



HUGO BOSS AG

ASSESSMENT FOR ACCREDITATION

FLA BOARD OF DIRECTORS MEETING
FEBRUARY 2018

TABLE OF CONTENTS

TABLE OF CONTENTS 2

INTRODUCTION..... 3

SECTION 1: HUGO BOSS AG COMPANY AFFILIATE OVERVIEW 4

SECTION 2: HUGO BOSS’ SUPPLY CHAIN & FLA DUE DILIGENCE ACTIVITIES FROM 2016-PRESENT 6

SECTION 3: ANALYSIS OF HUGO BOSS LABOR COMPLIANCE PROGRAM FOR ACCREDITATION 6

SECTION 4: CONCLUSION AND RECOMMENDATION TO THE BOARD OF DIRECTORS.. 23

APPENDIX A: THE HUGO BOSS SOCIAL STANDARDS 24



Hugo Boss Headquarters in Metzingen, Germany.

INTRODUCTION

This report provides an assessment of the labor compliance program of Hugo Boss AG and concludes with a recommendation to the FLA

H U G O B O S S

Board of Directors regarding the accreditation of the company's program. When joining the FLA, Participating Companies and Participating Suppliers commit to implementing the [FLA Workplace Code of Conduct](#), which ensures "respectful and ethical treatment of workers" and "promotes sustainable conditions through which workers earn fair wages in safe and healthy workplaces." The [Principles of Fair Labor and Responsible Sourcing / Production](#) ("Principles") serve as the bedrock upon which Participating Companies and Participating Suppliers are assessed towards an accreditation of their labor compliance program. Participating Companies and Participating Suppliers with accredited compliance programs have demonstrated that they have the systems and procedures in place needed to successfully uphold fair labor standards throughout their supply chains.

The FLA accreditation process involves staff conducting due diligence on the performance of a Participating Company or Participating Supplier during the implementation period. The FLA will assess the implementation of all Principles to ensure a social compliance program has been implemented to accommodate the supply chain expansion. This assessment involved testing a selection of data points or information sources in order to verify actions by the company. Sources of information may include:

- 1) Affiliate Headquarter Assessment: Assessments at headquarters and field offices to interview staff involved in compliance and in other functions, and to review documentation, processes, and database capabilities. In some cases, the offices of agents are visited as well. In countries where the FLA is not able to conduct in-person assessments, interviews are conducted by phone with company staff involved in compliance and in other functions.
- 2) FLA Factory-Level Assessments: Independent External Monitoring (IEM), Independent External Verification (IEV), and Sustainable Compliance Initiative (SCI) assessments are all sources of information on compliance issues and remediation efforts.
- 3) Annual Reports: Affiliate reports for each year of implementation provide data on the evolution of an affiliate's compliance program in line with FLA Principles.
- 4) FLA Third-Party Complaints: Where relevant, an affiliate's involvement in, and responsiveness to, FLA Third-Party Complaints provide additional insight into compliance programs and remediation strategies.
- 5) FLA Strategic Projects: Where relevant, an affiliate's participation in FLA Strategic Projects provides opportunities to learn about the affiliate's compliance strategies for detecting and remediating complex issues.
- 6) Observation: Wherever possible, FLA staff accompanied affiliate compliance staff on internal audits, training sessions or remediation visits.
- 7) Routine Interactions: Information on the affiliate's compliance program has also been collected through discussions and interactions with affiliate compliance staff in the course of each year's program. Exchanges with civil society organizations and other stakeholders interacting with the affiliate provide additional perspective.

SECTION 1: HUGO BOSS AG COMPANY AFFILIATE OVERVIEW

Name of Company	Hugo Boss AG	Category	Participating Company
Location	Metzingen, Germany	Product/s	Apparel, Footwear, Accessories
Total Annual Revenue	2.7 Billion €	Current Number of Applicable Facilities	171 Contract, 4 Owned
FLA Affiliation Month/Year	October 2014	End of Implementation Period	October 2017
FLA Accreditation Lead/Support	Lead: Tiffany Rogers (Program Manager, Business Accountability) Supports: Alpay Celikel (Regional Manager, EMEA & South Asia); Renee Bowers (Director, Accountability)		
Unique Company Characteristics	<ol style="list-style-type: none"> 1) Hugo Boss owns four production facilities located in Metzingen, Germany; Izmir, Turkey; Morrovalle, Italy; and Radom, Poland. Hugo Boss' Izmir facility is the largest production facility in Turkey, employing about 3000 production employees. 2) Up until 2016, Hugo Boss had four different brands; however, in 2017, Hugo Boss implemented a two-brand strategy (Hugo and Boss). Boss' product assortment includes the upper premium to luxury styles in men's and women's wear while Hugo targets customers who are more expressive in their personal style and fashion. 3) In 2017, Hugo Boss was included in the Dow Jones Sustainability Index for the first time, achieving the required score to be included in the index, and was one of five apparel companies in the luxury market to be included. Hugo Boss scored best in class in environmental reporting, labor practice indicators, product stewardship, and tax strategy. 		
Summary of Key Strengths	<ol style="list-style-type: none"> 1) Top management commitment, engagement, and involvement in the improvements of the Sustainability Program; 2) Comprehensive audit methodology and auditor guidance to assess supplier working conditions; 3) Data management and tracking to benchmark improvement in supplier performance; 4) Integration of the Product Division staff in the remediation process; 5) Review of compensation data to inform conversations with suppliers and other stakeholders on Hugo Boss's efforts to achieve fair compensation; and 6) The annual Stakeholder Dialogue Roundtable for civil society to engage with the Sustainability Program and Hugo Boss Top Management. 		
Summary of Key Suggestions for Strengthening	<ol style="list-style-type: none"> 1) Continue to complete the supplier training program and benchmark improvement of supplier performance; 2) Continue to ensure suppliers provide workplace standards training to workers; 3) Further develop guidance to auditors on conducting root cause analysis; 4) Continue to work with suppliers in addressing and remediating labor violations in their supply chain, specifically freedom of association violations, and continue to engage in ongoing dialogue with unions and other worker representative structures; 5) Ensure formal training on responsible procurement practices for Product Division staff is effective; and 6) Continue to expand civil society engagement in other high-risk and high-production countries, specifically in Asia. 		

Hugo Boss AG (Hugo Boss) was founded in 1948 and is headquartered in Metzingen, Germany. Hugo Boss started with specializing in the tailoring and manufacturing of men's suits for the upper premium market; in 1985, Hugo Boss went public and expanded into women's wear, children's wear, accessories, and fragrance. As summarized in the table above, Hugo Boss owns four production facilities located in Metzingen, Germany; Izmir, Turkey; Morrovalle, Italy; and Radom, Poland. Hugo Boss' Izmir facility is the largest apparel production facility in Turkey, employing about 3000 production employees. Up until 2016, Hugo Boss had four different brands; however, in 2017, Hugo Boss implemented a two-brand strategy (Hugo and Boss). Boss' product assortment includes the upper premium to luxury styles in men's and women's wear; while Hugo, offers contemporary trends with an edgy and urban attitude.

In October 2014, Hugo Boss was approved by the FLA Board of Directors as a Participating Company, selecting a three-year implementation period. The Product & Vendor Sustainability Department implements the social compliance program. Top management demonstrates a growing commitment to sustainability and social responsibility, as shown by their affiliation with the FLA in 2014. In 2016, Hugo Boss began to hold its annual Stakeholder Dialogue Roundtable Discussions, inviting various organizations representing labor rights, animal welfare, and environmental sustainability as well as universities to discuss Hugo Boss' practices and strategies. In 2017, Hugo Boss achieved the required score to be included in the Dow Jones Sustainability Index; global sustainability benchmarks that address issues such as corporate governance, risk management, supply chain standards and labor practices, etc. Additionally, in 2017, Hugo Boss rolled out a comprehensive supplier training program on workplace standards.

