

# The Wünsche Group's Policy Communication (Grundsatzklärung)

May 2024

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Disclaimer: The Wünsche Group's Policy Communication document has been prepared in both German and English. In the event of any inconsistency, the German version shall apply, as it is the official, endorsed version.

## 1 Preamble

“Für morgen handeln”. Bringing our business with people and nature into harmony – that is the main goal of the Wünsche Group.

As a B2B company, we orient our business model around our diverse customers. Nevertheless, we never lose sight of what is most important: making our products in a fair way, with respect for nature and for the people we work with.

Our goal is this—to make our business sustainable by taking responsibility for social and environmental standards, while simultaneously offering competitive prices and high-quality products. We aim to accomplish this goal via means of monitoring and promoting social and ecological responsibility within our supply chains, regardless of the product, customer, or business model. In addition, we are constantly expanding the range of sustainable products that we offer our customers.

International standards, such as the Universal Declaration of Human Rights, the ILO Core Labor Standards, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines, and the UN Sustainable Development Goals, guide us in achieving these goals. Additionally, we are committed to promoting gender equality and women's empowerment by adhering to the Women's Empowerment Principles (WEPs).

As a member of amfori BSCI, we are signatories to the initiative's Code of Conduct. We are committed to complying with the following ILO Core Labor standards within the Wünsche Group and our supply chains:

- The Rights of Freedom of Association and Collective Bargaining (ILO C087; ILO C098)
- No Discrimination, Violence or Harassment (ILO C111; ILO C190)
- Fair Remuneration (ILO C095; ILO C131)
- Decent Working Hours (ILO C047; ILO C132)
- Occupational Health and Safety (ILO C148, ILO C155)
- No Child Labour (ILO C138; ILO C 182)
- Special Protection for Young Workers (ILO C090; ILO C138)
- No Precarious Employment
- No Bonded, Forced Labour or Human Trafficking (ILO C029)
- Protection of the Environment
- Ethical Business Behaviour

This policy communication is applicable for all the Wünsche Group's member companies. This document does not replace any of our customer's specific CR requirements but represents our own CR values.

To read more about our corporate responsibility activities, visit the following link: <https://www.wuenschegroup.de/en/responsibility/>

31.05.2024



Björn Peters

CEO Wünsche Group



Franziska Pfeiffer

Director CR Wünsche Group

## 2 Wünsche CR Management System

We manage any potential CR risks that may arise from our global activities through our holistic management system that is based on the following three pillars:

- **Social Responsibility:** We are committed to safe and fair working conditions in our company and our supply chains.
- **Environmental Responsibility:** We develop strategies to reduce our environmental impact.
- **Product Responsibility:** We strive to increase the use of sustainable materials in our products.

As a group of companies, which is rich in tradition and strongly believes in sustainability, our goal is to integrate sustainable practices into all our business activities, but foremost into the production of our products. We are continuously working to improve the social and environmental conditions in which the products that we source for our customers are made. We collaborate not only with our supply chain partners, but also with other relevant stakeholders when it comes to tasks that cannot be tackled alone. This is one of the reasons why we are engaged as members of the amfori BSCI (Business Social Compliance Initiative), as well as signatories of the International Accord.

Through our risk analysis, we identify social and environmental risks associated with our business as well as their (potential) impacts. We are committed to minimizing, rectifying and preventing any negative impacts of our business activities through various measures, such as training of our partners and employees, conducting factory visits and joining sustainability initiatives. If negative impacts occur in our supply chains despite increased due diligence measures, the Wünsche Group commits to remedy them.

Our grievance mechanism plays a crucial part in our human rights due diligence and enables us to be notified about grievances in real time and to counteract any negative development by using appropriate measures. All grievances are being handled according to a stipulated process. Stakeholders within our supply chains [can report violations against our Code of Conduct or our corporate responsibility principles](#). Additionally, in compliance with the Whistleblower Protection Act, we ensure secure and anonymous communication channels to protect those who report illegal misconduct within our own workforce. We aim to publish grievances on an aggregated level on our website to ensure accountability.

