

DW-SHOP

www.dw-shop.de

FWF member since February 1st, 2012





Contents

| | |
|--|----|
| 1. Summary: goals & achievements 2012..... | 4 |
| 2. Sourcing strategy | 5 |
| 2.1. Sourcing strategy & pricing | 5 |
| 2.2. Organisation of the sourcing department..... | 5 |
| 2.3. Production cycle..... | 7 |
| 2.4. Supplier relations | 7 |
| 2.5. Integration monitoring activities and sourcing decisions..... | 7 |
| 3. Coherent system for monitoring and remediation | 7 |
| 3.1. India..... | 7 |
| 3.2. China | 9 |
| 3.3. Turkey | 10 |
| 3.4. Indonesia..... | 11 |
| 3.5. Peru..... | 12 |
| 3.6. Bolivia..... | 12 |
| 4. Complaints procedure | 13 |
| 5. Training and capacity building..... | 13 |
| 5.1. Activities to inform staff members | 13 |
| 5.2. Activities to inform agents | 13 |
| 5.3. Activities to inform manufacturers and workers | 13 |
| 6. Transparency & communication..... | 14 |
| 7. Stakeholder Engagement..... | 14 |
| 8. Corporate Social Responsibility | 14 |

1. Summary: goals & achievements 2012

DW-Shop (DWS) was founded in 1976 through an initiative of *Deutsche Welthungerhilfe* as a sales platform for products of its supported development projects in Africa, India and South America, based on the "aid by trade" philosophy. The product range was initially dominated by hard goods but has largely shifted towards textiles over the last fifteen years.

Although DWS still supports many projects in the hard goods sector through long term trading partnerships, the production of sewn products (approx. 83% of complete product range) is mainly done in traditional factories. We are generally working with small producers but face the same issues like any other retailer when trying to implement social standards within our supply chain. DWS joined BSCI in 2008, making use of the tools provided to introduce its producers to the concept of socially responsible production. In order to rise above mere risk management and play a more active part in improving working conditions we joined Fair Wear Foundation in February 2012.

We transferred all existing audit results of sewing factories into our new FWF monitoring system, covering 53% of our textile buying volume from the very start of our membership. All BSCI audits that did not check out "Good" were supposed to be followed up in 2012 with a BSCI re-audit. Suppliers not yet introduced to the BSCI system are exclusively to be audited against FWF requirements and by FWF teams (where geographically possible) in the future. In 2012 we originally planned to do so with five suppliers, scaling up the percentage of audited suppliers to approx. 68%.

The first task after joining FWF was contacting and informing DWS staff in Germany, India & China and our intermediaries in Turkey & Indonesia. We then contacted our suppliers through our local personnel and through our German office to give information about our new membership and its implications for mutual business in the future. This was especially delicate since we had been promoting a different compliance scheme just a relatively short while ago. Although acceptance has generally been broad quite a few suppliers were reluctant towards this change. Out of originally 54 suppliers 50 returned the Code of Labour Practices signed. One supplier declined to sign, three suppliers were unable to return the signed document until December 31st. At this time we were still trying to convince these suppliers of the mutual benefits upsides of a FWF membership.

Receiving the signed CoLP's has surprisingly taken a lot of time and effort. This leaves us with the assumption that we did not do a good enough job of communicating the reasons, implications, requirements, challenges and potential benefits of a FWF membership – probably due to the fact that DWS staff and intermediaries, who did not have any professional background / knowledge of social compliance, were not sufficiently trained in the beginning. This issue has to be highlighted in 2013 up to the possibility of adding a responsible CSR person to our Indian office, since it became obvious, that personal contact in the local language creates trust and a goal-oriented cooperation much faster.

The delay in collecting CoLP's spilled over into the audit scheduling routine. Paired with a relatively long preliminary lead time on behalf of FWF we only managed to conduct two audits in 2012 – one in India and one in China. Instead of the targeted 68% overview in monitoring we therefore only managed to achieve a 62% threshold. (Note: the remaining three audits have been conducted within the first seven weeks of 2013.)