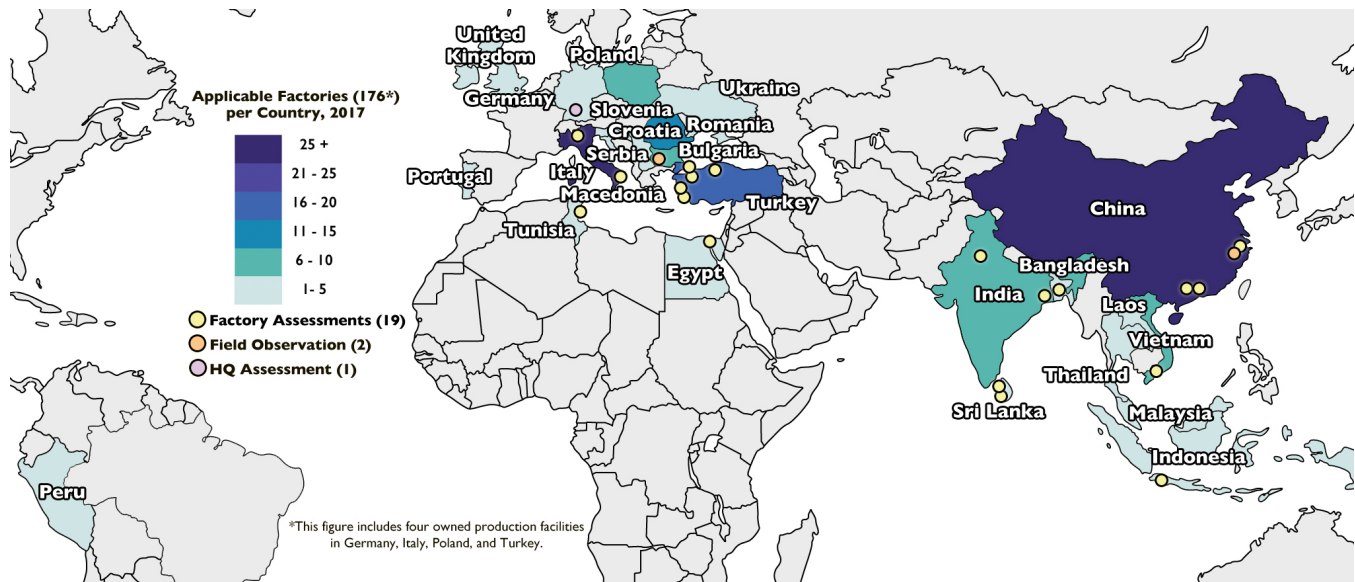
Hugo Boss utilizes two different types of sourcing models: Freight-On-Board (FOB) and Cut, Make, Trim/Thread (CMT)¹ suppliers. For CMT suppliers (40%, which is based on production units), Hugo Boss is responsible for the procurement and delivery of materials to the production facility. For FOB suppliers (60%, which is based on production units), the supplier is responsible for the procurement and delivery of materials to the factory. Hugo Boss has a broad Procurement Policy that addresses the practices required to uphold responsible purchasing and production practices. Hugo Boss also reviews financial status, compensation data, buys back materials from FOB suppliers, and works with suppliers to accommodate for balanced planning and adequate lead time.

Hugo Boss has been named in four Third Party Complaints lodged with the FLA, one in an owned facility and three in contract factories. The complaint at the owned facility (located in Izmir, Turkey), which alleged freedom of association violations, was terminated by the FLA because of a court case and a serious breach of confidentiality on the part of the complainant. It should be noted that despite the termination of this case, unions continue to operate at the Izmir facility and are involved in a process of dialogue with management. With respect to the contract facilities, Hugo Boss worked closely with its suppliers to address concerns raised at Topy Top (Peru) and Aydinli Deri (Turkey); the FLA is in contact with other buyers on allegations raised regarding Akin Corap (Turkey), a de minimis supplier for Hugo Boss.

In their [2016 Sustainability Report](#), Hugo Boss disclosed a violation of freedom of movement found in its Tier 1 factory in Tamil Nadu, India, which was raised by [the Guardian](#) on January 4th, 2018. The newspaper also included interviews of resident spinning mill workers and the risk of Sumangali Schemes in the region. FLA conducted due diligence to ensure Hugo Boss has addressed these violations with the supplier and engaged with civil society to understand the complexities associated with working conditions in Tamil Nadu, India. Further discussion of this topic can be found in Principles 7 and 9 of this report.

¹ The FOB supply chain is known as Hugo Boss' merchandising business. The CMT supply chain is known as Hugo Boss' subcontracting business. Due to the differences in definition of subcontracting, FOB and CMT are used throughout this report to represent the two different businesses.

SECTION 2: HUGO BOSS' SUPPLY CHAIN & FLA DUE DILIGENCE ACTIVITIES FROM 2016-PRESENT



The above map shows Hugo Boss' sourcing and production countries in 2017 and the range of the number factories in each highlighted country. Hugo Boss sources and produces in 27 countries, with the largest sourcing countries being China (38 factories), Italy (38 factories), and Turkey (19 factories). Hugo Boss sources from 80 factories in Asia, 78 in Europe, five in Africa, and three in the Americas. Hugo Boss also owns a production facility in each of the following countries: Germany, Italy, Poland, and Turkey.

From 2015-2017, Hugo Boss received 19 SCI Assessments, 18 as part of the annual SCI Assessment cycles, and one SCI assessment at the Izmir facility as part of an FLA Safeguard. Hugo Boss received two Audit Field Observations in China and Bulgaria, and one Headquarter (HQ) Assessment for accreditation at its Metzingen Headquarters in Germany.

SECTION 3: ANALYSIS OF HUGO BOSS LABOR COMPLIANCE PROGRAM FOR ACCREDITATION

Information used in this assessment originates from reports submitted by Hugo Boss and verified by the FLA through:

- 1) An assessment at the Hugo Boss headquarters conducted by FLA staff in October 2017;

- 2) Information gathered in person, via phone interviews, and through email correspondence with Hugo Boss staff;
- 3) Documentation review of supporting evidence submitted by Hugo Boss;
- 4) Field observations of factory-level assessments in China and Bulgaria;
- 5) Results of FLA Independent External Assessments at Hugo Boss applicable facilities conducted by FLA assessors and accredited service providers; and
- 6) Communication with stakeholders.

PRINCIPLE 1: WORKPLACE STANDARDS²

Workplace Standards & Top Management Commitment

Hugo Boss adopted its Social Standards as the workplace code of conduct applied to its finished goods and raw materials suppliers in 2008. Hugo Boss' [corporate code of conduct](#) includes the Social Standards. Hugo Boss [aligned](#) the Social Standards with FLA's and published them in 2016; revising its standards in Freedom of Association, Compensation, and Hours of Work. Hugo Boss has also implemented its Social Standards Handbook, which include further clusters of standards, similar to the FLA's Compliance Benchmarks, to operationalize the Social Standards within Hugo Boss' Vendor Sustainability Program.

The Chief Executive Officer (CEO) makes internal and external commitments to uphold Hugo Boss' Social Standards. The CEO participated in the FLA headquarter assessment and discussed the progress Hugo Boss has made, including the publication of the annual [Sustainability Report](#) starting in 2013 and Hugo Boss' acceptance to the Dow Jones Sustainability Index in 2017. Additionally, in 2017, Hugo Boss published its [factory list](#); Hugo Boss requested authorization from its suppliers prior to publishing the list and did not publish factory information of factories who did not grant authorization. Hugo Boss will publish an updated supplier list at the end of February, which will include current Tier 1 production sites that Hugo Boss plans to continue the partnership with in 2018.

The CEO also advocated for Hugo Boss to establish its annual stakeholder roundtables, with various organizations focused on labor, environmental, and animal welfare issues, which will be further discussed in Principle 9. Additionally, the CEO ensures that there is participation in the mandatory Hugo Boss staff training program on the Hugo Boss Code of Conduct and Social Standards, by sending the notification to staff to complete the training. FLA identified Hugo Boss' top management commitment and involvement in the implementation of the Vendor Sustainability Program as a strength of Hugo Boss' program.

PRINCIPLE 2: RESPONSIBILITY & HEAD OFFICE TRAINING³

Staff Responsibility for Implementing the Vendor Sustainability Program

Hugo Boss' Sustainability Department is responsible for the implementation of the Vendor Sustainability program and receives support from the Product Divisions. The Vendor Sustainability Team and the Social Standards Team implement the Vendor Sustainability program; these teams report to the Head of Product & Vendor Sustainability. The Head of Product & Vendor Sustainability reports to the Director of Global Sustainability, who was hired in October 2017. Below are the descriptions of the teams that lead and contribute to the Vendor Sustainability Program:

² Principle 1: Company affiliate establishes and commits to clear standards.

³ Principle 2: Company affiliate identifies and trains specific staff responsible for implementing workplace standards and provides training to all head office and regional staff.

- Vendor Sustainability Team: This team is based in Germany and includes about 3 staff members, 1 full-time and 2 part-time, who are responsible for the HQ-Level implementation of the Hugo Boss Sustainability Program. There is one open full-time position on the Vendor Sustainability Team.
- Social Standards Team: This team is based in Guangzhou, China and includes 5 staff members who are responsible for the Hugo Boss Audit Program in Asia and Southeast Asia. The Social Standards Team accounts for about 50% of the audits conducted annually for Hugo Boss. For Europe, Hugo Boss contracts with Systain Consulting to conduct the audits for European suppliers. While out of the FLA scope of affiliation, the Social Standards Team also conducts the audits for raw material suppliers and non-production suppliers, who supply Hugo Boss with furniture, packaging materials, and other retail needs.
- Vendor Management: This team is responsible for on-boarding new suppliers. This team is integrated within the Vendor Sustainability Team and also reports to the Head of Product & Vendor Sustainability and is based in Germany.
- Product Divisions: Each Product Division has three departments (procurement, production management, and technical development); within these three departments, there are staff members who are responsible for communicating the CAP and tracking the remediation follow-up with their suppliers. The majority of the staff in the Product Divisions who are responsible for following up on the CAP are from the procurement departments.
- Human Resource (HR) Department: While the Vendor Sustainability Program manages contract suppliers, there is collaboration with the HR department to implement aspects of the program in owned facilities. The HR Department is responsible for managing and implementing the Social Standards, along with other HR functions, at the owned facilities in Germany, Italy, Poland, and Turkey.