Worldwide, our CR teams are engaging with our supply chain partners on a daily basis, providing valuable expertise and upholding the principles laid out in this document. We understand the complexities of the issues at hand and the need to constantly reflect upon both our business and sustainability strategies, as they are closely interwoven. Thus, we regularly review them, this policy communication, as well as our measures. A long-lasting relationship with our suppliers, as well as a fair and transparent business demeanor, supports us in continuously improving towards a more sustainable future – “wir handeln für morgen”.

### 3 Risk Assessment and Vulnerable Populations

In order to address the risks and challenges in our supply chains with appropriate measures, we regularly conduct a risk analysis guided by international standards such as the Universal Declaration of Human Rights, ILO conventions, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines, and the UN Sustainable Development Goals (SDGs).

Our risk assessment process aligns with the OECD Due Diligence Guidance for Responsible Business Conduct and follows these principles:

1. **Embed Responsible Business Conduct into Policies and Management Systems:** We integrate principles of responsible business conduct into our corporate policies and management frameworks to ensure consistent and comprehensive risk management.
2. **Identify and Assess Actual and Potential Adverse Impacts:** Our analysis focuses on country-specific environmental and social risks, taking the impact of our business activities into account. We concentrate on particularly vulnerable groups, such as women, ethnic minorities, migrants, indigenous minorities, children, and homeworkers, aiming to minimize any harm that could be caused by our business activities.
3. **Cease, Prevent, and Mitigate Adverse Impacts:** With local teams in key sourcing countries such as Bangladesh, China, and Pakistan, we maintain regular communication with our production sites to quickly respond to any issues. Our social monitoring system includes factory visits, corrective actions, training activities, and grievance mechanisms to address potential risks.
4. **Track Implementation and Results:** We collect market information and conduct audits to identify potential risks in our supply chains. Our current carbon footprint data and Scope 3 emissions records provide a baseline to address and reduce CO2 emissions in our supply chains.
5. **Communicate How Impacts Are Addressed:** We publish information about our risk assessments and mitigation measures on our website to maintain transparency with our stakeholders. In the near future, we will release a comprehensive sustainability report in accordance with the Corporate Sustainability Reporting Directive (CSRD), providing detailed insights into our activities and progress in responsible business conduct.
6. **Provide for or Cooperate in Remediation When Appropriate:** Our grievance mechanisms enable us to address and remediate any negative impacts swiftly and effectively.