2. Sourcing strategy

2.1. Sourcing strategy & pricing

DWS' product range consists of ladies & men's clothing (72%), home textiles (12%) and hard goods (16%). Main sourcing country is India (49%) followed by China (14%), Turkey (11%), Indonesia (9%) and Peru & Bolivia (9%) with the remaining 8% of the buying volume made up by a total of 15 different countries (only hard goods). Counting only textile production reveals a slightly different picture: India (52%), China (17%), Turkey (13%), Indonesia (8%), Peru (6%) and Bolivia (4%).

The chief buyers of our four buying groups are responsible for all sourcing decision, although they formally have to be approved by the head of buying department. Main criteria for choosing a new supplier is the provided product and its quality, although the existence of social, ecological and/or management certification are considered strong signs of a suppliers professionalism and is positively taken into account at decision time. Since DWS is a rather small company, working together with a supplier might also depend on its geographical location. Suppliers situated in northern India are preferred since this allows easier handling (inspection & quality control) and less costs for our New Delhi / India office (five DWS employees). The same applies for China (one-woman office in Shanghai), although on a much smaller scale.

If product, quality and the location check out well, DWS requests product samples and price negotiations are done. DWS products target the medium price level. Before any order is placed we ask the supplier to sign the CoLP. This is signaled by DWS to the supplier in the very beginning as the foundation for a business relationship. This signature also implicates the willingness of the supplier to undergo a social audit in the future. Besides informing the supplier about the requirements of the relevant social code, the issue will be addressed in person by the chief buyers when visiting the factory / production site. All buyers of our textile groups (1-3) usually travel one time a year to their sourcing countries (minus South America), trying to visit all production sites. With our active suppliers we have average partnerships of 7+ years.

Our India and China representatives visit the suppliers on a more frequent basis, with an emphasise on quality control. In Turkey DWS works exclusively with an intermediary, the same goes for Bali. In Indonesia sourcing is done through an agency.