FLA conducted interviews at the HQ Assessment to verify the responsibilities and expertise of the staff responsible for the Vendor Sustainability Program. FLA also reviewed the job description of the Head of Vendor & Product Sustainability, which included major tasks on social compliance, stakeholder engagement, and strategic vendor management, and the expected outcomes of these tasks.

Training for the Product & Vendor Sustainability Department

The Product & Vendor Sustainability staff receive annual performance reviews, where training needs are assessed and a training budget is managed to ensure that staff have opportunities to participate in labor-related trainings. The Social Standards Team, responsible for the audit program, receives regular SA8000 training and trainings on country local laws. FLA reviewed the training logs and materials from various trainings from Hugo Boss and discussed the performance review process during the HQ Assessment. FLA encourages Hugo Boss to continue to pursue training opportunities on various issues in labor and social compliance in manufacturing supply chains.

Freedom of Association Training

In 2015, FLA received a [Third Party Complaint](#) from Teksif Union, a local textile workers' union, alleging Freedom of Association violations at Hugo Boss' production facility in Izmir, Turkey. The specifics of the complaint are further discussed under Principle 9. As a follow-up to the investigation, Hugo Boss hired a mediator to provide training on worker rights and improve industrial relations at the facility. HR and factory management personnel were required to participate in Freedom of Association training, which focused on law and practice regarding improving relations with the union and legal practices in industrial relations. FLA interviewed the mediator, who reported that over 350 Hugo Boss management staff have been trained at the Izmir facility. Additionally, FLA reviewed documentation from the training. FLA recommends Hugo Boss continue to assess the Freedom of Association training needs of Izmir management and provide training opportunities to staff.



The production floor at Hugo Boss' Metzingen production facility.

Training All Hugo Boss Staff

All Hugo Boss staff are required to complete an e-learning training program every 18 months and are notified by the CEO to complete the training. The training includes content on Hugo Boss' Code of Conduct and Social Standards, including working hours, the open-door policy, etc. Staff are required to complete a "Know-How" quiz to complete the training; the questions of the quiz change and staff are required to take the quiz as many times until they pass. Additionally, there is an escalation process if staff do not complete the training program. FLA reviewed the Social Standards content of this training, and discussed this training program with Hugo Boss' Compliance Officer. Currently, the training is only available in German and English; however, Hugo Boss is developing the training in Spanish, Turkish, Mandarin, and Italian.

PRINCIPLE 3: SUPPLIER TRAINING⁴

Supplier Commitment

On Hugo Boss' supplier platform, suppliers are required to accept the terms of Hugo Boss' supplier agreements and Social Standards. The platform provides notifications if there are revisions to the prior agreements and the supplier status will change once they accept the revised terms. Hugo Boss' Social Standards include the commitment to remediate noncompliances, the allowing of access for inspection, and an addendum to include the cooperation with the FLA on SCI assessments and Third Party Complaints.

Conditioning Future Business on Suppliers' Improvement of Working Conditions

The Social Standards also include a section specific to the lack of remediation of violations. Suppliers will be notified of the violations and be granted reasonable time to correct the violation. Hugo Boss

⁴ Principle 3: Company affiliate obtains commitment and trains relevant supplier management on workplace standards and tracks effectiveness of supplier workforce training.

also reserves the right to terminate the relationship if there is a serious violation of child labor, forced labor, use of banned chemicals, or “unreasonably obstructing an inspection.” Hugo Boss has utilized this policy; in one case, Hugo Boss ceased sourcing from a supplier in Turkey due to its continuous use of banned chemicals on products. FLA also reviewed a sample of warning letters; one letter included an outline of excessive of overtime hours, in which workers were not provided a day off in 20 days of working. The supplier was required to respond in writing on how they will improve the working conditions. This letter was signed by Hugo Boss’ Director Legal, Compliance and Risk Management and the Senior Vice President, Product Division Clothing.

Supplier Training

In 2017, Hugo Boss developed a comprehensive training program for its suppliers, the Awareness Social Responsibility & Chemical Management training program and has been implementing this program from late 2017 throughout 2018. This program trains suppliers on Hugo Boss’ Social Standards Handbook for Suppliers, along with chemical topics. Prior to the development of the training, Hugo Boss surveyed its suppliers to review the training programs they were participating in and then developed the training concept. Hugo Boss worked with a consultant to develop modules on the Social Standards, management systems, root cause analysis, chemical management, grievance mechanism, etc. The training was piloted in China, and then the Vendor Sustainability Team worked to develop two approaches: small group one-day sessions and large group two-day workshops. Systain Consulting leads the small group sessions, which include onsite trainings at the factories. The Hugo Boss Vendor Sustainability team, Social Standards Team, or a training consultant lead the large group sessions, which include a quiz at the end to ensure that knowledge was gained. Hugo Boss is continuing to roll-out this training program in their sourcing and production countries. At the time of this report, Hugo Boss had trained about 50% of its suppliers through this program. Before the implementation of this comprehensive training program, Hugo Boss had provided ad-hoc training to some of its suppliers on hours of work, child labor, environment, and discrimination.

Hugo Boss also holds an annual Vendor Day, led by the Product Divisions. This day is focused on sourcing and social compliance related topics, as well as general sustainability topics and the further development of their sustainability programs. The Product & Vendor Sustainability department presents on social compliance related topics. Supplier are also asked to present on best practices in sustainability. Hugo Boss also provides suppliers with a quarterly sustainability newsletter to provide updates to its suppliers on the Hugo Boss Product & Vendor Sustainability program.

For owned facilities, all factory managers are required to complete Hugo Boss’ e-learning training program on the Code of Conduct and Social Standards. Additionally, all owned facilities participated in the Awareness Social Responsibility & Chemical Management training program, with the exception of the Izmir facility. Due to previous training conducted at this facility and on-going freedom of association activities, Izmir will receive the formal training program in February 2018.

Workplace Standards Accessibility for Workers & Training

After revising its Social Standards, Hugo Boss has worked to translate the code of conduct into all the local languages of the workers. FLA has verified the Social Standards translations of Arabic, Bahasa, Bengali, Bulgarian, Croatian, English, German, Hindi, Hungarian, Italian, Lao, Malay, Mandarin, Polish, Portuguese, Romanian, Serbian, Sinhalese, Spanish, Thai, Turkish, Ukrainian, and Vietnamese. Suppliers have access to the Hugo Boss Social Standards in the relevant languages through the Hugo Boss’ supplier platform system. Hugo Boss does not require the posting of the Hugo Boss Social Standards on factory walls; however, suppliers are required to provide workers access to the standards through training, communication, and hand-outs. Additionally, during audit worker interviews, workers receive a Hugo Boss communication card that includes the Social Standard elements. Through FLA audit field observations and SCI Assessments, FLA found that not all supplier

management provided access to workers to the Social Standards or ensured that they were utilizing the current version of the Social Standards. FLA recommends that Hugo Boss continue to remind suppliers of the availability of the Social Standards in the platform and the translations of the Social Standards be made available to the workers.

Hugo Boss ensures that workers receive training on the workplace standards through their audit process. During an FLA Audit Field Observation in Bulgaria, FLA verified that the auditor reviewed the training materials on workplace standards and asked questions about the training during the worker interviews. FLA had further recommendations from this field observation, improving the assessment of the effectiveness of worker training. FLA also discussed the support that the Social Standards team provides to suppliers to develop more interactive trainings for workers on workplace standards. FLA recommends that Hugo Boss continue to work with its contract suppliers to ensure that workers are being effectively trained on the workplace standards.

Hugo Boss production employees at owned facilities participate in regular training programs on the Social Standards, HR policies, and workplace standards. The training programs are also reviewed during the audits. At the Izmir facility, all employees went through various training programs on Freedom of Association, as mentioned in Principle 2.

PRINCIPLE 4: FUNCTIONING GRIEVANCE MECHANISMS⁵

Assessing for Functioning Grievance Mechanisms

Throughout the audit process, Hugo Boss assesses if grievance mechanisms are functioning by reviewing grievance mechanisms and interviewing workers, supervisors, and managers. Hugo Boss' Audit Guidelines also include criteria on how auditors are to assess a factory's grievance mechanisms to ensure, at minimum, that there is a suggestion box, grievance procedures, evidence that the grievance system is utilized by workers, and that complaints can be submitted anonymously without fear of retaliation.

FLA observed two audits in China and Bulgaria and verified that Hugo Boss assessed for grievance mechanisms. However, during the first Audit Field Observation in China, FLA found that the auditor did not include questions about grievance mechanisms during the worker interview process. FLA recommended including questions during the worker interview process on grievance mechanisms, which FLA verified to have been rectified during the second Audit Field Observation in Bulgaria.

