



Risk Report | 2021

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This is the second annual report of New Frontier GmbH. After publishing a *Sustainability Report* in 2020, we are now following up with a *Risk Report* for 2021. Why a *Risk Report* and not another *Sustainability Report*?

We understand sustainability to be a comprehensive principle that includes respecting human rights as well as the environment and climate. The production of consumer goods for the mass market, and specific to our case, the production of apparel, can only be considered sustainable in a very limited way. As such we will no longer use the term *Sustainability* as a title for our annual reports in the future.

Sustainability remains a goal that we are working towards, and we will continue to make our efforts transparent in our annual reports. In our first annual report, we provided an overview of our due diligence efforts, with specific focus of the auditing of our production facilities, without having explained why these are necessary. We are now closing this gap in this *Risk Report*.

Unless otherwise specified all information in this report refers to the calendar year 2021.

1 What Risks?

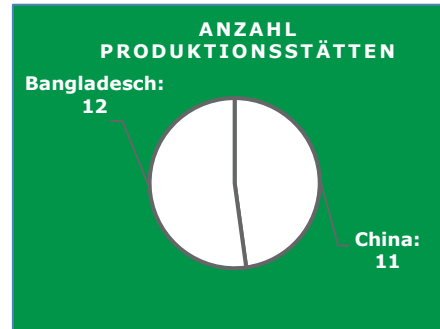
In the business environment there are many types of risks, usually involving the loss of goods, money, or both. The commercial activities of every company are designed to minimize these risks. In this report, the word risk does not refer to these commercial risks, rather in this context it always refers to the potential violation of human rights and a potential danger to the environment.

Human rights risks often relate to working conditions, labour rights and respect for human dignity. Environmental risks mainly relate to the exploitation of resources and environmental pollution. The extraction of raw materials and the production of goods often causes environmental damage. The production and transportation of goods over long distances contributes to the emission of greenhouse gasses, which drives climate change.

Addressing these risks requires a comprehensive and coordinated effort by governments, companies, non-governmental organizations as well as civil society. Companies have a responsibility to carefully select their suppliers and take measures to minimize both environmental and human rights risks. This includes a contractual obligation for minimum standards for working conditions and environmental requirements. As such the verification of compliance should be upheld through suitable tools, such as social and environmental audits or external complaints mechanisms. If necessary, compensation must also be made.

2 Identification, Evaluation and Mitigation of Risks

Identifying and assessing potential risks is the first step in determining and implementing suitable measures to ensure a responsible supply chain. As a longtime *amfori* member and through our practical experience in Asia, we are fundamentally aware of the potential risks. This is supplemented by our continuous review of annual publications by various organizations



such as Transparency International, but also by standard works such as the *OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector*. We have identified the following risks for our production sites in both China and Bangladesh:

Risk	China	Bangladesh
• Child Labour		X
• Forced Labour	X	
• Safety at work	X	X
○ Building safety		X
• Discrimination and harassment in the workplace	X	X
• Bribery and corruption	X	X
• Compliance with minimum wage	X	X
• Correct and timely payment of wages	X	X
• Excessive overtime	X	X
• Environmental pollution from chemicals	X	X
• Payment of a living wage	(X)	X
• Freedom of association	X	X

The different effects of the respective risks require a specific approach and a coordinated response. To make this response effective, we have categorized them according to the risks according to the severity of the consequences for those affected by the environment, as well as the possibility of redress. All risks have been divided into four categories.

- Critical Risks
- Severe Risks
- Systemic risks – with possible actions
- Systemic risks – without possible actions

2.1 Critical Risks

Critical risks have considerable consequences for those affected. It takes great effort and resources to remediate them, and some cannot be remediated at all. We consider all forms of child labour, forced labour and risk of life and limb to be critical.

In the *amfori BCSI* system, these critical risks are classified under *Zero Tolerance*. These are processed according to defined protocols



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under the leadership of the *amfori* secretariat in Brussels, with the support / involvement of all amfori members connected to the concerned factory. The aim is to achieve remediation and compensation for those affected. In its annual report for 2021, *amfori* reports that there was a total of 52 zero tolerance cases in 32.436 *BSCI* audits conducted worldwide. Every single production site we work with is integrated into the amfori *BSCI* system and is regularly audited by independent certification bodies.

