

SOCIAL REPORT

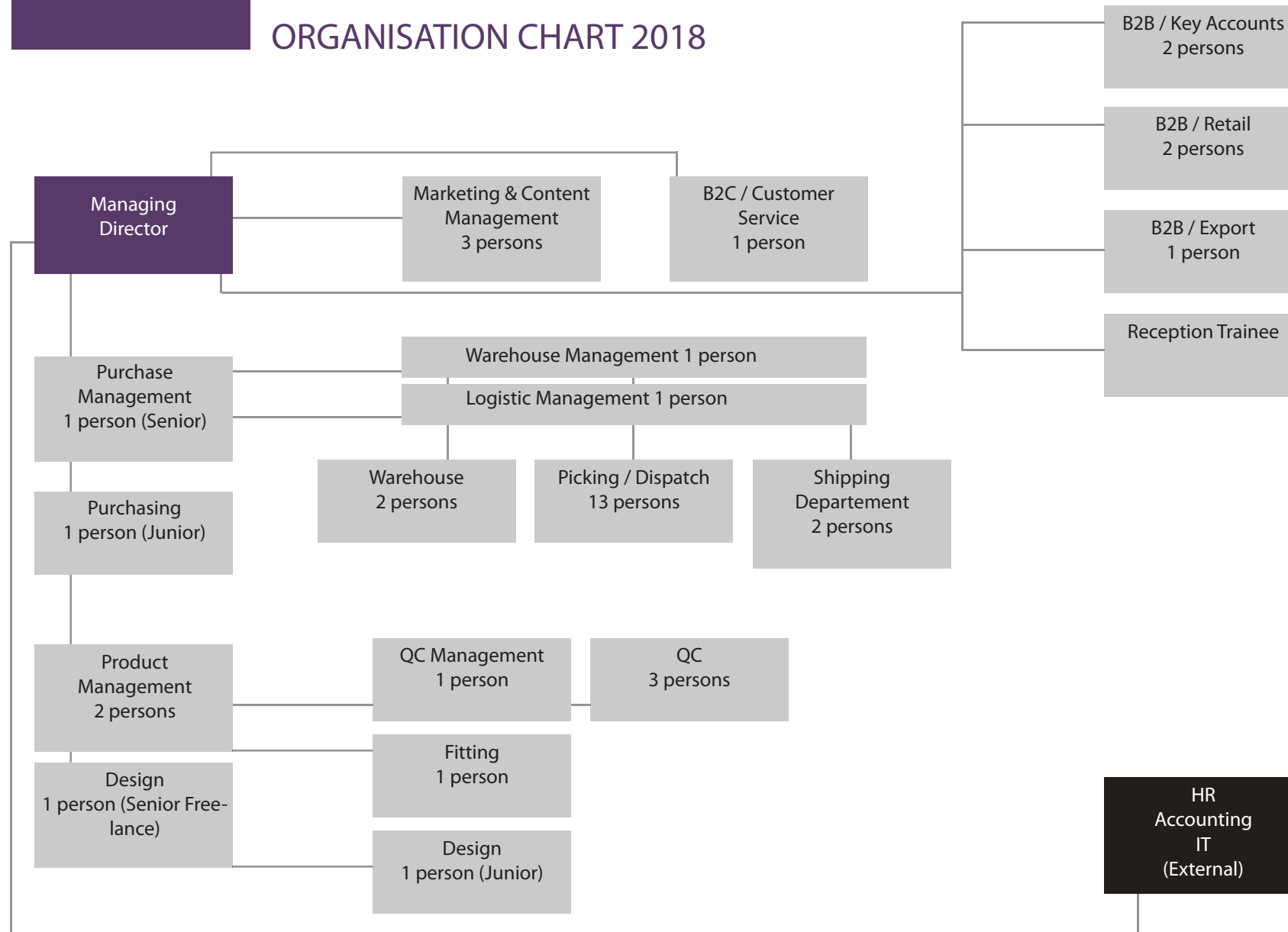
January 2017 – December 2017
(past financial year)

www.livingcrafts.de

Start date membership
15.01.2016



ORGANISATION CHART 2018





CONTENTS

Summary: goals & achievements 2017	1
1. Sourcing strategy	3
1.1. Sourcing strategy & pricing	3
1.2. Organisation of the sourcing department	3
1.3. Production cycle	3
1.4. Supplier relations	4
1.5. Integration monitoring activities and sourcing decisions	5
2. Coherent system for monitoring and remediation	7
2.1.-2.5. Factory/India	7
2.2.-2.19. Factory/other countries	8
2.22. External production	9
3. Complaints handling	10
4. Training and capacity building	10
4.1. Activities to inform staff members	10
4.2. Activities to inform agents	10
4.3. Activities to inform manufacturers and workers	11
5. Information management	12
6. Transparency & communication	12
7. Corporate Social Responsibility	13

SUMMARY: GOALS & ACHIEVEMENTS 2017

“Living Crafts has stood for ecology and high-quality products for more than 30 years. It is our mission to link ecology and social responsibility, and we have focused on it even more this year, which marks the second one as a member of Fair Wear Foundation.