Functioning Grievance Mechanisms at Owned Facilities

Hugo Boss production employees have access to functioning grievance mechanisms through the following channels: supervisor, department head or director, HR department, works council or employee representatives, communications committee, compliance department, social compliance department, the data protection officer, special representatives (for equal opportunity and disabled employees), or the ombudsman. Hugo Boss formalized its Complaint Management Policy, which articulates the procedures for submitting grievances to the supervisor and escalating these grievances to the department head or director, and the HR department. During interviews of production employees at Hugo Boss Metzingen production facility, production employees discussed that they feel most comfortable submitting grievances to the works council or directly to their supervisor. All production employees were able to discuss how they would submit a grievance to the FLA, if needed. Hugo Boss started its formal training program on the Complaint Management Policy in December, to

⁵ Principle 4: Company affiliate ensures workers have access to functioning grievance mechanisms, which include multiple reporting channels of which at least one is confidential.

ensure all production employees receive and understand the formalized policy. FLA also interviewed the Compliance Officer during the HQ Assessment, to discuss his process in addressing grievances that come to the Compliance Department. The Compliance Officer also maintains a tracker for all inquiries and grievances submitted by Hugo Boss Staff.

At the Izmir facility, Hugo Boss worked to improve its grievance mechanism following the 2015 SCI Assessment as part of the FLA's investigation of the submitted [Third Party Complaint](#). Hugo Boss moved the location of its suggestion boxes to a more discrete location and included the grievance process as a part of the new hire orientation training. Additionally, Hugo Boss recognized the Teksif union shop stewards as representatives that employees could submit grievances to, despite the lack of a collective bargaining agreement in place with the union. The shop stewards and the other employee representatives are also included in the regular communications committee meetings with factory management. FLA reviewed minutes from the meetings of the communications committees at Hugo Boss Izmir, Morrovalle, and Radom facilities. Hugo Boss also includes high-level reporting on grievances in its annual [Sustainability Report](#), as part of the Global Reporting Initiative (GRI) Index.

Confidential Reporting Channel to Hugo Boss Headquarters

For contract facilities, as part of the audit process, Hugo Boss auditors provide contact information to interviewed workers on the Hugo Boss communication card; workers can submit grievances to a provided hotline via phone or text via email to Hugo Boss at vendor_sustainability@hugoboss.com. This channel has been utilized by workers; in one case, a worker submitted a complaint on delayed payment of wages. Hugo Boss investigated issue and found that the supplier required further support to be more financially stable. Hugo Boss provided further recommendations for the supplier to achieve financial stability; however, the supplier refused to take actions on these recommendations.



Hugo Boss production employees at the Metzingen production facility.

Because of the lack of financial stability and commitment to improve, Hugo Boss exited this supplier. FLA recommends Hugo Boss continue to ensure that workers have access to at least one confidential reporting channel, where grievance mechanisms are not functioning.

For owned and contract facilities, employees and workers can submit grievances through an online channel directly to an ombudsman. If an employee or worker submits a grievance through the ombudsman, the Compliance Officer is notified, and then the ombudsman and the Compliance Officer work to investigate and address the

complaint. The ombudsman's contact information is included in the company's intranet and on notice boards at the owned production facilities. FLA reviewed the intranet and notice board posting at Hugo Boss' Metzingen production facility. Due to data confidentiality, FLA did not review grievances submitted through the ombudsman; however, during the employee interviews at the production facility, all employees were aware of the ombudsman channel, but had not utilized it. For contract facilities, the ombudsman's contact information is also included in the Hugo Boss communication card.

Ensuring Training on Grievance Mechanisms for Workers & Hugo Boss Production Employees

For contract facilities, Hugo Boss reviews training materials on grievance mechanisms for workers during the audit process. However, in both Audit Field Observations, it was found that the factory did not have training records for grievance mechanisms. To address the lack of grievance mechanism training, one of the training modules from Hugo Boss' Awareness Social Responsibility & Chemical Management training focuses on functioning grievance mechanisms and worker training. FLA recommends that Hugo Boss continue to assess suppliers on the implementation of grievance mechanism trainings to ensure that the supplier training is effective.

For owned facilities, training on grievance mechanisms is included, under Freedom of Association, in the e-learning Code of Conduct and Social Standards training Hugo Boss employees are required to complete. Hugo Boss has provided formal training on the Complaint Management Policy for all employees throughout 2017 and 2018. Additionally, owned facilities will also complete the Awareness Social Responsibility & Chemical Management training program. At the Izmir facility, the mediation consultant conducted focused training on Freedom of Association as part of the remediation to the Third Party Complaint. Additionally, as reported in their SCI Assessment remediation updates, the Izmir facility provided training to all production employees on the Hugo Boss Code of Conduct and Social Standards.

PRINCIPLE 5: MONITORING⁶

Pre-Sourcing Factory Assessments

As part of the pre-sourcing process, a sourcing manager will review a benchmarking of sourcing needs, possible vendors, samples, and country risk profiles. Vendors are required to provide a profile that includes company data and social compliance certifications. The Vendor Information profile includes questions on the following topics: average production lead time, monthly capacity per style, Social Standards or Code of Conduct, social compliance certifications, and payment terms. Once this information is reviewed, a sourcing manager will visit the vendor and complete a supplier checklist to review basic health, safety, and environment (HSE) conditions, minimum wage payments, and social compliance certifications.

Once a supplier is approved to proceed from pre-sourcing, they will start to work with the Vendor Management Team to submit the factory profile, the self-assessment, and other required questionnaires. The self-assessment requires further information on employee statistics, responsible staff for implementing the Social Standards, information concerning environmental safety and product safety, and legal requirements. This information is then verified during the audit process. Prior to the audit, the supplier must sign the agreement to uphold the Social Standards and receives the Handbook on Social Standards for Suppliers.

The last step to the pre-sourcing assessment process is the supplier audit, which includes audits on the Social Standards, customs, and financial health. If a supplier receives at minimum an "Improvements Needed" rating, the Vendor Management Team approves the supplier in the system, and purchase orders can be placed with the supplier.

Assessing Factory Conditions

Hugo Boss' audit program includes all Tier 1 finished goods suppliers⁷, raw material suppliers, and non-production suppliers for procurement of packaging material and retail décor. Hugo Boss' audit methodology is articulated through its Auditor Guidelines, which review the Social Standards, clusters,

⁶ Principle 5: Company affiliate conducts workplace standards compliance monitoring.

⁷ For this accreditation, only Hugo Boss Tier 1 suppliers are in FLA scope.

and grading standards. The guidelines also include the Wage Data Collection Sheet Hugo Boss utilizes to review and verify wage data, as part of Hugo Boss' commitment to supporting the FLA's [Fair Compensation Work Plan](#). As mentioned earlier, Hugo Boss' audits are conducted by the Social Standards Team in Asia and by Systain Consulting in Europe. Each audit includes worker interviews, consultation with union and/or worker representatives, management interviews, document review, visual inspection, and occupational safety and health review.

FLA and the Social Standards Team discussed some of the new techniques they are testing during the audit process. They pilot these techniques to test better efficiencies for the factory to retain information from the closing meeting and implement in the remediation plans. Additionally, each audit provides the supplier with a final score, which allows Hugo Boss to track improvement in working conditions through the follow-up audit process. The score will determine if the rating is "Insufficient, Risky, Improvements Needed, Satisfying, or Good," which will then determine when the follow-up audit takes place. The follow-up audit will take place within 3 months for "Insufficient and Risky" suppliers; within 6 months for "Improvements Needed" suppliers; and within 12-18 months for "Satisfying and Good" suppliers.

FLA Observations of Hugo Boss Audits & Recommendations

In both Audit Field Observations in China and Bulgaria, FLA observed a comprehensive audit program and verified the implementation of the Auditor Guidelines. Hugo Boss also utilized the field observation process to improve its audit program. For example, in the China Audit Field Observation in 2016, FLA observed during the opening meeting with factory management that the auditors did not disclose the policy of nonretaliation to workers who are interviewed. To address this recommendation, the Social Standards Team developed an audio recording to ensure that all required talking points are disclosed during the opening meeting. Once the recording is played during the opening meeting, the Social Standards Team also asks the factory management questions from the recording to ensure that the factory management understood the content.

During the second Audit Field Observation in Bulgaria, FLA noted that the worker interviews were conducted at the end of the audit by Systain. While no issues were raised during the worker interviews for the auditor to further corroborate, the FLA discussed with Hugo Boss during the HQ Assessment that leaving worker interviews to the end of an audit puts the auditor at risk of not having enough time to corroborate potential issues raised by the workers before the closing meeting. Hugo Boss reviewed its Auditor Guidelines, to revise the agenda of the audit to address the recommendations from the FLA.

As part of the review of the Hugo Boss program following the HQ Assessment, FLA also recommended that Hugo Boss make it explicit in the Auditor Guidelines, if applicable, that the collective bargaining agreement be reviewed. While Hugo Boss disclosed that the collective bargaining agreement is reviewed in the first steps of the audit, especially when reviewing compensation, there was a lack of protocol in place to ensure there is a consistent practice. Hugo Boss is revising its Auditor Guidelines to specify the review of the collective bargaining agreement. FLA recommends that Hugo Boss continues to ensure that audits are conducted according to the revised Auditor Guidelines, through performance reviews and shadow audit observations.