2.2. Organisation of the sourcing department

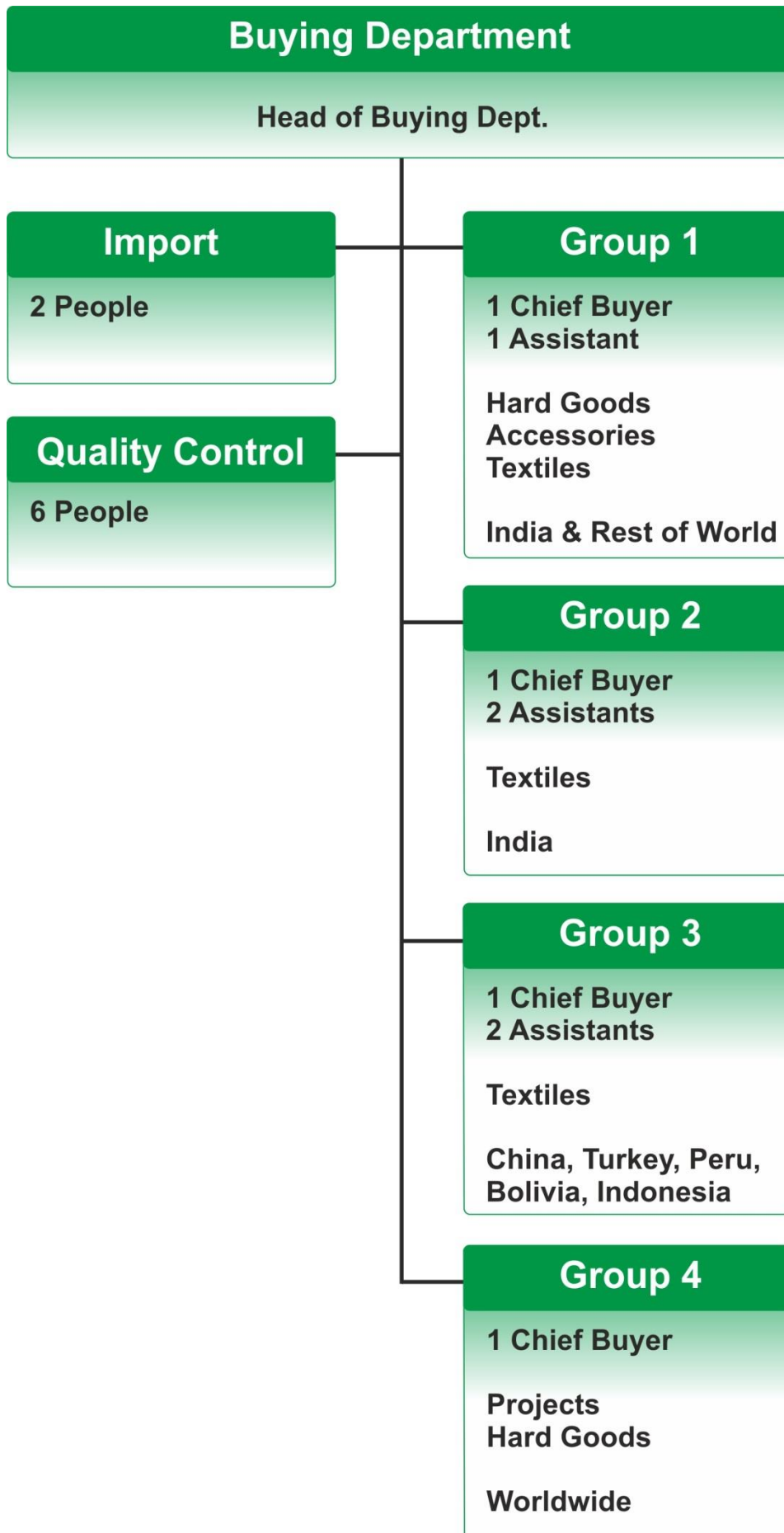
The sourcing department consist of four buying groups, import and quality control.

Group 1: Hard Goods & Home Textiles

Group 2: Textiles / India

Group 3: Textiles / China, Turkey, Indonesia, Peru & Bolivia

Group 4: Hard Goods / Projects



2.3. Production cycle

DWS produces three collections every year, with about a 60:40 summer winter ratio. Production planning on the suppliers' side is usually six to eight months with an average lead time of 90 day.

2.4. Supplier relations

For a description of the selection process of new factories please see subitem 2.1.

Several supplier relationships have not been prolonged in 2012 mainly because of quality / reliability reasons.

So far compliance issues have not been a sole reason for terminating a relationship although in some cases they had been part of the full picture.

Up until now there has been neither a reward system for good nor a punishment system for bad social performance. Orders have been placed by the needs of the buying department.

In the past we have not collaborated with other brands when looking for new suppliers. The same stands for cooperations with regard to carrying out audits. There is one FWF affiliate that we share a supplier with and talks have started about the possibility of a joint audit in 2013.

2.5. Integration monitoring activities and sourcing decisions

We use our monitoring system to evaluate the social performance of our suppliers. If the need for improvement is obvious we try to work together to tackle existing problems. However code performance are not yet connected to sourcing decision by means of a written policy but rather by some sort of "soft" decision support.

Our challenge for 2013 will be developing our monitoring system towards an improvement & reward system which directly links results to sourcing decisions and is transparent and comprehensible evrybody involved.

3. Coherent system for monitoring and remediation

3.1. India

DWS has partnerships with a total of 25 suppliers / factories, which manufactured an accumulated 52,14% of the total DWS production. 16 production sites have been audited in the past, six of them in 2012. Our second biggest overall supplier was audited against FWF CoLP. All suppliers have been visited multiple times by a representative of our Indian office. 20 out of 25 suppliers have been visited by a representative of buying group 1 or 2 in 2012.

We did not receive any complaints in 2012.

At this stage of our FWF membership supplier are selected according to the biggest share of total DWS production.