As a result, we have become more conscious of the need to harmonize the manufacturing of our products with our social responsibility, and our activities and decision-making process have had a stronger sustainable character.

Every day, we ask ourselves how we can ensure that social aspects are kept in mind when manufacturing textiles, how we can monitor the process chain better, and how it can be improved. Day-to-day business has proven that it is not enough to provide our foreign business partners with guidelines. Instead, we are called to actively assume responsibility for our brand.

Since we have proactively worked towards improving social standards together with our suppliers, our awareness and attitude have improved and our know-how has also grown continuously, largely thanks to the open exchange of experiences with other Fair Wear Foundation members, which has proven to be positively crucial.

At the end of this second year since we became a member of Fair Wear Foundation, we are certain that joining Fair Wear Foundation was indeed the right thing to do.

Taking on social responsibility is a continuous process as well as a challenge that we should like to face again in the coming year.

We are indeed on the right track.”

Frank Schell

Managing Director

Since Living Crafts joined Fair Wear Foundation at the beginning of 2016, improving transparency in the delivery chain has been at the centre.

2017 was a successful business year. Again, we were able to record a double-digit growth. Across all distribution channels, good results were achieved, products were received well, and Living Crafts staff grew in numbers as well.

Our endeavour has been to bring transparency into the delivery chain and processes, both for our benefit as well as that of our customers. Since the prices for textiles are nowadays dictated by discount shops, it is more important than ever to let the product do the talking – about its quality as well as its history. Our philosophy is to maintain good partnerships with our suppliers, based on mutual respect and cooperation, and we are convinced that this will be reflected in great products offered at fair prices.

Being a member of Fair Wear Foundation has provided Living Crafts with lots of possibilities on what to focus when working with our suppliers. Our awareness for the need to monitor each delivery chain has been raised. Only those who know their position can exercise influence. We were particularly interested in recognizing how well we use our suppliers. Furthermore, we wanted more insight into pricing as well as the production capacity utilisation as these factors directly influence buyer behaviour.

Participating in the annual Fair Wear Foundation Stakeholder Meeting was and is of great importance to Living Crafts. Being able to exchange experiences with other member companies has provided Living Crafts with fresh impetus, “best practice”, and ideas for collaboration with different brands in order to inspire suppliers to ensure better social standards. When it comes to our shared mission, our competitors agree with us that enthusiasm for our mutual passion trumps the concept of competition!

In May 2017 Living Crafts passed its first Fair Wear Foundation Brand Performance Check, which assesses how much a company has striven to implement the Fair Wear Foundation Code of Labour Practice. Living Crafts has monitored a number of suppliers which represent 40% of the total purchasing volume. This means that production either comes from a low-risk country or from a factory that has been audited.

Three suppliers of Living Crafts were audited in 2017 as well. That was another important step on the path to secure more production sites to be able to monitor the entire delivery chain in the foreseeable future.

1. SOURCING STRATEGY

1.1. Sourcing strategy & pricing

Living Crafts is a natural textile company with a long tradition. Hence its purchasing strategy focuses solely on certified natural textiles.

Right from the outset, more is required of its products and suppliers compared to conventional product sourcing. We have always been interested in long-term partnerships with our suppliers. Our products and production sites are GOTS-certified. Hence they are automatically subject to regular audits and, of course, certain social standards are inherent in the GOTS seal.

With regard to pricing, Living Crafts must naturally align itself with the market; presenting suppliers with our goals, and frequently comparing prices are also a must.

By entering long-term contracts and keeping communication channels to our suppliers open, Living Crafts always strives towards a mutual solution that both parties can agree on.

1.2. Organisation of the sourcing department

The purchasing department is responsible for material planning, cost estimation, order placement, and corporate supplier management. The administration for compliance with GOTS standards and work, which is related to our Fair Wear Foundation membership, are also handled here.