PRINCIPLE 6: COLLECTION & MANAGEMENT OF COMPLIANCE INFORMATION⁸

Hugo Boss Data Management

⁸ Principle 6: Company affiliate collects, manages, and analyzes workplace standards compliance information.

Hugo Boss manages supplier data in two systems: the supplier platform, which manages the supplier agreements and supplier performance; and on a supplier master tracker, which includes various data points and audit CAP processes. The social data points collected by Hugo Boss include, but are not limited to, address and contact information, historic audit performance, possible root causes of noncompliances, previous labor disputes, accidents, incidents, and the presence of union or worker representative structures. Most of the data is collected through the supplier profile, and verified during the audit process.

Analyzing Social Compliance & Supporting Data

Hugo Boss uses its social rating system to closely track supplier performance; most data analysis focuses on benchmarking the percentages of suppliers in the Insufficient, Risky, Improvements Needed, Satisfying, or Good ratings. Hugo Boss' supplier tracker includes the rating and if the

04|01 VIOLATIONS OF SOCIAL STANDARDS¹ (active und potential finished goods suppliers)

	Risky	Insufficient	Total
Social compliance management	12	3	15
Child labor & young laborers	0	1	1
Forced labor	2	1	3
Worker treatment	1	0	1
Discrimination	0	0	0
Hours of work	4	4	8
Compensation and benefits	2	4	6
Health and safety	4	0	4
Freedom of association and collective bargaining	0	0	0
Supplier control	0	0	0
Total	25	13	38

¹ Listed violations refer to 210 conducted audits of finished goods suppliers.

Hugo Boss' table of risky and insufficient violations of its Social Standards, included in its 2016 Sustainability Report.

supplier's audit score increased, decreased, or stayed the same from the previous audit. In reviewing the 2016 analysis, FLA found that the majority of suppliers received a Good rating in November 2016. Hugo Boss breaks down the ratings by product category, such as accessories, bodywear, men's clothing, women's clothing, jeans & leisure trousers, etc.

Hugo Boss also reviews the risky and insufficient violations trends by Social

Standard in its [annual Sustainability Report](#). From this analysis, Hugo Boss has the most risky or insufficient violations under its social compliance management standard, which includes employment relationship standards like compliance with national laws, employee training, documented policies and procedures, and compliance with Hugo Boss' audit process. FLA identified Hugo Boss' comprehensive data management systems as a strength of the program, especially the tracking of improvement of supplier performance.

PRINCIPLE 7: TIMELY & PREVENTATIVE REMEDIATION⁹

Ensuring Remediation at the Factory-Level

As part of the closing meeting of the audit, the factory management and the auditor agree to a corrective action plan (CAP). Within 14 days of the audit, Hugo Boss provides the supplier with the agreed upon CAP from the closing meeting; the supplier then provides a written reaction to the CAP. The Product Division staff is responsible for tracking and monitoring all CAPs. Each Product Division, from Jersey, Outerwear & Jackets, Jeans & Leisure Trousers, Knitwear, Shirts, etc., has designated staff who are in regular communications with the supplier, are responsible for the communication of the CAP, and reminders for remediation updates. FLA noted the involvement of the Product Division staff in the remediation process as a strength to Hugo Boss' Vendor Sustainability program. In Asia,

⁹ Principle 7: Company affiliate works with suppliers to remediate in a timely and preventative manner.



Hugo Boss' Team Leader, Vendor Sustainability and FLA's Program Manager, Business Accountability in discussion during the HQ Assessment for Hugo Boss.

the Social Standards Team provide guidance to management on the CAP and, when allowed, record the closing meeting so that the supplier can have an audio recording of the guidance provided by the Social Standards Team

Root Cause Analysis

Hugo Boss utilizes root cause analysis throughout its audit process, especially in the case of zero tolerance findings, such as monetary fines for workers, pregnancy testing, unreliable time keeping records, lack of overtime payment, etc. FLA interviewed the Social Standards Team to understand their process for conducting root cause analysis, which uses a variety of methodologies, depending on the

nature of the finding. In reviewing Hugo Boss audit reports, FLA found that the root causes were integrated throughout the findings and CAP. FLA recommended that Hugo Boss separate the root causes, so that the root causes are clearer to factory management. The implementation of this recommendation was verified through the FLA's review of Hugo Boss' 2016 Self-Assessment, in reviewing supplier CAPs. Hugo Boss also included further guidance on root cause analysis in its Auditor Guidelines and has provided examples of root causes for auditors to follow.

Effective Remediation

As mentioned in Principle 5, Hugo Boss conducts follow-up audits based on the supplier's rating from the previous audit, to verify remediation. FLA's audit field observation in China was of a follow-up audit, in which FLA verified that the auditors reviewed the findings from the former audit to benchmark the progress of remediation on violations concerning hours of work and overtime, grievance mechanisms, paid leave, termination, and training. As mentioned in Principle 6, Hugo Boss' focus in the data analysis is to benchmark the improvement of the conditions at the supplier, based on the audit score and rating from the follow-up audit process.

FLA has also reviewed how Hugo Boss has provided remediation updates through the SCI Assessment process. Specifically, in the case of the SCI Assessment of the Izmir facility, while Hugo Boss did not agree to all remediation recommendations from the FLA, Hugo Boss has provided remediation updates to the findings, including updates on the freedom of association training programs for workers, supervisors, and managers; updating the Material Safety Data Sheets (MSDS); addressing uneven ground on the factory floor; etc. In SCI Assessments of contract facilities, Hugo Boss has worked with its suppliers to implement daily overtime control systems; provide workplace standards to workers during new hire orientation; revise policies and procedures on a worker representative committee to comply local laws; and conduct fire safety risk assessments. Further information on remediation actions at Hugo Boss facilities assessed by the FLA can be found on the [FLA website](#).

In January 2018, the Guardian and Humanity United published an [article](#) on their interviews with workers from spinning mills in Tamil Nadu, India, which was triggered by Hugo Boss disclosing a freedom of movement violation in their [2016 Sustainability Report](#) from a Tier 1 factory in India. From auditing this factory, Hugo Boss found through worker interviews that female workers who lived in the dormitory were not allowed to leave the dormitory during evening hours and weekends. Hugo Boss

reported to the Guardian that since the issues were found, Hugo Boss has been working with the factory and its parent company, to improve the freedom of movement for the women working at the factory. Following the article, FLA conducted further due diligence on the remediation of the freedom of movement violation. Hugo Boss reported to the FLA that they collaborated with another FLA Participating Company (PC) to address this violation with the factory and the parent company, with the other FLA PC conducting the follow-up audit in November 2017. Prior to Hugo Boss identifying this violation, the factory had a strict policy for female workers who lived in the dormitory, since the parents of female workers were concerned about their daughters' safety when leaving the factory. The factory since revised the policy, so that if parents of the workers were concerned about the workers' safety, the factory requested that the parents appoint a guardian and/or factory manager to leave with the worker. Otherwise, the female worker is allowed to leave the dormitory, so long as they sign out with the security guard when leaving the dormitory. Hugo Boss will conduct their own follow-up audit in the first half of 2018, and has required the parent company of the supplier to engage with the German Partnership for Sustainable Textiles' Tamil Nadu Alliance, which is further discussed under Principle 9. Additionally, as part of remediation, Hugo Boss ensured that the parent company and the factory participate in the Ethical Trading Initiative's (ETI) Tamil Nadu Peer Group Programme, a training and capacity building program that focuses on worker empowerment and representation.

In addition to reviewing the freedom of movement violation at this factory, FLA was concerned about the risk of [Sumangali Schemes](#), which was raised in the article from spinning mill workers who were interviewed by the Guardian. These issues were already high priority for Hugo Boss, and they have participated in an initiative since May 2017. FLA conducted further due diligence to ensure there was not a high-risk of a Sumangali Scheme at the Tier 1 factory Hugo Boss found the freedom of movement violation by reviewing further information from Hugo Boss about the findings from the audit report and demographics of the female workers. Additionally, Hugo Boss reported to the FLA that the spinning mills identified by the Guardian did not provide yarn for Hugo Boss products. Hugo Boss has committed to address these labor violations with local government officials and other stakeholders, in the collaborative engagement with the German Partnership for Sustainable Textiles' Tamil Nadu Alliance further discussed in Principle 9. FLA recommends Hugo Boss continue to work collaboratively with its suppliers to ensure remediation of freedom of movement violations, and to engage with stakeholders and civil society to address systemic issues in the supply chain.