One supplier was audited against FWF CoLP (see below)

Accumulated, noticeable findings:

a) Employment is freely chosen: -

b) No discrimination:

There is evidences that women earn less money than men for the same work;
also access to better jobs is limited.

c) No child labour: -

d) Freedom of association & collective bargaining:

In certain regions unions are not welcome; in some cases worker representatives
are appointed among supervisors and not among workers themselves.

e) Payment of a living wage:

Legal state minimums are honored but on average there seems to be a
substantial gap between the wages paid and the recommended Asian Floor
Wage.

f) No excessive overtime:

On average overtime seems to be rather low. If overtime occurs compensation
often ist paid at 150% premium instead of 200%

g) Safe and healthy working conditions:

Most common deficit is an insufficient supply of protective gear for workers; not
enough first aid training for workers; working places often unsafe because of
improper laying of cables, wires and pipes; fire certificates missing

h) Legally binding employment relation:

No written contracts; No payslips

Factory A

| | |
|-----------------------------------|---|
| DWS production: | 5,45% |
| Visited: | yes (dec. 2012) |
| FWF discussed personally on site: | yes |
| Audited: | 15.12.2012 / FWF |
| Findings: | Workers not sufficiently informed about the FWF CoLP; Delay in payment; No pay slips; Some wage discrimination against women; In some sections wages not substantially above legal state minimum wages; Some OHS issues. Positives: Free benefits for workers (transportation / accommodation) CAP agreed upon but not followed up in 2012 since audit was done on dec. 15th |

3.2. China

DWS has partnerships with a total of seven factories, which manufactured an accumulated 16,6% of the total DWS production. All production sites have been audited in the past, four of them in 2012. All suppliers have been visited multiple times by the representative of our China office. 6 out of 7 suppliers have been visited by a representative of buying group 3 in December 2011.

We did not receive any complaints in 2012.

Factory A

DWS production: 3,28%
 Visited: no (but dec. 2011)
 FWF discussed personally on site: no
 Audited: 19.04.2012 / BSCI Re-Audit
 Findings: Fire inspection certificate missing; Several Health & Safety (OHS) issues

Factory B

DWS production: 2,98%
 Visited: no (but dec. 2011)
 FWF discussed personally on site: no
 Audited: no

Factory C

DWS production: 4,39%
 Visited: no
 FWF discussed personally on site: no
 Audited: 10.12.2012 / FWF
 Findings: Workers not sufficiently informed about the FWF CoLP; Grievance procedure not enacted; Delay in payment; Insufficient overtime premiums paid; Excessive Overtime
 Positives: Wages substantially above legal minimum wages
 CAP agreed upon but not followed up in 2012 since audit was done on dec. 10th

Factory D

DWS production: 0%
 Visited: no
 FWF discussed personally on site: no
 Audited: 21.10.2012 / BSCI Audit
 Findings: none

Factory E

DWS production: 0,19%
 Visited: no (but dec. 2011)
 FWF discussed personally on site: no
 Audited: 27.02.2012 / 08.06.2012 / BSCI Re-Audit
 Findings: Insufficient documentation about labor contracts and overtime payments; minor OHS issues
 CAP agreed upon and followed up within four months (OHS issue not resolved)

Factory F

DWS production: 5,02%
 Visited: no (but dec. 2011)
 FWF discussed personally on site: no
 Audited: no

Factory G

| | |
|-----------------------------------|--|
| DWS production: | 0,19% |
| Visited: | no (but dec. 2011) |
| FWF discussed personally on site: | no |
| Audited: | 05.07.2012 / BSCI Re-Audit |
| Findings (during prior audit): | No regular health examinations; No protective gear; No regular fire drills CAP agreed upon and carried out. |

3.3. Turkey

DWS has partnerships with a total of five factories, which manufactured an accumulated 12,98% of the total DWS production. Three production sites have been audited in the past, none of them in 2012. All suppliers have been visited multiple times by our Turkish intermediary. 5 out of 5 suppliers have been visited by a representative of buying group 3 in July 2012.

