a wide range of ecological and natural clothing providers.

A solid example relating to hessnatur which often comes to mind is our cooperation with Grameen Knitwear in Bangladesh. The company initially worked primarily with synthetic fibres. hessnatur schooled the enterprise in spinning, circular knitting, dying, and manufacture in organic cotton. Today Grameen Knitwear not only produces hessnatur's Statement T-Shirts, but also produces organic cotton shirts for other clients. Fair production standards are practised there, giving the employees a chance to stay out of the "cheap wage trap" in Bangladesh



Does your company take the needs of the manufacturing work force seriously?

Working conditions on site are ascertained and analysed by audits within manufacturing facilities. Shortcomings and essential improvements are drawn up in a Corrective Action Plan (CAP) by hessnatur itself or by the Fair Wear Foundation. The plan stipulates courses of action as well as time-lines for the manufacturer to follow. There are also mechanisms in place at hessnatur suppliers enabling employees to contact a neutral complaints office in cases of conflict on site. This neutral arbitrator reports directly to the Fair Wear Foundation. Employees can report grievances without fear of losing their jobs or otherwise falling victim to discrimination in the workplace.

5. Has your company set high ecological goals?

Natural and healthy clothing, harming neither the wearer nor nature - that was the motivation of hessnatur founder Heinz Hess in 1976 when he introduced the first natural fibre, toxic free Baby collection onto the German market. hessnatur's principles have continually evolved since the company's foundation, and have become some of the strictest guidelines in the textile industry today. We not only ensure socially fair working conditions in manufacture, but we also make sure that our clothing is non-toxic for both humans and the environment. We accomplish this, for instance, by ensuring that no toxic dyes or finishing agents are used in the production of our clothing.

6. Does your company have a cyclic outlook?

We try to find a balance between trend and tradition by gathering inspiration and ideas from trade fairs and fashion events, but only with an eye on select themes, which we implement with a high level of value and individualism for hessnatur. Our goal: designing fashions which will be gladly worn the next year, and the year after that. Furthermore, we make sure that our colour combinations overlap the seasons, granting our collections a longer life over the course of the year.

7. Does your company pay fair prices?

With hessnatur's social standards and our membership in the Fair Wear Foundation, we ensure just wages in our manufacture. Where the farming of natural fibres is concerned, hessnatur, for instance, buys certified organic cotton from our own agricultural project in Burkina Faso, a

country which is considered one of the poorest in the world. Established in cooperation with the Swiss developmental aid organization Helvetas, the project's farmers are paid a two-fold premium: a 20% bonus on top of the normal cotton price for organic cultivation in addition to a 20% Fair Trade premium. hessnatur is also currently supporting two schools which the farmers' children attend. The support includes financing daily lunches, ensuring that around 550 kids get at least one warm, healthy meal a day.

8. Is your company committed to its responsibilities?

In addition to ensuring ecologically sound and socially ethical production methods, hessnatur is engaged outside of the supply chain as well, with cooperation, sponsorship, and promotion of sustainable projects like Plant for the Planet. And the fact that both of the project's authors speak of "hessnatur as a pioneer" is especially nice to hear.

<http://de.hessnatur.com/blog/2012/01/30/acht-fragen-an-eine-nachhaltige-textilproduktion-acht-antworten-von-hessnatur/>



FACTS AND FIGURES

Year of foundation	1976
Legal form	GmbH (Limited liability company)
Market position	Market leader in the market for natural textiles in the entire German-speaking region
Product range	Full range of natural textiles 900-1000 designs and approx. 8,000 items per season
Sales channels	Conventional mail order, stationary retail and E-commerce
Distribution countries	Germany, Switzerland, Austria, USA
Branch offices	Retail outlets in Butzbach, Hamburg and Munich Residual stock outlet in Butzbach
Subsidiary	hessnatur-Textilien AG, Langenthal (Switzerland)
Agency	Hess Natur-Textilien Austria
Founder	Heinz Hess (9. April 1941 to 18. March 2006)
Headcount	343
Trainees	9
Customer base	approx. 1,000,000
Net revenues	approx. 70 Million € (October 2011 - September 2012)

Social Standards: Key Indicators:

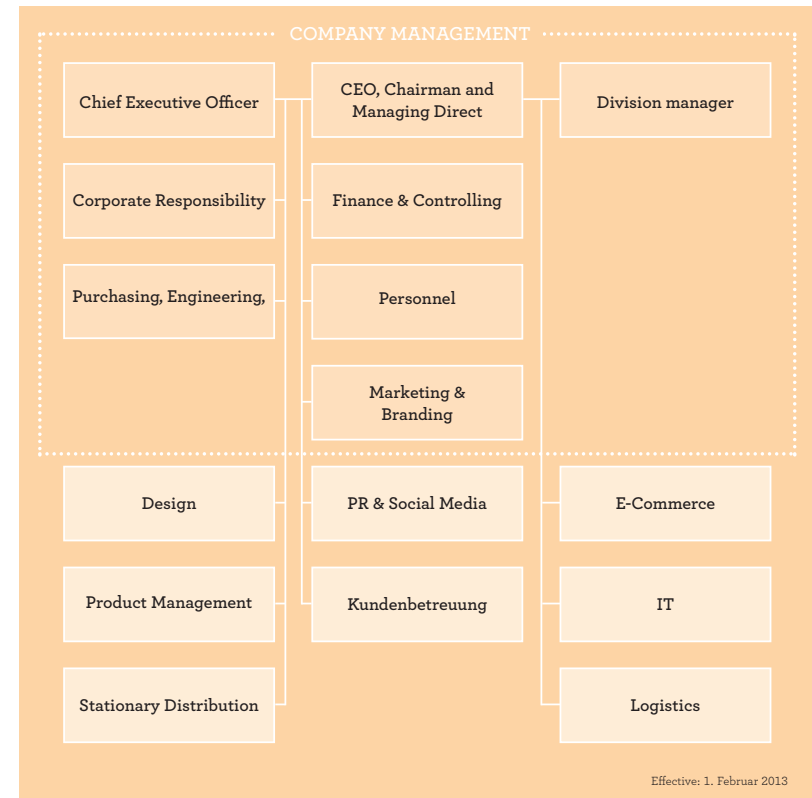
No. of clothing suppliers	83
No. of sewing facilities	117
No. of countries of manufacture	28
EU share in clothing manufacture	52%
Non-EU share in clothing manufacture	48%
FWF member since	2005

Statements and data in this report refer to fiscal year 2012

(01. October 2011 to 30. September 2012).

ORGANIZATION OF HESS NATUR-TEXTILIEN GMBH

www.hessnatur.com/www.hessnatur.info



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