PRINCIPLE 8: RESPONSIBLE PURCHASING PRACTICES¹⁰

Hugo Boss' Procurement Policy & Responsible Procurement Practices

Hugo Boss' Procurement Policy holds departments accountable for implementing various procedures to uphold the policy. The policy is applicable to finished goods, fabrics, trims, and non-production materials and services like retail shopping bags and marketing services. The policy discusses financial stability, complexities to procurement, the minimum standard of suppliers complying with applicable laws and the Hugo Boss Code of Conduct, and supplier evaluations. Since this policy is a broad procurement policy, Hugo Boss' Product Divisions have developed processes to uphold responsible procurement practices within its supply chain. Hugo Boss' procurement practices will differ, depending on whether the supplier is a freight-on-board (FOB) supplier or a cut, make, trim or thread (CMT) supplier¹¹.

- **FOB Suppliers:** Suppliers are responsible for the production of ready-to-wear garments, including the purchasing and shipment of materials. For FOB suppliers, Hugo Boss nominates

¹⁰ Principle 8: Company affiliate aligns planning and purchasing practices with commitment to workplace standards.

¹¹ Internally, Hugo Boss refers to FOB suppliers as merchandising suppliers; and CMT suppliers are referred to as subcontractors. To clarify, there is a direct relationship between Hugo Boss and their subcontractors (CMT suppliers).

material suppliers for the FOB supplier to purchase from to maintain the quality of materials. If a supplier orders an excess of materials based on the agreed forecasts, Hugo Boss purchases back the materials so that the supplier does not bear the excess costs; this practice also mitigates counterfeiting. For lead time and planning, FOB Suppliers develop and provide to Hugo Boss the Critical Path Schedule that outlines all the steps towards from development, purchase order placement, and shipment date. General planning is done a year in advance of the purchase order placement, while the Critical Path Schedule is done 6 months in advance.

- CMT Suppliers: These suppliers cut, sew, and pack the final product and all are based in Europe. Hugo Boss is responsible for the procurement of raw materials and the freight of these materials to the CMT suppliers. Hugo Boss utilizes this sourcing model to have more control over the quality and purchasing of raw materials for its tailored and bespoke products; suits and other product groups are produced by CMT suppliers. Hugo Boss' owned facilities are CMT suppliers, and about half of the 40% of the CMT production volume comes from Hugo Boss' owned production facilities. For materials procurement, Hugo Boss will place a risk buy on the materials, so that materials can be produced and shipped in time for the CMT supplier to complete the production on time. For purchase order placement, orders are placed on a weekly basis, based on the progress and completion of the units of product. This weekly planning schedule is acceptable because Hugo Boss is responsible for the material procurement and delivery; if there is a delay in delivery of materials, Hugo Boss adjusts the orders to mitigate the impact on suppliers. CMT Suppliers are notified six months in advance if orders are increased, so that they can try to increase capacity, if needed. Planning begins one year in advance of the purchase order placement, and forecasts are adjusted as the purchase order placement gets closer.



The runway show projected at the Hugo Boss' Headquarters.

As part of the financial terms and to uphold Hugo Boss Social Standards in Compensation, all suppliers have a wage clause in their contract which stipulates that they are responsible for maintaining trained workers at a high-quality standard and to do so, they need to pay workers premium wages. Hugo Boss verifies the premium wages through wage data collection during the audit process. FLA recognizes Hugo Boss' financial terms on the wage clause and the financial responsibility Hugo Boss owns on material procurement for FOB and CMT suppliers as strengths of Hugo Boss' purchasing practices.

Training Relevant Business Staff on Responsible Procurement Practices

As mentioned in Principle 7, Hugo Boss' Product Division staff is integrated in the remediation follow-up processes with the suppliers. As a result of this integration, the Product & Vendor Sustainability Team and the Production Division staff work closely to discuss purchasing issues that are applicable to social compliance issues. FLA interviewed various Product Division staff throughout the HQ Assessment, who demonstrated a comprehensive understanding of the impact of their procurement

practices on suppliers. Additionally, FLA verified through supplier interviews during the audit field

observation and SCI Assessments that Hugo Boss is a reliable and reasonable buyer, and is often flexible on deliveries if a supplier is over production capacity. To ensure the Product Division staff receive formal training, the Product & Vendor Sustainability Team has developed a training program on Responsible Procurement Practices; the training will be completed by the end of January 2018. FLA recommends that Hugo Boss ensure that the training on Responsible Procurement Practices is effective for the Product Division staff.

Holding the Product Division Staff Accountable to Procure Responsibly

For day-to-day accountability, suppliers and Hugo Boss review the Critical Path schedule to ensure that deadlines are met to ship products on time. Both Hugo Boss and the supplier are responsible for maintaining the deadlines negotiated in the critical path schedule; FLA reviewed examples of the Critical Path schedules developed between the supplier and Hugo Boss. Specifically, for CMT suppliers, Hugo Boss is responsible for the ordering of materials and planning for the freight of materials to ensure that the materials are delivered to the supplier on time. On an annual basis, Product Division staff go through a performance review process that includes upholding their responsibilities in planning, placing purchase orders on time, and utilizing approved Tier 1 and raw material suppliers. FLA recommends that Hugo Boss continues to improve the accountability mechanisms to ensure that staff are implementing responsible procurement practices, including reviewing overtime or retrenchment issues at the factory, forecast accuracy, and calendar adherence.

Dialogues with Relevant Business Staff & Suppliers to Implement Responsible Purchasing Practices

The Vendor & Product Sustainability Team, the Social Standards Team, and the Production Divisions have regular discussions to address production and compliance issues. The Hugo Boss procurement staff works with suppliers to provide orders based on the factory's capacity and holidays. If Hugo Boss finds that a supplier is planning its production based on a 60-hour work week schedule, they work with the supplier to improve their planning practices, knowing that a 60-hour work week planning leads to excessive overtime. As mentioned in Principle 8, the critical path schedule also allows the supplier to provide the appropriate deadlines to complete the purchase orders.

As mentioned earlier, FLA has received positive feedback from suppliers on Hugo Boss' procurement practices. For example, during the 2017 Audit Field Observation in Bulgaria, the footwear supplier confirmed that Hugo Boss' production planning is based on a 40-hour work week, and there is long-term planning for the major seasons (winter and summer). Lead times are determined collaboratively with factory management and range from two weeks to two months, depending on the product. Hugo Boss also provides extensions on delivery dates if there are production issues, without any monetary penalty. The supplier also stated that there is very limited overtime work, and working hours do not fluctuate during peak seasons.

FLA recognizes that the responsible practices disclosed by the interviewed supplier may not be consistently implemented throughout Hugo Boss' Tier 1 supply chain as evinced by excessive hours of work findings in several SCI assessments conducted by FLA and recommends that Hugo Boss implement a formal and comprehensive mechanism to collect feedback from all suppliers. This mechanism would allow Hugo Boss to verify if responsible procurement practices are being consistently implemented throughout their Tier 1 supply chain.

Evaluating & Incentivizing Suppliers to Improve Conditions for Workers

As mentioned in Principle 5, all suppliers, including owned facilities, receive a score and rating from the social compliance audit. Suppliers are rated on a bi-annual basis, and this score contributes to an overall supplier scorecard that includes ratings on Cost (20%), Quality (30%), Service & Delivery (30%), and Sustainability (20%). The rating procedures articulate that criteria have been established

to systematically assess the suppliers on each category. FLA reviewed examples of the supplier ratings and scorecards.

Hugo Boss' social compliance audit rating criteria incentivizes suppliers to achieve a higher rating so that they receive less frequent follow-up audits, as explained in Principle 5. Additionally, Hugo Boss highlights supplier best practices during the annual Vendor Day. FLA reviewed the presentation of a supplier presentation that was recognized for their Wonders of Well-being program, that focuses on a happy, healthy, wealthy, and productive workforce. Anecdotally, FLA verified that Hugo Boss has some suppliers who have performed well in the supplier scorecard and have received increased orders; however, this practice is not consistently implemented. FLA recognizes the efforts made to incentivize suppliers to achieve best practices in social compliance and recommends that Hugo Boss formalize its supplier incentives based on the supplier scorecard and communicate these incentives to its suppliers.

PRINCIPLE 9: CONSULTING WITH CIVIL SOCIETY¹²

Civil Society Engagement Strategy & Materiality Analysis

Hugo Boss has developed a strategy on civil society engagement which is informed by Hugo Boss' materiality analysis. Hugo Boss holds an annual Stakeholder Dialogue, in which one of the topics is to discuss the materiality analysis and how it informs engagement with various nonprofits and civil society organizations and through other engagements. The materiality analysis shows the topics that Hugo Boss and its stakeholders are concerned about, such as sustainability integration into the corporate structure, human rights and labor standards in the value chain, stakeholder dialogue, biodiversity and animal welfare, etc. The analysis is partially informed by anonymous surveys sent to relevant internal and external stakeholders, including civil society organizations. The analysis shows that the integration of sustainability into the corporate structure and human rights and labor violations in the value chain were rated as the highest importance issues, according to stakeholders and Hugo Boss. Hugo Boss continues to make progress in mapping out the civil society organizations in their supply chain. Most of these organizations are invited to Hugo Boss' Stakeholder Dialogues. FLA recommends that Hugo Boss make progress in identifying local civil society organizations that operate in high-risk and high-production countries such as China and India.