We did not receive any complaints in 2012.

Factory A

| | |
|-----------------------------------|------------------------|
| DWS production: | 5,00% |
| Visited: | yes (feb. & july 2012) |
| FWF discussed personally on site: | yes |
| Audited: | no |

Factory B

| | |
|-----------------------------------|------------------------|
| DWS production: | 1,70% |
| Visited: | yes (feb. & july 2012) |
| FWF discussed personally on site: | yes |
| Audited: | no |

Factory C

| | |
|-----------------------------------|-----------------|
| DWS production: | 3,15% |
| Visited: | yes (july 2012) |
| FWF discussed personally on site: | yes |
| Audited: | no |

Factory D

| | |
|-----------------------------------|------------------------|
| DWS production: | 0,77% |
| Visited: | yes (feb. & july 2012) |
| FWF discussed personally on site: | yes |
| Audited: | no |

Factory E

| | |
|-----------------------------------|------------------------|
| DWS production: | 2,27% |
| Visited: | yes (feb. & july 2012) |
| FWF discussed personally on site: | yes |
| Audited: | no |

3.4. Indonesia

DWS has partnerships with a total of six factories, which manufactured an accumulated 8,17% of the total DWS production. One production site has been audited in the past, none of them in 2012. All suppliers have been visited multiple times by our Bali intermediary and the Indonesian agency. 6 out of 6 suppliers have been visited by a representative of buying group 3 in January 2012.

Factory A

| | |
|-----------------------------------|-----------------|
| DWS production: | 2,95% |
| Visited: | yes (jan. 2012) |
| FWF discussed personally on site: | no |
| Audited: | no |

Factory B

| | |
|-----------------------------------|-----------------|
| DWS production: | 0,29% |
| Visited: | yes (jan. 2012) |
| FWF discussed personally on site: | no |
| Audited: | no |

Factory C

| | |
|-----------------------------------|-----------------|
| DWS production: | 0,64% |
| Visited: | yes (jan. 2012) |
| FWF discussed personally on site: | no |
| Audited: | no |

Factory D

| | |
|-----------------------------------|-----------------|
| DWS production: | 1,18% |
| Visited: | yes (jan. 2012) |
| FWF discussed personally on site: | no |
| Audited: | no |

Factory E

| | |
|-----------------------------------|-----------------|
| DWS production: | 2,77% |
| Visited: | yes (jan. 2012) |
| FWF discussed personally on site: | no |
| Audited: | no |

Factory F

| | |
|-----------------------------------|-----------------|
| DWS production: | 0,34% |
| Visited: | yes (jan. 2012) |
| FWF discussed personally on site: | no |
| Audited: | no |

3.5. Peru

DWS has partnerships with a total of four factories, which manufactured an accumulated 5,68% of the total DWS production. No production site has been audited in the past. No production site has been visited by a DWS representative in 2012. We did not receive any complaints in 2012.

Note: All suppliers only have very small factories. A high percentage of the total production output is done by artisans in their respective workshops.

Factory A

| | |
|-----------------------------------|-------|
| DWS production: | 0,77% |
| Visited: | no |
| FWF discussed personally on site: | no |
| Audited: | no |

Factory B

| | |
|-----------------------------------|-------|
| DWS production: | 0,37% |
| Visited: | no |
| FWF discussed personally on site: | no |
| Audited: | no |

Factory C

| | |
|-----------------------------------|-------|
| DWS production: | 1,06% |
| Visited: | no |
| FWF discussed personally on site: | no |
| Audited: | no |

Factory D

| | |
|-----------------------------------|-------|
| DWS production: | 3,48% |
| Visited: | no |
| FWF discussed personally on site: | no |
| Audited: | no |

3.6. Bolivia

DWS has partnerships with a total of two suppliers, which manufactured an accumulated 4,43% of the total DWS production. No production site has been audited in the past. No production site has been visited by a DWS representative in 2012. We did not receive any complaints in 2012.