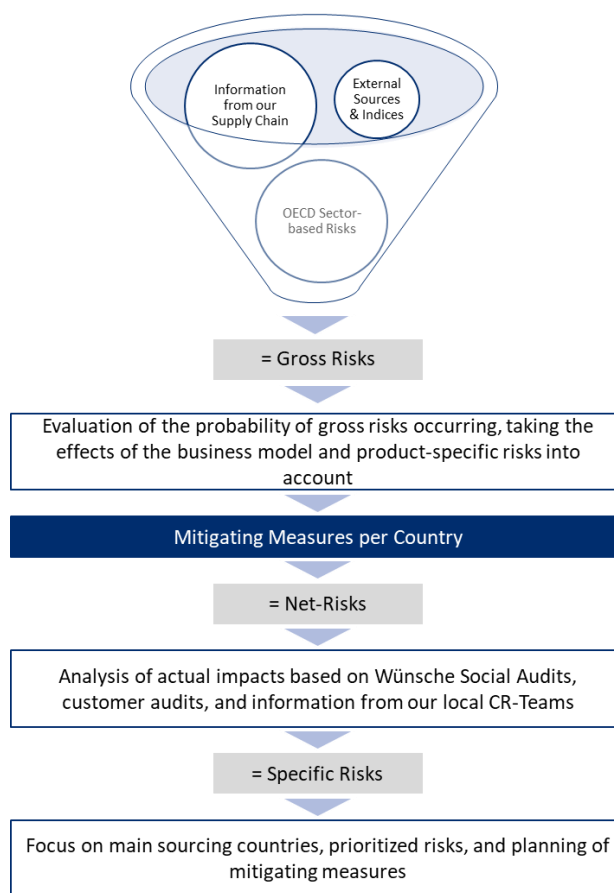


Figure 1 - Illustration of the risk analysis methodology

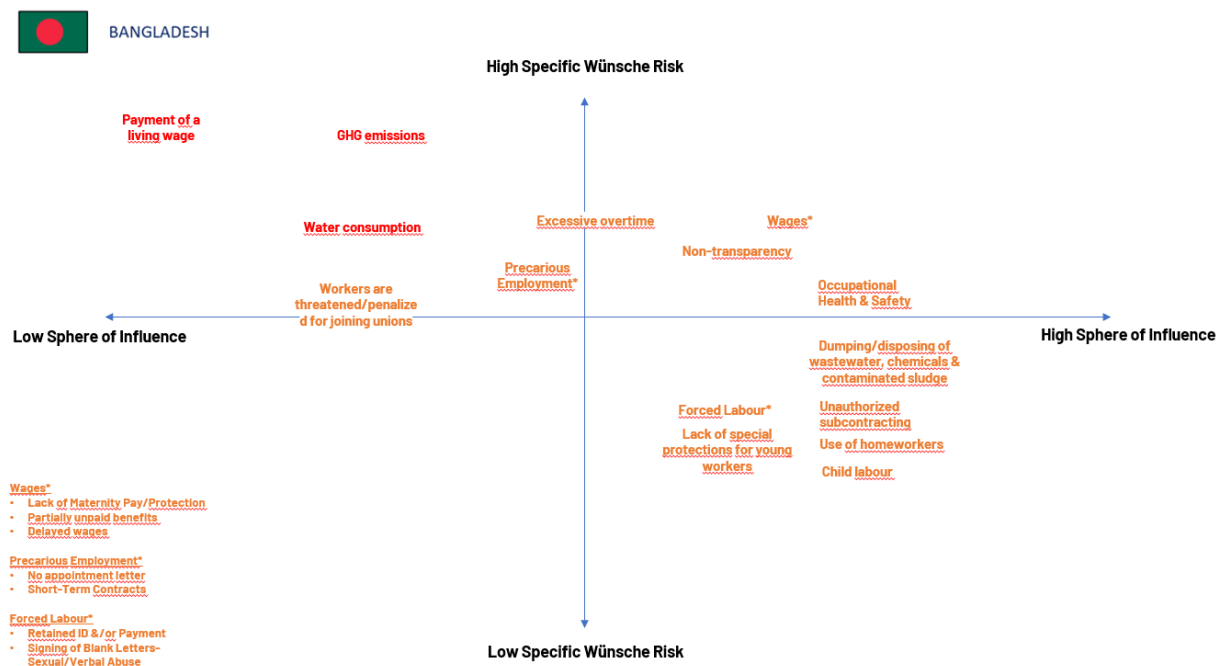
The starting point of our analysis is the countries from which we procure textile products. For these countries, we first identified risks using publicly available indicators (e.g. BSCI Risk Classification, Corruption Perception Index, and the Human Development Index). Enriched by information from our own supply chains, and with reference to the OECD Sector-based and specific country risks, we generated the first categorization of gross risks.

With the help of the analysis of our producer's BSCI Audit Reports, already existing mitigating measures, and specific information about our business model, we then determined the respective net risks.

In the next step, specific risks for the Wünsche Group were derived from the net risks, by analyzing the Wünsche Social Audits, our product risks, and the assessment of our local CR Teams. Then, the risks were further categorized according to the following criteria: the probability of occurrence, severity, and irreversibility.

As a last step, we focused on our main sourcing countries, Bangladesh, China, and Pakistan, where more than 90% of our Tier 1 textile factories are located. For these countries' high and moderate risks, we then examined if they fell under our sphere of influence.

### 3.1 Sourcing Country: Bangladesh



For Bangladesh, we have defined the following measures for our prioritized risks, according to our level of influence:

#### Non-transparency (of Factory Records):

- Continuation of internal audit activities and follow-up of corrective actions, with a focus on transparency.