Since Buying and Corporate Social Responsibility go hand in hand, it is quite possible to convince suppliers of how vitally important it is to continuously work on social standards.

1.3. Production cycle

Living Crafts is an inventory vendor. That means production does not start after customers place their orders. Instead, items are available for orders directly from stock. Our collections consist of a core assortment for never-out-of-stock items (NOS) and seasonal items that change twice a year.

Living Crafts is part of the dennree group and provides denn's, the group's retailer, with workwear as well as other special textiles, for example diverse bags.

Sales of NOS and special items account for about half of the annual turnover. These items require less development efforts and this is where Living Crafts tries to ensure continuity and predictability with long-term contract collaboration.

In 2017 business with seasonal items was on an upward trend and accounted for 53% of the annual turnover. By introducing an outerwear collection for women and men in the winter of 2016, Living Crafts added a new focus. In addition, seasonal Spring/Summer and Autumn/Winter programs with special colours, including some NOS items, have become more significant.

The challenge is to harmonise the increasing variety in the collections and the wide range of products with existing availability requirements. Currently, there are no interim programs. Instead, all new styles are presented at the beginning of the new seasons in January and July respectively.

1.4. Supplier relations

Living Crafts very much endeavours to meet all requirements with its existing supplier base.

As a compact company, Living Crafts is aware that on the one hand it needs to use its own resources conscientiously as onboarding new supplier comes with enormous efforts in terms of time and handling. On the other hand, the company tries to bundle its purchasing power with just a few suppliers in order to become important to them as a regular customer.

Currently, Living Crafts sources its products from 23 production locations in 9 different countries. About 47% of the FOB purchasing volume is from Asia, 38% from Europe, and 15% from Turkey.

In 2017, we were able to maintain nearly the same number of production sites. For a German supplier that closed down, two new local suppliers were found. One production location in Bosnia-Herzegovina was added in 2017. However, the collaboration with one Chinese supplier was terminated. In India, we started working with one new supplier that was able to offer a sought-after product at the best price/performance ratio. Therefore, we finalized a long-term contract with that supplier; it is valid through 2019.

To accommodate the rather wide range of products in our assortment, Living Crafts requires a relatively high number of suppliers if you keep the size of the company in mind. In addition, the development of fashionable products and the use of innovative materials will make it necessary to source from new suppliers in the future as well. Since Living Crafts almost exclusively chooses GOTS-certified companies, their number is automatically limited. New suppliers are selected only after they have been carefully considered and/or if there is no other choice.

All relevant information about the supplier is gathered and existing audit reports are requested. Normally, Living Crafts pays the company a visit before placing its first order.

In 2017 Living Crafts designed and implemented an internal system to assess the performance of its suppliers. All interfaces within a company have to submit an evaluation of all sections once a year (at least for now). Thus, there will be objective, measurable results that are then discussed in talks with the supplier - on the one hand, to identify optimization potential and on the other hand, to give substantiated, positive feedback.

If there are problems in the relationship with a supplier, we talk to them in advance and work towards eliminating the reasons for issues that have come up. Ending a business relationship is only the last steps.

1.5. Integration monitoring activities and sourcing decisions

Basically, since becoming a Fair Wear Foundation member, Living Crafts has become more aware of the need for controlled, purposeful product sourcing. We check with its suppliers if they are prepared to work towards better social criteria in general. If they are reluctant, Living Crafts is forced to reconsider their business relationship.

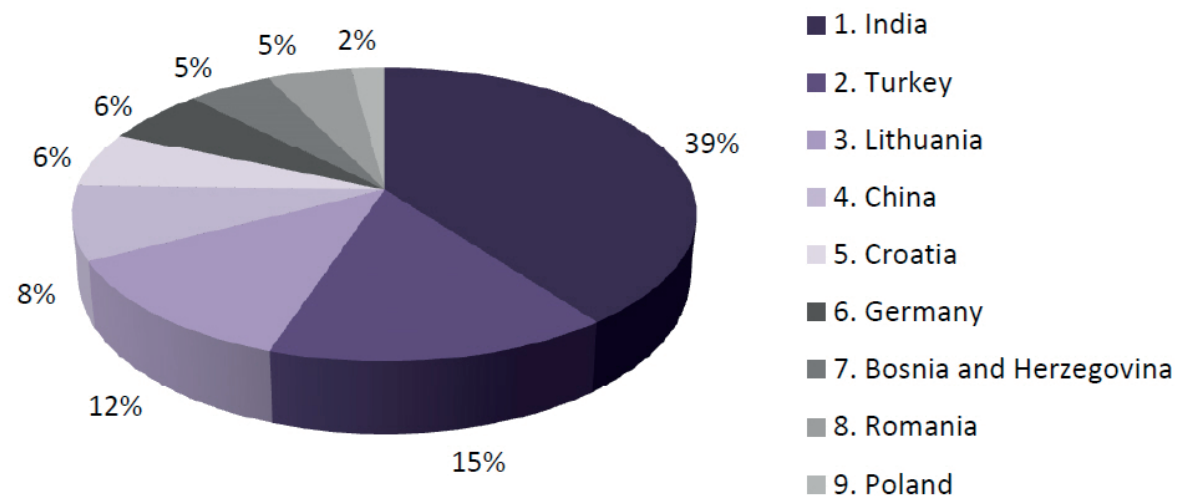
Fair Wear Foundation audited our main supplier in India in 2016 already, and in 2017, we asked Fair Wear Foundation to audit another one of our important Indian suppliers.