Factory A

| | |
|-----------------------------------|--|
| DWS production: | 4,04% |
| Visited: | no |
| FWF discussed personally on site: | no |
| Audited: | no |
| Comment: | Supplier has organizational structure of a cooperative. No factory but multiple artisans that produce in their own workshops |

Factory B

| | |
|-----------------------------------|--|
| DWS production: | 0,39% |
| Visited: | no |
| FWF discussed personally on site: | no |
| Audited: | no |
| Comment: | Supplier has only very small factory, 70% of production is done by homebased artisans. |

4. Complaints procedure

45 out of 49 suppliers have signed the FWF Code of Labour Practices. They agreed to post the workers information sheet visible for all employees at an accessible place within the production site, stating name on contact information of the local complaint handler.

We did not receive any complaints in 2012.

5. Training and capacity building

5.1. Activities to inform staff members

There have been individual talks between the head of CSR and the head of buying department and the respective chief buyer where obligations and requirements of the FWF membership have been discussed.

All relevant FWF documents were forwarded to the buying department and are accessible at all time for all DWS personnel.

The head of DWS India office has been invited to our German headquarter in July 2012. FWF membership and his own role in approaching Indian suppliers with regard to FWF membership has been discussed intensively.

The Chinese staff member has been briefed by mail, all documents have been forwarded.

The Turkish intermediary has been briefed by phone and mail. All documents have been forwarded. Personal meeting scheduled for January 2013 in German headquarter.

The Bali intermediary has been briefed by mail, all documents have been forwarded. Possibility of DWS joining FWF was discussed personally in Indonesia during the visit of the responsible buyers in January 2012.

5.2. Activities to inform agents

The Indonesian agency has been briefed by mail, all documents have been forwarded.

The importance of social compliance and the possibility of DWS joining Fair Wear Foundation has been discussed during the visit of our buying department at the agency in January 2012.

5.3. Activities to inform manufacturers and workers

All manufactures were informed about FWF membership by DWS head of CSR via mail and by the respective local DWS staff, intermediary od agency via phone or visit at suppliers' headquarter.

All relevant FWF documents have been forwarded, signed CoLPs collected and suppliers asked to inform workers about DWS' FWF membership and its implications.

There were no DWS initiated trainings for management or workers on code implementation in 2012.

6. Transparency & communication

FWF membership has been a central theme of our corporate website <http://deinewelt.dw-shop.de>. It was also the topic of two articles in our blog section.

In 2012 we published a two page article about FWF membership in our mail order catalog and followed up a while later with a smaller teaser story. Membership itself is communicated with the FWF logo in the service section of each catalogue. In 2013 we plan to place two or three short stories to communicate the progress made within the FWF system.

7. Stakeholder Engagement

There has been no stakeholder engagement yet with regard to analysing / improving work place environment besides joining Fair Wear Foundation and the execution of first social audits.

8. Corporate Social Responsibility

DWS by contract supports german NGO *Welthungerhilfe* (www.welthungerhilfe.de) with a large part of its yearly earnings (2012 = 435.000 Euro, refer to: *Welthungerhilfe*, annual report / p33: <http://www.welthungerhilfe.de/ueber-uns/mediathek/whh-artikel/kurz-und-knapp-2011.html?wc=12NLEM2001%3Fprint%3D1%3Fprint%3D1&cHash=5dd5e5fc3bca844ea8b3e338ecb92b88>) and has contributed a total of 25+ mio Euros over the last 36 years. The money helps to finance *Welthungerhilfe* projects all over the world.

All DWS employees participate in a payroll giving activity. The collected money is donated to the *Deepam* project for children with special needs (www.deepam-auroville.in) in Tamil Nadu / India.

DWS as an employer makes sure that all employees are treated fairly and voluntarily receive amenities such as additional monthly salary as Christmas payment amounting to 1/12th of yearly salary, additional payment to private old age rent, taxfree compensation for capital accumulation purposes, life insurance, free fitness club membership, 80% discount on public transportation season tickets.