#### Unauthorized Subcontracting:

- Asking for and documenting supply chain information from each production site prior to the start of the contract
- Initiating and driving the topic of responsible purchasing practices in strategic discussions with our internal purchasing department and with our customers
- Regular production tracking

#### Occupational Health & Safety:

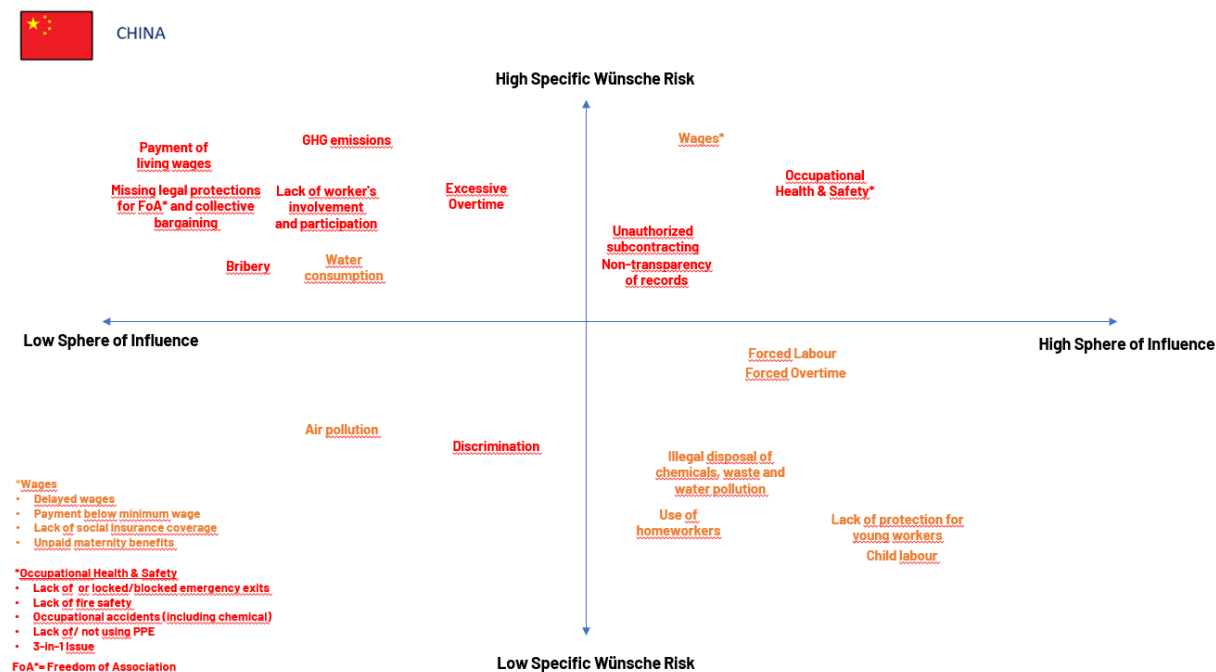
- Through our audit activities and the follow-up of the corrective action plans of our factories, risks can be captured and remediated. A longer-term supplier relationship would support this process.
- Active engagement through the International Accord

#### Wages and Overtime:

- Continuous evaluation of the use of the Accord and amfori BSCI grievance mechanism
- Applying the tools and skills that we have learned from participating in capacity building projects, such as the AFA Project, to train and assist additional factories
- Continuation of internal audit activities and follow-up on corrective actions, with a focus on wages, as well as timely and complete payment of overtime.

We have not formulated any explicit measures for the remaining risks, as our ability to influence them is limited due to either the structural nature of the risk or our business model, or they are already being addressed by mitigating measures.

### 3.2 Sourcing Country: China



We plan to address the main risks in China with the following measures:

#### Non-transparency (of Factory Records):

- Creating trust through long-term supplier relationships and taking this aspect into account in purchasing decisions

#### Unauthorized Subcontracting:

- Asking for and documenting supply chain information from each production site prior to the start of the contract
- Initiating and driving the topic of responsible purchasing practices in strategic discussions with our internal purchasing department and with our customers

#### Occupational Health & Safety:

- Through our audit activities and the follow-up of the corrective action plans of our factories, risks can be captured and remediated. A longer-term supplier relationship would support this process.