Engaging Civil Society on Local Labor Issues

As mentioned under Principle 7, in regards to freedom of movement violations in a factory in Tamil Nadu, India, Hugo Boss is participating with the German Partnership for Sustainable Textiles (Bündnis für nachhaltige Textilien), a German association for apparel businesses focused on sustainability issues in the textile supply chain. Within this partnership, the Tamil Nadu Alliance has formed to address restriction of movement issues and the Sumangali Scheme prevalent in the textile supply chain in Tamil Nadu. In September 2017, Hugo Boss attended a meeting of the Tamil Nadu Alliance, which included participants from the Tamil Nadu government, the trade associations representing the handloom exports and spinning mills industries, representatives from various spinning mills and factories, trade unions, the Fair Wear Foundation, SAVE, and other organizations. Additionally, the FLA, Hugo Boss, and Cividep India's General Secretary, discussed the systemic issues in Tamil Nadu; the importance of transparency on the actions companies are taking to address these issues; and how the industry can ensure that progress is made to improve the conditions for female textile workers in Tamil Nadu. FLA recommends Hugo Boss continue to engage with civil society to address systemic issues in India to make a positive impact on workers in India.

¹² Principle 9: Company affiliate identifies, researches and engages with relevant labor non-governmental organizations, trade unions and other civil society institutions

Hugo Boss has engaged with civil society organizations, charitable organizations, and trade unions to develop capacity building projects and remediate systemic noncompliances. In Bangladesh, Hugo Boss is a signatory of the [Bangladesh Fire Safety Accord](#), and committed to continue to engage with the Accord as it transitions in 2018. Additionally, Hugo Boss works with UNICEF on a capacity building program to improve workers' quality of life and education. In Turkey, Hugo Boss also engages with its employees to support them and their families at the Izmir facility. Here, the HUGO BOSS Education Association Program provides scholarships to the family members of Hugo Boss employees to pursue further education. In Germany, Hugo Boss works with UsTogether to implement employment programs for refugees at its production facility and headquarter. Hugo Boss also engages with the local union in Turkey, Teksif, and the global union, IndustriALL, on freedom of association issues, as discussed later in this Principle. FLA recognizes Hugo Boss' engagement in Bangladesh, Germany, India, and Turkey; and recommends that Hugo Boss continue to engage with civil society organizations to address systemic labor violations in their supply chain.

Engaging Civil Society on the Design & Implementation of Workplace Standards Strategies

Hugo Boss holds its annual Stakeholder Dialogue Roundtable, also known as "[Bad Urach Dialogue](#)," to formally discuss strategic sustainability initiatives with stakeholders and civil society organizations. FLA staff has participated in both the 2016 and 2017 roundtables. Hugo Boss provides a summary of these roundtables on its website. From the 2016 roundtable, the topic of transparency was discussed, which supported Hugo Boss publishing its supplier list in 2017. Organizations like [Fashion for Good](#), the German Chamber of Commerce, Gesellschaft für international Zusammenarbeit (GIZ), Femnet, and PETA attended the 2017 roundtable.

In 2015, the [Clean Clothes Campaign](#) targeted Hugo Boss on living wage issues and freedom of association violations at its Izmir facility. Hugo Boss worked to address these allegations through more closely analyzing its compensation data and engaged with the Clean Clothes Campaign on the living wage issues. In 2017, Hugo Boss' Head of Vendor & Product Sustainability was invited to participate on a panel at Clean Clothes Campaign's FairAcademy with the Asia Floor Wage Association to discuss Hugo Boss' work towards fair compensation. FLA recognizes Hugo Boss' engagement with civil society and encourages the company to continue to engage with civil society to improve their Product & Vendor Sustainability Program.

Unions & Worker Representative Structures

As a general practice, Hugo Boss regularly engages with unions and/or worker representatives through their factory audits, where unions or worker representatives are interviewed and are invited to the opening and closing meetings of the audit. FLA recognizes that while improvements to freedom of association and industrial relations can be made at Hugo Boss contract and owned facilities, Hugo Boss has shown its commitment to remedy freedom of association violations as they are raised to the FLA. FLA recommends that Hugo Boss continue to engage with union and worker representative structures and support the improvement of industrial relations between factory management and unions.

At Hugo Boss' owned facility in Izmir, Turkey, the FLA conducted a comprehensive SCI Assessment and found, among other findings, freedom of association practices that required improvement. To remediate the freedom of association violations, Hugo Boss hired a mediator to provide training to Izmir staff on improving industrial relations. Additionally, this mediator established regular communication between Hugo Boss' Vice President of HR and Teksif Union's President, this dialogue culminated in 2017 in Teksif and Hugo Boss signing a joint declaration to uphold freedom of association. FLA reviewed minutes from some of the meetings between Hugo Boss and Teksif and interviewed the mediator, who discussed the various steps Hugo Boss and Teksif have taken to

establish regular dialogues. In December 2017, FLA was notified by Teksif of concerns related to the termination of a union leader at Izmir. At the request of management, the mediator conducted an investigation into the termination, and facilitated a dialogue between Teksif and Hugo Boss to come to resolution through social dialogue and the legal process. Hugo Boss and the mediator are also working to address the union competition between the multiple unions at the Izmir facility. In January 2018, Hugo Boss expanded the joint declaration to uphold freedom of association to include all four unions in Izmir. (Teksif, Öz iplik iş, DISK Tekstil, and Deriteks) FLA recognizes that social dialogue can be challenging; and encourages Hugo Boss to maintain dialogue with the union to uphold its commitment to freedom of association.

Hugo Boss has also actively participated in two other Third Party Complaints at contract facilities Aydinli Deri Konfekslyon San. ve Tic. S.A. (Turkey) and Topy Top S.A. (Peru). At [Aydinli Deri](#), Hugo Boss worked with factory management to issue a joint statement with the Deriteks union that it respects the workers' right to freedom of association and to conduct freedom of association training for managers and workers. At [Topy Top](#) in Peru, FLA received a complaint from the Sindicato de Trabajadores Obreros de Topy Top S.A. (SINTOTTSA) in 2017, alleging violations of freedom of association and anti-union discrimination. At the heart of the complaint was Peruvian law that allows the renewal of temporary contracts and, through this mechanism, discourage workers from exercising their associational rights. An independent consultant engaged by Hugo Boss conducted an investigation and came to several conclusions, including that Topy Top's act of not implementing a recent decision by Peruvian authorities to regularize the work contracts of some workers fell short of best practices in corporate social responsibility. Hugo Boss worked with the independent consultant and Topy Top to develop a remediation plan to improve industrial relations between the factory management and SINTOTTSA. Hugo Boss has supported the engaging a mediator in an effort to improve the labor-management atmosphere relationship at the factory. Lastly, Hugo Boss has also been named in a Third Party Complaint regarding the factory [Akin Corap](#) (Turkey) that was submitted in November 2017. Hugo Boss is a de minimis buyer from this facility; the FLA is seeking to involve other buyers in the potential remediation of allegations of violations of freedom of association.

PRINCIPLE 10: VERIFICATION REQUIREMENTS¹³

Hugo Boss has maintained its affiliation in good-standing with the FLA, being responsive to all requests from the FLA regarding the annual self-assessment, field observations, SCI Assessments, CAPs, remediation updates, and Third Party Complaints. Hugo Boss also has procedures to maintain its FLA affiliation and to articulate these FLA processes. Hugo Boss has maintained an accurate factory list with the FLA and has not experienced an aborted SCI Assessment or monetary penalty for an inaccurate factory list.

Hugo Boss' Head of Product & Vendor Sustainability has attended some FLA Board of Director Meetings throughout its affiliation and the Europe Meeting in 2015. Following the FLA's approval of the Fair Compensation Work Plan in 2015, Hugo Boss worked closely with the FLA's former Vice President of Accountability on compensation data collection. In 2017, a staff member from Hugo Boss began to participate in the Practitioners Working Group for Fair Compensation; however, this staff member has since left the company. Once Hugo Boss fills the position, Hugo Boss has expressed commitment to further participation in the Practitioner's Working Group. FLA recommends that Hugo Boss continue to contribute to the FLA's mission to improve workers' lives by engaging with various FLA working groups, the Monitoring Committee, and Board of Directors.

¹³ Principle 10: Company affiliate meets FLA verification and program requirements.

SECTION 4: CONCLUSION AND RECOMMENDATION TO THE BOARD OF DIRECTORS

This review of Hugo Boss' labor compliance program is intended to help inform the decision of the FLA Board of Directors on whether to accredit the company's program.

The FLA staff conclusion is that since affiliation as a PC, Hugo Boss has increasingly developed a labor compliance program that, on balance, aligns with FLA standards, benchmarks, and protocols. Accreditation is a measure of the capacity of a company's labor compliance program to ensure respectful and ethical treatment of workers. The FLA recognizes that no labor compliance program is perfect; the notion of continuous improvement means that there will be instances when a specific principle or benchmark is not met, yet such occurrence does not call into question the integrity of an affiliate's entire program. FLA will continue to provide programmatic recommendations to further an affiliate's labor compliance efforts in support of FLA's mission to protect workers' rights and ensure decent working conditions. FLA staff recommends to the FLA Board of Directors the accreditation of Hugo Boss's labor compliance program.