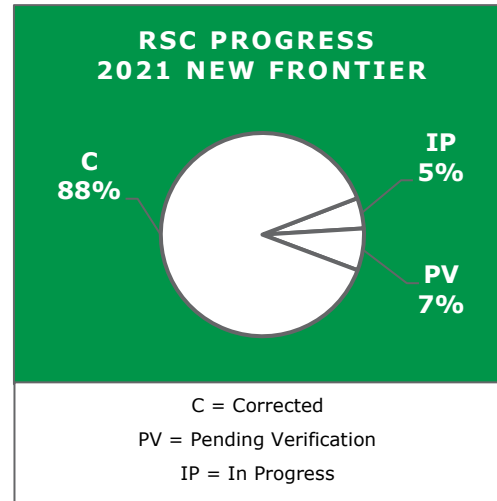
Moreover, unauthorized subcontracting is also a critical risk. Because this is an unknown production site, the risk of all critical risks is particularly high. One of the reasons that producers subcontract orders are capacity problems and bottlenecks in production, making it impossible to meet the agreed delivery dates. To minimize the risk associated with unauthorized subcontracting, we allow orders to be subcontracted, if there is such a capacity problem. Though, the subcontractor needs to be approved by us in advance. These subcontractors are checked by us and must comply with all requirements. The process for this is clearly defined and agreed in writing with all partners.

To eliminate these critical risks, each new production facility is only approved after a detailed admittance and approval process. This includes at least one *BSCI* social audit by an independent certification body and an additional social audit by New Frontier GmbH Corporate Responsibility (CR) employee. After acceptance, all production sites are also regularly visited by our local teams for audits, training and to discuss agreed corrective actions. In 2021, a total of 134 of these factory visits were carried out by our CR teams.

Should we come across one of these critical risks during our monitoring process, this would result in the termination of the business relationship with the production facility in question.

2.1.1 Building and Fire Safety Risks in Bangladesh

A very specific critical risk is the safety inside the factories in Bangladesh. Although there are proper building and fire safety regulations in place, compliance with these regulations is poorly monitored by government agencies, meaning that there are sometimes very serious safety risks in the buildings in Bangladesh. However, this only affects factories that do not participate in the safety program of the *Ready Made Garment Sustainability Council (RSC)*. Production facilities that are regularly monitored and inspected by RSC inspectors are now among the safest garment factories in the world. The actual resolution of the deficiencies and sources of danger is systematically followed up by inspectors. If the success of the corrective action has not been confirmed on-site by an RSC inspector, the finding is deemed not to have been corrected. Sanctions may be imposed if the necessary corrective actions are implemented too slowly. The individual corrective action plans of the factories, as well as any progress made are published transparently on the RSC website. In addition to inspections, regular training sessions for the internal safety committees of the factories help ensure that the safety awareness is firmly anchored in the workforce.



The non-profit organization RSC is funded by the garment industry of Bangladesh represented by the *Bangladesh Garment Manufacturers and Exporters Association (BGMEA)* and the signatories of the *International Accord for Health and Safety in the Textile and Garment Industry*. The latter is the successor agreement to the Bangladesh accord, which has been adopted in August 2021 after lengthy negotiations between fashion brands, industry representatives and trade unions. New Frontier GmbH also signed the successor agreement in August 2021 to continue to be a part of this successful model.

2.2 Severe Risks

The effects of severe risks are less serious than the critical risks and there are better possibilities for remediation.

We monitor the correct calculation of overtime and the punctual payment of wages and salaries at each of our production partners as part of our social audits. In Bangladesh, we also pay close attention to classification in the correct wage group.

In wet process facilities there is a risk that industrial wastewater from the washing and dying process may be discharged without treated in an effluent treatment plant (ETP). The existence and function of such an ETP is a prerequisite for our cooperation and is checked on site by our employees.

Corruption is another risk that is widespread in China and Bangladesh, especially in connection with authorities. As part of the *BSCI Code of Conduct*, the basic measures against corruption, such as the existence of company policy are already in place with our partners.

2.2.1 *Hidden Risks*

The standard measure for ensuring minimum requirements is a contractual agreement through a *Code of Conduct* and verifying the compliance through onsite audits. Unfortunately, there are also serious risks for which these measures are not a suitable solution. These include the problem of discrimination and harassment in the workplace. The latter of which mainly takes the form of sexual harassment of female employees.

The prevalence of this risk in the clothing industry is considered by many NGO's to be very high. It is predominantly women who work at sewing machines, whilst supervisors and managers are predominantly men. This constellation favours the perpetrators and is a disadvantage to the potential victims. It is unlikely that the victim of sexual harassment will turn to an external auditor such as from a certification body or a client like New Frontier GmbH. A much more effective measure is a functional complaints mechanism. Within the factory but also through external mechanisms operated by independent third parties.