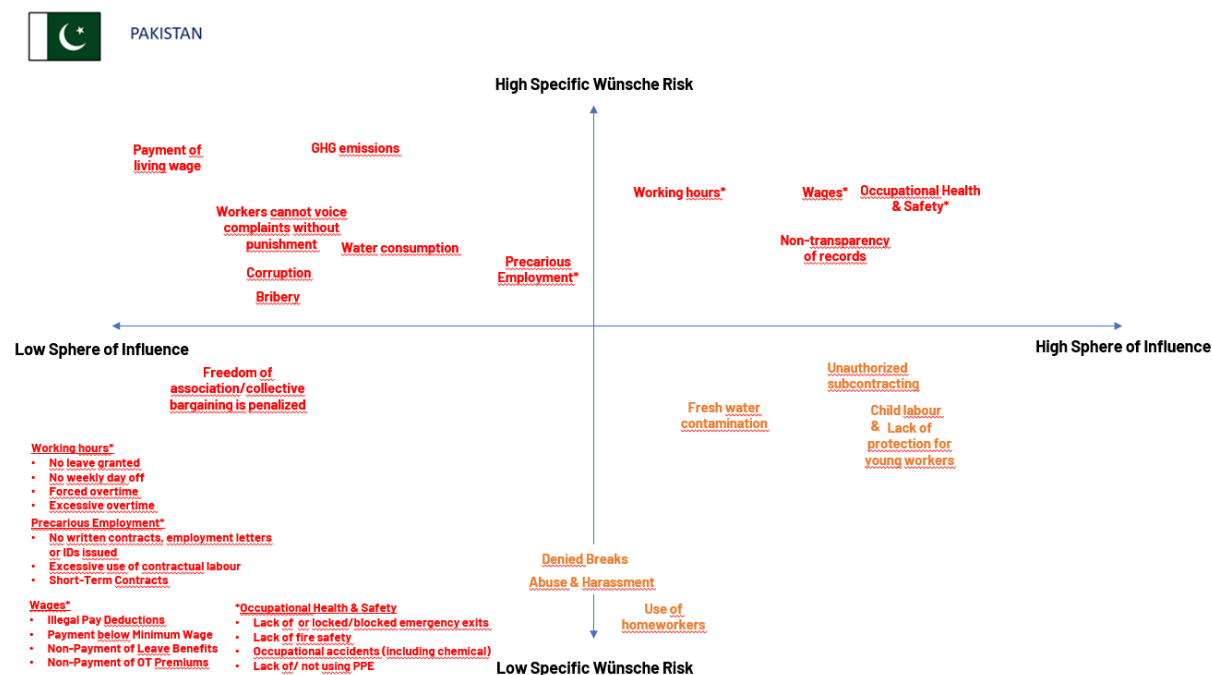
#### Wages and Overtime:

- Continuation of internal audit activities and follow-up on corrective actions, with a focus on wages, as well as timely and complete payment of overtime



We have not formulated any explicit measures for the remaining risks, as our ability to influence them is limited due to either the structural nature of the risk or our business model, or they are already being addressed by mitigating measures.

### 3.3 Sourcing Country: Pakistan



In Pakistan, we plan to address the main identified risks with the following measures:

Non-transparency (of Factory Records):

- Creating trust through long-term supplier relationships and taking this aspect into account in purchasing decisions

Unauthorized Subcontracting:

- Asking for and documenting supply chain information from each production site prior to the start of the contract
- Initiating and driving the topic of responsible purchasing practices in strategic discussions with our internal purchasing department and with our customers

Occupational Health and Safety:

- Through our audit activities and the follow-up of the corrective action plans of our factories, risks can be captured and remediated. A longer-term supplier relationship would support this process.
- Active engagement for the International Accord in expanding its activities to Pakistan

Wages and Overtime:

- Continuation of internal audit activities and follow-up on corrective actions, with a focus on wages, as well as timely and complete payment of overtime. In addition, contractual

labor (a prevalent form of employment in Pakistan) and its documentation will also be focused on.

- Pushing for transparent, consistent documentation of working hours and payroll, including contract labor.

We have not formulated any explicit measures for the remaining risks, as our ability to influence them is limited due to either the structural nature of the risk or our business model, or they are already being addressed by mitigating measures.