The assessment identified certain areas in which Hugo Boss' labor compliance program has been strong and also areas with respect to which improvements are possible.

Strengths of Hugo Boss' labor compliance program include:

- 1) Top management commitment, engagement, and involvement in the improvements of the Sustainability Program;
- 2) Comprehensive audit methodology and auditor guidance to assess supplier working conditions;
- 3) Data management and tracking to benchmark improvement in supplier performance, including the collection of compensation data;
- 4) Integration of the Product Division staff in the remediation process;
- 5) Review of compensation data to ensure workers are being paid a premium rate as part of Hugo Boss' Responsible Procurement Practices; and
- 6) The annual Stakeholder Dialogue Roundtable for civil society to engage with the Sustainability Program and Hugo Boss Top Management.

Suggestions for strengthening Hugo Boss' labor compliance program include:

- 1) Continue to complete the supplier training program and benchmark improvement of supplier performance;
- 2) Continue to ensure suppliers provide workplace standards training to workers;
- 3) Further develop guidance to auditors on conducting root cause analysis;
- 4) Continue to work with suppliers in addressing and remediating labor violations in their supply chain, specifically freedom of association violations, and continue to engage in ongoing dialogue with unions and other worker representative structures;
- 5) Ensure formal training on responsible procurement practices for Product Division staff is effective; and
- 6) Continue to engage with civil society to address systemic labor violations and issues in the supply chain, specifically on restriction of movement in India.

APPENDIX A: THE HUGO BOSS SOCIAL STANDARDS

HUGO BOSS Social Standards

1. Introduction

The Social Standards specify the fundamental rights for the employees of HUGO BOSS suppliers and contain basic environmental standards. The Social Standards shall as well apply for all HUGO BOSS employees.

The Social Standards are based on the Core Conventions of the International Labor Organization (ILO) as well as the United Nations Universal Declaration of Human Rights. It is imperative that all suppliers adhere to these standards. HUGO BOSS reserves the right to amend the Social Standards whenever necessary.

The requirements and obligations (Standards) set forth in the Social Standards apply to all employees of the supplier whether they are directly, indirectly, permanent or so called homeworkers.

The supplier is obliged to duly inform the employees about their rights and duties within the workplace according to the HUGO BOSS Social Standards and international and national laws. The supplier will make sure to appoint a company representative being in charge of implementing the Social Standards. The designated person's name will be submitted to HUGO BOSS.

The supplier must document, in a reasonable manner, the activities he undertakes in order to comply with these Social Standards.

2. Enforcement of Social Standards at Subcontractors' Locations

Furthermore, the supplier is obliged to advise his subcontractors and sub suppliers on their obligation to comply with the HUGO BOSS Social Standards and to monitor and enforce in an appropriate manner compliance with the HUGO BOSS Social Standards. In particular, the supplier will agree on a suitable arrangement with its subcontractors and sub suppliers which allows HUGO BOSS the right to conduct audits in accordance with these Social Standards.

3. Guidelines

3.1 Compliance with National Laws and the Social Standards

In addition to compliance with these Social Standards, the supplier is obliged to act only in ethical manner and to comply with international conventions as well as with all applicable local and national laws, especially with the national labor and social welfare legislation relevant at each of his production locations.

Furthermore, the supplier must not tolerate, permit or engage in bribery, kickbacks or other forms of corruption. The supplier will not directly or indirectly pay, offer, give, promise or authorize payment of anything of value to another party or any HUGO BOSS employee in exchange for acting improperly in relation to a decision, function or activity connected with his business relationship with HUGO BOSS. A person acts improperly where he or she does not act in good faith or performs a function in a manner other than that legally allowed.

In addition, these Social Standards set the minimum standard to be applied. In the event that the goals of national legislation coincide with those embodied in these Social Standards, the provision that provides the greatest protection for employees will prevail.

3.2 Child Labor

The supplier will under no circumstance employ any children. The minimum age for the commencement of employment is 15 years; however, no person may commence employment before he or she has reached the age at which school attendance ceases to be compulsory. In addition, the supplier must ensure that employees under the age of 18 do not perform work that is dangerous, in particular work which would interfere with their education and training or their health or their physical, mental, intellectual, moral or social development.

3.3 Forced Labor

No person may be employed or compelled to work against his or her will. In particular, suppliers may in no way use forced laborers, indentured servants, slaves or prisoners. Employees may not be restricted in their freedom of movement either during or after working hours.

Employees may only be required to deposit personal documents with the supplier that the law requires to be deposited in order to establish and maintain an employment relationship. Suppliers may not require their employees to furnish a "security deposit". Nor may they retain employees' identification papers. Employees must be able to terminate their employment relationship at any time by giving due notice.

3.4 Humane Working Conditions

The supplier must respect the personal dignity, privacy and rights of personality of each individual. All forms of physical, psychological, sexual or verbal harassment, physical abuse as well as every form of intimidation or exploitation are prohibited. Disciplinary measures must comply with national labor law and internationally accepted standards of human rights.

3.5 Prohibition of Discrimination

All employees must receive equal treatment and opportunities regardless of their race, color, gender, age, social, ethnic or national origin, faith, affiliation with employee organizations (including trade unions), political opinions, sexual orientation, marital status or any personal disability, being pregnant, or any other personal characteristics. The principle of equal treatment shall apply in particular to the hiring process, discipline, retirement and termination of employees, the payment of salaries and company pensions as well as in relation to promotions.

3.6 Maximum Working Hours and Minimum Annual Leave

Suppliers must comply with the relevant national legislation governing working hours. In the event that national law contains no such provisions or is less stringent than the relevant provisions of the ILO Core Conventions, the normal working week will be limited to 48 hours. The working week (including voluntary overtime) may not exceed 60 hours. Employers are prohibited from ordering employees to regularly work overtime. Overtime is only permissible if the employee voluntarily consents thereto or where it is permitted by a relevant collective bargaining agreement.

Employees must be allowed to have one day off (24 hours) after six consecutive working days. In addition, every employee is entitled to the minimum statutory leave entitlement.

3.7 Compensation

The supplier must compensate his employees for their services either in cash or in kind at the discretion of the employee. Every employee has a right to compensation for a regular work week that is sufficient to meet the employees' basic needs and to provide some discretionary income. Employers shall pay at least the minimum wage or the appropriate prevailing wage, whichever is higher, comply with all legal requirements on wages, and provide any fringe benefits required by law or contract. Where these requirements are not fulfilled, the supplier shall cooperate with HUGO BOSS to realize a level of adequate compensation that does. Salaries and wages must be paid out at least once a month. Employees have to receive the contracts in writing and sign them prior to the commencement of the employment relationship. Compensation has to be an integral part of the employment contract. Information regarding pay slips must be given to employees in writing.

All overtime work shall be compensated at a premium rate. Where applicable statutory requirements or collective bargaining agreements shall apply. Where statutory law allows for employees to be compensated for overtime work with time off, this arrangement must be done with the employee's consent.

Supplier must not use monetary fines, penalties, or deductions from employees' wages as a way to maintain labor discipline. Deductions must be limited to those allowed by local law. Measures must be transparent, documented, and have the consent of the employee.

3.8 Health and Safety

The supplier is responsible for the health and safety of his employees at work. He must provide them with a safe and hygienic working environment and take the most effective measures possible to prevent accidents and occupational diseases. In particular, the supplier has to conduct regular health and safety training for all employees.

The main areas of attention will be fire, building, machinery, and chemical safety. Emergency routes and safety exits must be clearly marked, well-lit and free from obstructions. Evacuation plans must be prepared and the supplier must conduct evacuation exercises for employees on a regular basis as prescribed by applicable local law, however, at least once a year. Fire-fighting equipment must be available and personal protection equipment must be provided for machineries and handling of hazardous substances. All taken measures must be properly documented by the supplier.

The supplier has to appoint a senior management representative responsible for compliance with these health and safety provisions.

The preceding provisions also apply to recreational areas and accommodation for employees if the supplier makes such facilities available.

3.9 Freedom of Association and Collective Bargaining

The employees shall have the right to establish or join the organizations of their choice and, as a group, to conduct negotiations on working conditions, in particular wages, and bargain freely. The supplier must not discriminate, harass, intimidate, or retaliate against employees who are exercising this right to associate freely or bargain freely and collectively.

In any case a system of grievance will be in place for the employees.

3.10 Environmental Protection

The supplier must comply with all environmental rules and regulations that apply in the country of production. In particular, the procedures and standards applied in the disposal of waste, the handling and disposal of chemicals and other hazardous substances as well as in the handling

of emissions and waste water must at least comply with the minimum statutory requirements. The supplier is required to continuously work on reducing and avoiding environmental pollution, and to ensure that he uses natural resources as efficiently as possible.