By collaborating with other Fair Wear Foundation members, Living Crafts was able to split further audits in Romania and Turkey.

Living Crafts is more careful to place orders with factories that are committed to implementing the CoLP (Code of Labour Practice) issued by Fair Wear Foundation.

In 2017, Living Crafts did not receive any complaints via the Fair Wear Foundation hotline that all workers at all production sites have access to.

FOB volume % per country



2. COHERENT SYSTEM FOR MONITORING AND REMEDIATION

2.1. Factory A/India

- FOB 19.57%
- The most important supplier with regard to purchasing volume; Fair Wear Foundation Audit took place in 2016.
- Factory tour in 2017
- Continuous work on Corrective action plan
- Fair Wear Foundation Workplace Education Program: staff training in November 2017

2.2. Factory B/India

- FOB 7.20%
- Supplier with the longest standing business relationship; has lost significance due to new requirements
- Factory tour 2017
- Working on follow-up after SA8000 audit report
- Fair Wear Foundation Audit planned for 2018

2.3. Factory C/India

- FOB 6.67%
- Fair Wear Foundation Audit in 2017, main results: no external representatives on complaint committee; wages and bonus payments were
- not discussed with workers' representatives, wages are below Living Wages.
- Continuous work on Corrective Action Plan

2.4. Factory D/India

- FOB 5.38%
- New supplier; factory tour early 2017
- Fair Wear Foundation audit planned for 2018

2.5. Factory E/India

- FOB 0.22%
- New supplier; factory tour early 2017

2.6. Factory A/Turkey

- FOB 4.49%
- Factory tour 2017

2.7. Factory B/Turkey

- FOB 3.47%
- Factory tour 2017
- Fair Wear Foundation verification audit in 2017
- Continuous work on Corrective Action Plan

2.8. Factory C/Turkey

- FOB 2.96%
- Factory tour 2016

2.9. Factory D/Turkey

- FOB 2.33%
- Factory tour 2017
- Split Fair Wear Foundation audit in 2017
- Continuous work on Corrective Action Plan

2.10. Factory E/Turkey

- FOB 1.95%
- Factory tour 2017

2.11. Factory A/China

- FOB 5.31%
- Factory tour 2016
- Termination of business relationship in 2017 for quality reasons

2.12. Factory B/China

- FOB 2.81%
- Factory tour 2016
- Continuous work on Corrective Action Plan of split Fair Wear Foundation audit report

2.13. Factory A/Lithuania

- FOB 11.87%
- Factory tour 2017

2.14. Factory B/ Lithuania

- FOB 0.55%
- Factory tour 2017

2.15. Factory A/Croatia

- FOB 6.38%
- Factory tour 2017

2.16. Factory A/Romania

- FOB 5.4%
- Continuous work on Corrective Action Plan of split Fair Wear Foundation audit report
- Fair Wear Foundation verification audit planned for 2018

2.17. Factory A/Bosnia and Herzegovina

- FOB 5.4%
- New supplier

2.18. Factory A/ Poland

- FOB 2.3%

2.19. Factory A/Germany

- FOB 5.0%
- Factory tour 2017

2.20. Factory B/Germany

- FOB 0.48%
- New supplier, factory tour 2017

2.21. Factory C/Germany

- FOB 0.17%
- New supplier

Two other German suppliers whose FOB portion is less than 0.1% are not mentioned here explicitly.

2.22. External production

N/A



3. COMPLAINTS HANDLING

In the year 2017, Living Crafts did not receive any complaints.