To address risks in which we as a stakeholder have little influence over, we take the opportunity to engage with other stakeholders, for example, in the form of working groups or industry initiatives. Examples include our involvement in the amfori Working Group “Speak for Change” (details under Section 7) or our involvement in the International Accord for Health and Safety in the Textile and Garment Industry (details in Section 4.1).

We are aware that the risk analysis is only a snapshot of a certain point in time and that a reassessment of the risks must be carried out regularly as part of our corporate due diligence.

## 4 Wünsche Social Compliance Monitoring System

Through means of our purchasing strategy, we believe that we have the greatest amount of leverage for initiating sustainable changes in our supply chains. Therefore, we already act responsibly during the order placement process.

In order to do business with us, every factory must have (at the very least) a valid social audit. Without being able to examine and review the audit report, we will not allow for this main production facility to join our factory pool. Furthermore, we do not tolerate any forms of child labour or forced labour. As a member of the amfori Business Social Compliance Initiative (BSCI), we commit ourselves and our partner factories to respect basic human rights, which we additionally verify via means of internal Wünsche Social Audits.

The amfori BSCI, a joint initiative developed within the framework of the European Foreign Trade Association, aims to improve fundamental social standards in global supply chains. The initiative, therefore, aims to set uniform minimum social standards, and to monitor and uphold the compliance of these standards through an auditing system. As a member of the amfori BSCI, we are committed to ensuring that main production sites comply with the principles of the amfori BSCI Code of Conduct (you can find the amfori BSCI Code of Conduct [here](#)).

All main production facilities used for the Wünsche Group orders must have a BSCI audit conducted by a third party and of which is valid for the entire time of production. Other reports based on industry accepted standards (e.g. SEDEX, FLA, SA8000, Better Work, ICTI etc.) may apply, but need to first be reviewed and are subject to the approval of the CR department. The audit result must be at least a BSCI "C" or equivalent. The audit report must be provided, latest, at the time of order confirmation and may not have any "zero tolerances".

The following shortcomings are considered as Zero Tolerances (ZT):

- Bonded labour
- Child labour
- Coercion abuse or harassment of workers
- Confirmed cases of financial bribery
- Denied access
- Discrimination
- Fatal threat to workers life or limb
- Financial bribery or threats towards auditors
- Infringed workers' right to organize
- Lack of valid licenses
- Non transparency of conditions
- Non transparency of production facility
- Observed coercion or harassment of workers
- Precarious employment
- Systematic payment below legal minimum wages
- Systematic unauthorized subcontracting
- Systematically delayed payment
- Unauthorized disposal and illegal dumping of chemicals, wastewater or sludge
- Unauthorized subcontracting
- Wage deductions leading to payment below minimum wage

In addition to BSCI audits, we conduct our own internal audits in order to verify a factory's compliance with our CR requirements. In general, there are three types of visits our CR team conducts within in the social compliance monitoring system:

Wünsche Social Audit	Wünsche Production Tracking	Irregular Factory Visits
<ul style="list-style-type: none"> <li>• Focus is to assess the CR performance of the factory</li> <li>• At least once per year for all prioritized PF</li> <li>• Usually announced</li> <li>• Report: Wunsche Social Audit</li> </ul>	<ul style="list-style-type: none"> <li>• Focus is to identify subcontracting risk</li> <li>• Frequency as needed</li> <li>• Unannounced and announced</li> <li>• Report: Wunsche Production Tracking</li> </ul>	<ul style="list-style-type: none"> <li>• Specific focus e.g. ACCORD, training</li> <li>• Frequency as needed</li> <li>• Usually announced</li> <li>• Report: Wunsche Factory Visit</li> </ul>

The main objective of these visits is to achieve full transparency with regards to the working conditions in the Wunsche Group's supply chains (mainly Tier 1). This transparency is a prerequisite for developing and maintaining sustainable supply chains. The order in which internal Wunsche Social Audits are conducted are prioritized according to specific criteria, such as business relevance or specific CR risks. It is in the sole discretion of the CR headquarters to lay out the criteria by which internal audits must be conducted. Our goal is to conduct internal audits annually in all factories that are considered a priority. In general, our Wunsche Social Audits are announced, but they can also be unannounced if deemed necessary. The Wunsche Group CR also reserves the right to conduct audits in BSCI non-risk countries if required.