In Bangladesh, the complaints mechanism operated by the *RSC* gives workers the opportunity to turn anonymously to an external body that offers effective help to those affected. Complaints about workplace harassment are dealt with directly by the *RSC* as they fall under the mandate to maintain a safe workplace. We have not yet received any complaints of this nature for our production sites.

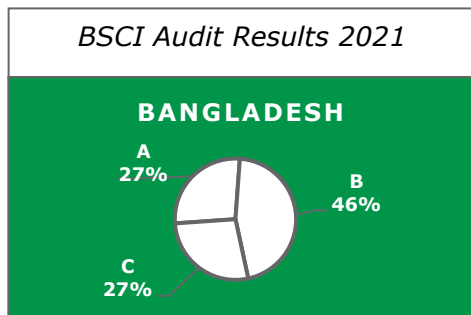
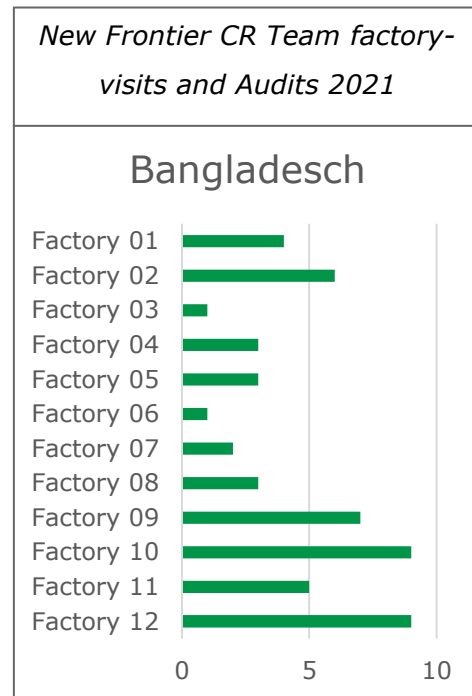
Other preventative measures include educational and awareness-raising training for managers, as well as support programs for female employees.

We are very proud that we work with partners who are already implementing these measures on their own initiative, for example by participating in *amfori's Shobola* program.

2.3 Systemic Risks with possible actions

We consider systemic risks to be those that exist in varying degrees for all producers in Asia

Even without posing a serious threat, potential safety problems exist in every textile and clothing factory. These can be identified very well through audits and rectified in a continuous improvement process. Unfortunately, for every finding remediated, two new ones are added, so one audit is not enough. Continuous monitoring, advice, training and, not least, convincing those responsible and also the workers are necessary to achieve a sustainable improvement. This is not a Sprint, but a Marathon.

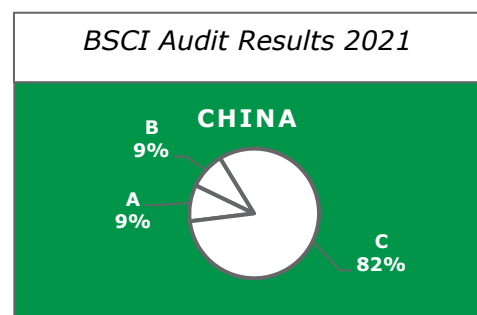


Textile production is not possible without the use of chemicals. Colors, auxiliaries and finishes give the material its look, feel and function. Compliance with the *Manufacturing Restricted Substances List (MRSL)* of the *Zero Discharge of Hazardous Chemicals (ZDHC)* industry initiative is therefore contractually agreed with all suppliers.

The compliance is monitored via annual wastewater and sludge tests reports. In addition to choosing the right chemicals, careful handling of them is also crucial. This year, with expert advice from the fashion association *GermanFashion*, we completed the development of our internal chemical management audits and carried them out at five wet production sites.

2.4 Systemic Risks without possible actions

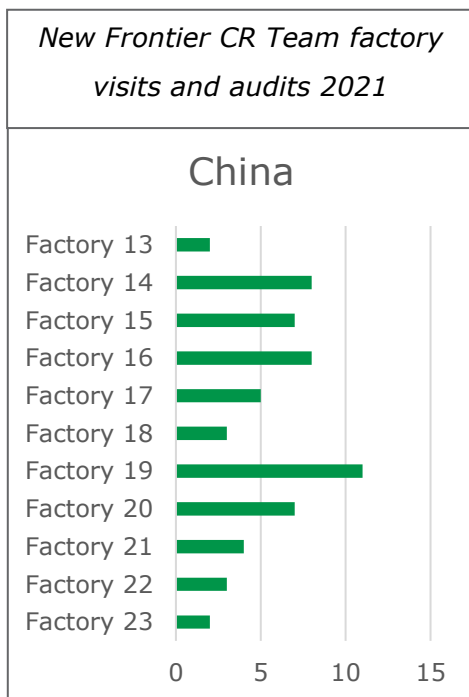
In accordance with the *UN Guiding Principles*, we as a company must take measures to minimize all risks and remediate any damage. However, this is not always possible. In Asia, there are systemic risks whose existence can be observed at all suppliers, but against which we cannot take any effective measures due to the political conditions in the countries.