4. TRAINING AND CAPACITY BUILDING

4.1. Activities to inform staff members

Living Crafts staff is regularly briefed. There is a weekly meeting for all departments so everyone is informed about current corporate activities.

Tours to the premises of our suppliers are documented; photographic materials and significant feedback are made available to all members of staff.

New staff members receive a brief training by the Purchasing/CSR department to ensure they are aware with the basic principles of our work with Fair Wear Foundation. Existing staff can take part in these training sessions in case they wish to refresh their knowledge. All marketing and sales employees can access the Fair Wear Foundation member page online if they need to find out more about the subject matter.

Living Crafts believes it is very important for all members of staff to be aware of this subject. Hence, we are planning an official training session to be facilitated by Fair Wear Foundation in the coming year.

4.2. Activities to inform agents

In general, Living Crafts prefers working directly with its suppliers. However, in some cases, we use a local agency that has been thoroughly briefed about our requirements and expectations. Such knowledge is indeed necessary since the agency functions as a mediator between Living Crafts and the production sites, and it is primarily the agents that are responsible for making progress on any given matters.

What this means is that all relevant details regarding Fair Wear Foundation are handed over to the agents; we point them to events or information that is particular to a given country so that Living Crafts can then request specific feedback.

In 2017, Fair Wear Foundation audited two Turkish suppliers; the follow-up on the Corrective Action Plans was discussed between Living Crafts and the agent who is better equipped to check up on things on her regular tours of the factory.

4.3. Activities to inform manufacturers and workers

When staff members are informed, one important component is the Code of Labour Practice, which is displayed at each production site in a publicly accessible room in the language of that particular country. In nations where Fair Wear Foundation is active, a local phone number for confidential complaints is provided. In countries that are deemed safe, there is an email address to which complaints can be sent. Any time there is a factory tour, Living Crafts employees check if these details are posted publically.

Whenever we meet with suppliers, our commitment to Fair Wear Foundation standards is on the agenda. When we visit a factory, a Basic Health and Safety Check is carried out, we seek to talk to employee representatives, and in our talks with management, we discuss the coherence between our sourcing strategy and social aspects.

In 2017, Living Crafts commissioned an employee training session for our main supplier in India. During this training on gender-based violence prevention workers were thoroughly informed about their rights and options in a simple, comprehensive way. The employees' representative sent the agenda for the 2-day training, a roster of the newly founded complaints committee, pictures of all participants, and positive feedback to Living Crafts.

Suppliers (and agents) in Turkey took part in an Fair Wear Foundation webinar about employing refugees from Syria to which Living Crafts had pointed them.

5. INFORMATION MANAGEMENT

On the one hand, Living Crafts makes use of the Fair Wear Foundation database to keep track of suppliers and delivery details. On the other hand, we maintain a spreadsheet of our own to document the status of audit reports, past and future factory tours, etc.

At regular intervals, depending on the urgency either on a monthly or quarterly basis, we touch base with the suppliers or agents to talk about unresolved issues.

Suppliers are made aware of planned audits, then a timeframe is set that is acceptable to both parties.

We request that suppliers inform Living Crafts immediately if they plan to outsource their production or wish to start manufacturing at a new location. To ensure that this happens, Living Crafts has included a clause in the general terms of delivery, which are signed at the beginning of each new business relationship, that Living Crafts must be informed before further production facilities are added.

6. TRANSPARENCY & COMMUNICATION

Living Crafts wants to provide its customers with more background information about its products and the production process. This includes our collaboration with Fair Wear Foundation but also projects such as the Fashion Revolution Day where the workers that manufacture the products are introduced via social media.

Our social report, the results of the Fair Wear Foundation Brand Performance Check as well as our GOTS certificate and test reports are all published on our website.

In our print media, we point to our social and ecological commitment as well – just like we do at fairs for suppliers or end consumer exhibitions. For the coming business year, we have already drafted a plan of action on how we can share this more often with our customers, and in particular how we can present them with concrete examples.

7. CORPORATE SOCIAL RESPONSIBILITY

As a sustainable company, our daily focus is always on social and ecological criteria, for example on carbon-neutral package delivery. In addition, we have already started to move away from plastic packaging to completely biodegradable materials and we regularly donate to products to local organizations, etc.

By sourcing some products “Made in Germany”, Living Crafts wishes to accommodate the call for products from our region and short sourcing routes. Furthermore, Living Crafts uses sustainable providers when it sources consumer items, power, and banking services.