A significant part of our work begins after the audit. Together, with our suppliers, we work on remediating any identified shortcomings. Our approach is based on achieving continuous improvement through the transparent and trusting relationships that we have with our suppliers.

Should, however, shortcomings systematically not be satisfactorily remediated, the business relationship with the factory may be suspended temporarily or terminated permanently.

#### 4.1 Additional Prerequisites for Production Sites in Bangladesh

The Wunsche Group is a signatory of the International Accord for Health and Safety in the Textile and Garment Industry, a multi-stakeholder initiative and legally binding agreement which proactively contributes to achieving a safer textile industry in Bangladesh and Pakistan. The Accord provides safety trainings, a grievance mechanism, and inspections conducted by engineers on structural, fire, and electrical safety. To read more about the Accord, please visit [www.internationalaccord.org](http://www.internationalaccord.org).

The Wunsche Group requires that all garment producers used for Wunsche production in Pakistan and Bangladesh be covered by the Accord. If a Bangladeshi factory is working with us

for the first time, it cannot be escalated under the Accord<sup>1</sup> and the implementation rate of their corrective actions must be 80% or higher.

## 4.2 Unauthorized Subcontracting

One of our goals is to have complete transparency when it comes to the conditions of factories within our supply chains. This includes being able to know, at all times, where which product is being manufactured. Therefore, Wünsche Group production facilities are strictly prohibited from subcontracting any part of the production to other facilities that are not previously specified in the respective purchase agreement unless prior written consent from the Wünsche Group has been given. Consent to subcontract shall be at the sole discretion of the Wünsche Group. Systematic unauthorized subcontracting is considered a zero-tolerance violation for the Wünsche Group and may – as a last resort – lead to the termination of the business relationship with the production site.

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<sup>1</sup> The Accord uses an escalation protocol consisting of 3 levels of escalation. If a factory has been escalated to level 3 under the Accord, all signatories must stop doing business with the factory.

## 5 Protection of the Environment

We are aware of the fact that our business activity has a negative environmental impact. That is why we are committed to using natural resources responsibly both in our supply chains and in our offices.

Within our supply chains – specifically our textile supply chains – we assist wet manufacturing facilities with their chemical management. Our employees advise the factories on how to manage the use of chemicals during the washing or dyeing processes in a way that is environmentally friendly and appropriate. In this way, we actively contribute to minimizing some of the negative impacts within our supply chains.

A core element of our Wünsche Group CR requirements is therefore that all wet production sites used for our products must be connected to a wastewater treatment system either an on-site treatment plant or by discharging wastewater into a public treatment plant. If existent, national laws and regulations for sewage sludge, chemicals, waste and wastewater disposal must be strictly adhered to. It is strongly recommended that relevant wet production sites have a functioning chemical management system in place. Again, our local CR teams supports our suppliers and their wet production sites in establishing such a system through means of on-site visits, corrective action plans, and technical assistance.

In addition, we have set up an internal environmental management system which is managed centrally by our environmental team located at our headquarters in Hamburg. At every office location worldwide we have an employee, our Environmental and Communications Officer (ECO) who is responsible to initiate and implement greenhouse gas reduction measures locally. All ECOs are a part of our Location Officers Network for Environment and Communication (LONEC) that promotes best practice exchange.

We measure and externally report our own greenhouse gas emissions (Scope 1 and 2) since 2017. Starting in 2020, we have added the emissions along our value chains (Scope 3) and published our first environmental report in 2023 that additionally covers other environmental topics and measures.

We have set ourselves a greenhouse gas reduction target for Scope 1 and 2 that will be updated in the course of 2024. The updated target will include a target for Scope 3 to comply with the latest requirements of the Science Based Target initiative (SBTi). We thereby commit to put further measures in place to reduce our greenhouse gas emissions in our own offices as well as along the value chains. In this way, we are making our contribution to the 1.5-degree goal of the Paris Agreement.

An increasing number of our suppliers have implemented certified environmental management systems such as ISO 14001, amfori BEPI, Higg FEM or STeP by OEKO-TEX®, which is a valuable step to improve monitoring and managing the environmental impacts of the production facilities.