These include excessive overtime, which is common in factories in Asia. The reasons are complex. In order to retain workers, overtime must be offered on a regular basis. Accordingly, factories plan their workload with 10 instead of 8 working hours per day. Unfortunately, in the production of clothing, things rarely go according to plan.

As a result, events regularly occur that shorten the available production time. In order to compensate for the many delays, more has to be produced in less time, meaning that the legally permitted two hours of extra work per day cannot always be adhered to.

Even with the best preparation and intensive coordination in the order placement process, we only have very limited influence on these delays. There is also a tendency of factories to accept more orders than the available capacity. We observe this overbooking at all production facilities, regardless for which customers they are producing.



The aforementioned demand for overtime by the workers themselves results from the low wages. In Bangladesh in particular, these are well below the values for a living wage as determined by the *Global Living Wage Coalition (GLCW)*. The government in Bangladesh has defined sector specific minimum wages for certain industries such as the garment industry, in addition to the general minimum wage of 1,500 Taka (= EUR 12.82). These minimum wages are reviewed and adjusted every 5 years by a tripartite commission consisting of industry, worker and government representatives. The minimum wage for workers in the garment industry was last set at 8,000 Taka (= EUR 68.37) in 2018 for entry-level workers and 9,845 Taka (= EUR 84.14) for experienced seamstresses. This is significantly less than the 16,460 Taka (= EUR 140) calculated by the GLCW for a decent living

in Dhaka. Most of the country's clothing and textile factories are located here, in the capital of Bangladesh. Due to the political conditions in the country, the statutory minimum wage is also a de facto maximum wage that must not be exceeded. At least not to such an extent that the gap to a living wage could be substantially closed. Even with overtime, the earnings of most workers are still well below the living wage.

Freedom of association within the meaning of Conventions 87 and 98 of the *International Labor Organization (ILO)* is not guaranteed at any of our production facilities. In China, trade unions are not permitted alongside the state-run single trade union. As a matter of fact, freedom of association is therefore subject to a state ban. In Bangladesh, the situation

is different on paper and there are also many trade unions, but their work is severely restricted by the state and trade unionists are regularly exposed to threats. Although there are participation committees in all of our production facilities, their existence cannot hide the fact that there is no actual trade union representation of the workforce in either Bangladesh or China.

3 Received Complaints

In 2021, we received five complaints through the *RSC* complaints mechanism. A sixth complaint, which we had already listed in our previous year's report, could be closed. The increased number is a good sign, as it means that the workers and employees have confidence in the mechanism and are using it. The *RSC* complaint system is available to all 28,600 employees at our partner factories in Bangladesh.

Meldung	Jahr	Status	Kommentar
1	2020	Closed	Settlement paid
2	2021	Open	RSC is investigating
3	2021	Open	RSC is investigating
4	2021	Open	RSC is investigating
5	2021	Closed	Settlement paid
6	2021	Open	RSC is investigating

The complaints received are taken up by a specialized team from the *RSC* and, following an investigation, forwarded to the factory and the factory's clients. The *RSC* is responsible for processing the complaint, i.e. investigating it, coordinating with the complainant and finding a solution. A complaint processed by the *RSC* is only closed when the *RSC* declares it closed. This process can take several weeks or months. In cases 2 and 4, we are therefore still waiting for the *RSC*'s decision how they are proceeding these cases. In addition to the *RSC*, we also conduct our own investigation on site. In cases 2 and 4, we were also able to speak to the complainants and get a better picture of the issue.

4 Risk Management

In most countries around the world, there are potential risks regarding human rights and protection of the environment. The decisive factor is dealing with the respective risks and the will to minimize them. Through constant direct exchange with our production sites, regular visits, audits and training, as well as the various certifications of independent third parties and, finally the important work of *amfori BSCI* and the *International ACCORD*, we have a good overview of the actual risks and can exclude the critical and serious ones with a very high degree of certainty. What remains are systemic risks, which we are working on together with our partners to the best of our ability.

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