## 6 Product Responsibility

We produce our goods using widely respected certification standards and trusted sustainability practices. This approach underscores our dedication to sustainable materials, eco-friendly methodologies, and strict adherence to social benchmarks.

Through clear labeling, we aim to provide our customers with the information they need for informed buying decisions.

### 6.1 Textile Certification

In addition to ensuring certain quality criteria, we currently use the following product certifications for textile products within the Wünsche Group:

- Global Organic Textile Standard (GOTS): In addition to organic natural fibers, GOTS places special emphasis on ecological standards and working conditions throughout the supply chains.
- Global Recycled Standard (GRS), Organic Content Standard (OCS), Responsible Wool Standard (RWS): Whereas OCS focuses on quality and material composition, RWS focuses on animal welfare and GRS on the use of recycled materials.
- Better Cotton Initiative (BCI), Cotton made in Africa (CmiA): BCI and Cotton CmiA focus on improving the sustainability of cotton production and the living conditions of farmers, with BCI being a global initiative and CmiA focusing on African cotton production.
- Forest Stewardship Council® (FSC®): FSC® is committed to promoting the sustainable management of forests. The FSC® seal guarantees that only wood-based materials and fibers from well-managed FSC®-certified forests and other controlled sources are used for a product.

To ensure that all requirements are met, we conduct order-based monitoring and detailed checking of chemical and quality parameters.

### 6.2 Animal Welfare

No Wünsche Group product may have been produced in connection with the following:

- No real fur or angora
- No wool derived by means of mulesing<sup>2</sup>
- No use of animal labour

Not only does the Wünsche Group forbid critical practices, Wünsche CR also supports adequate animal husbandry as well as good manufacturing standards by using relevant standards such as the Good Cashmere Standard or Leather Working Group certificates.

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<sup>2</sup> Mulesing is the removal of strips of wool-bearing skin from around the breech (buttocks) of a sheep to prevent the parasitic infection flystrike. From an animal welfare position, mulesing is considered to be a controversial practice.

### 6.3 Sandblasting

The practice of sandblasting is also forbidden for any of the Wünsche Group's products.

Sandblasting is the operation of forcibly propelling a stream of abrasive material against a surface under high pressure to smoothen a rough surface. It is used e.g. in jeans production and may lead to silicosis, an occupational lung disease that can be lethal.



## 7 Grievance Mechanism and Access to Remedy in Our Supply Chains

To give our external stakeholders the opportunity to contact us regarding a violation of our Code of Conduct, we have provided access to multiple grievance channels. As an international company, this means establishing an infrastructure that allows us to adequately follow-up on any grievances worldwide – a challenge we believe that we cannot overcome alone.

As we are a signatory of the International Accord, workers in our Bangladeshi and Pakistani textile factories can submit occupational health and safety (OHS) grievances, which are handled by the Accord. If the grievance is of non-OHS origin, the Accord will contact the Wünsche CR team and then our CR team will follow up on and remediate the grievance.

In addition to the Accord Grievance Mechanism, we are actively working with amfori on providing a collective solution which will cover all sourcing countries and industries. The comprehensive grievance mechanism called “amfori Speak for Change” offers factory workers the ability to lodge a complaint via a phone call, message, or via their website. The complaint will then be reviewed by amfori and then all business partners will be informed. The business partners will then collaboratively work with an independent organization to investigate and remediate the issue. This program has thus far been rolled out in Vietnam, Türkiye, Bangladesh, Cambodia, and parts of India. In 2024, it is planned to be launched in Pakistan and a pilot project will begin in China.

In order to give stakeholders access to remedy in production countries where this program is not yet available, we are bridging this gap by providing an email address ([grievance@wuenschegroup.de](mailto:grievance@wuenschegroup.de)) that is publicly available on our website. Additionally, our social auditors distribute the grievance email address to workers during factory visits. We see this interim solution as an important first step towards a long-term, functional grievance mechanism.

In 2023, there were a total of 17 complaints at our production sites in Bangladesh. Eleven were OHS-related whereas six were non-OHS complaints filed through the Accord grievance mechanism. No complaints were received through the other two channels.