

Marc O'Polo

Modern Slavery & Human Trafficking Statement Financial Year 2016/2017.

1. Introduction

The UK Modern Slavery Act

The UK Modern Slavery Act 2015 ('Modern Slavery Act') requires any commercial organization with a total turnover of more than 36 million £, which supplies goods or services and carries on a business within the UK to produce a slavery and human trafficking statement for each financial year.

Corresponding to our obligations under the 'Modern Slavery Act' MARC O'POLO made this statement. It illustrates the steps we have taken in the financial year 2016/2017 to ensure but not guarantee, that modern slavery and human trafficking is not taking place in our supply chains and our own business.

2. The Company MARC O'POLO

Corporate Structure

MARC O'POLO stands for high quality, contemporary Premium Modern Casual Wear. The headquarters of MARC O'POLO AG are situated in the south of Munich in Stephanskirchen. From here, about 2,206 stores are supplied internationally. Currently there are 121 stores, 169 franchise stores, and 1,916 trading partners. MARC O'POLO is available locally and online in more than 30 countries via its eShops.

The company employs about 1,900 employees around the world. A three-member board manages MARC O'POLO AG: Dieter Holzer, who took over as CEO in September 2017, along with Jürgen Hahn as CFO and Bernd Keller as COO. Werner Böck, the majority shareholder of MARC O'POLO, is Chairman of the six-member Supervisory Board.

Under the umbrella of MARC O'POLO AG, subsidiaries control the activities of the brand. At the headquarters in Stephanskirchen, MARC O'POLO International GmbH is responsible for design, production and sales. MARC O'POLO Einzelhandels GmbH manages the operation of its stores and the online shop in numerous European countries. Two other companies, MARC O'POLO Shoes GmbH and the MARC O'POLO Accessories GmbH, are responsible for the design, purchase, and sales of shoes, bags and other small leather goods. DENIM & CAMPUS GmbH controls the products of the MARC O'POLO DENIM brand. MARC O'POLO License AG is responsible for the marketing and the licensing business of the MARC O'POLO brand. It also holds the trademark rights for MARC O'POLO. MARC O'POLO has 1,842 employees worldwide (as of May 2017).

Our Business

MARC O'POLO offers eight collections in the modern casual premium segment every year, each with ten delivery dates. Additional lines include the MARC O'POLO PURE and MARC O'POLO Mr. collections, as well as MARC O'POLO DENIM, available since the spring/summer season 2016. In the fiscal year 2016/2017, MARC O'POLO generated group-wide brand sales (including license) of EUR 460 million, which is 0.9 percent below the previous year's level (as of 31.05.2017). The return on sales after taxes was in the single-digit range for the reporting year. Our equity ratio remains quite high. Germany accounts for 67 percent of sales and 33 percent of exports. Other important markets are the Benelux countries, Austria, and Switzerland. Since 2014, we have established a successful presence in the Chinese market and are continuing to expand our activities there.

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Sustainability Management

We have selected an integrated approach and depend on several strategies and operations to address the sustainability-related topics in our company adequately. In the reporting period, we have structured our sustainability management with more clarity. On the one hand, we have integrated the critical figures of our sustainability report in our company-wide balanced scorecards. We regularly report to our executive board employing an aggregated balanced scorecard that includes the key sustainability figures. On the other hand, we have broadened the organization and allocated new responsibilities. The decentral organization of sustainability management forms an integral part of the roles within our company, among them are staff functions within purchasing and production as well as staff functions, which report to the executive board directly. To ensure a holistic approach, we have established a Product Sustainability Core Team, which provides a platform for the additional functional areas of sustainability and has a steering and coordination function in the company. In doing so, we promote an interdisciplinary exchange. A strategic sustainability manager reports directly to our CFO. In her role as energy management officer, she coordinates the energy team and works with them to create measures and energy goals. Since spring 2017, our strategic brand manager has completed the team. Along with the experts from the company, he develops a long-term sustainability strategy for product development and reports directly to the COO. We have two sustainability managers and one social compliance manager in our buying and production departments for MARC O'POLO International GmbH and MARC O'POLO DENIM & CAMPUS GmbH who are responsible for sustainability-relevant topics along our supply chain. Working together with the various business units, suppliers, and business partners, they develop strategic and operative measures to continuously improve the social and ecological conditions in the manufacturing of our products.

Our Supply Chain

The supply chain contains several ecological and social challenges. Such aspirations also entail that they are manufactured under decent working conditions. Within our business, we try to enforce our values and requirements in cooperation with our suppliers. As a medium-sized company, MARC O'POLO alone has only a limited degree of power. That is why we depend on trusting partnerships and the bundled strength of cooperations, for example as part of our membership in the Business Social Compliance Initiative (BSCI). Moreover, we try to focus our resources on those solutions that we can influence and control adequately. The supply chain of the clothing industry is complex. It is characterized by a high division of labor and personnel-intensive production. The textile supply chain faces many environmental and social challenges. The fashion-related orientation of our products and the product variety in our collection leads to many direct as well as indirect supplier relationships. The frequent change of collections usually results in an immense pressure of time. Our challenge is to ensure that our sustainability measures effectively influence the various production phases. To be able to compete in this fiercely competitive industry, we produce in production countries that are common in the textile industry. Our suppliers are mainly located in China, India, and Turkey. These are associated with structural and geographical risks for sustainability management, such as political changes or the relocation to new production countries. In the countries of production, lower standards usually apply to the protection of workers and the environment or the use of chemicals. Hence, additional efforts are needed to reconcile local conditions with our standards and values as well as the requirements of our customers.

MARC O'POLO strives to establish a lasting and open collaboration with all partners in the supply chain. We pursue a buying strategy that relies on trust and continuity. This approach provides greater transparency and security as to where and under what conditions our products are manufactured. In the reporting period, we integrated the supply chain management tool OSCA® into the planning and production processes of MARC O'POLO International and MARC O'POLO DENIM & CAMPUS GmbH. As a result, we will be able to improve the transparency of our supply chain in the long term. We consider it important to work with partners who implement our requirements for working conditions. At present, we are reducing the number of direct suppliers at MARC O'POLO International GmbH and MARC O'POLO DENIM & CAMPUS GmbH, which increases our opportunities to exert influence. Fair and decent working conditions are not apparent in some producing countries. Withdrawing from these regions would not be helpful to the local workforce – a significant proportion of which are women.

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Often, jobs in the textile industry provide the only opportunity to generate income. Instead of avoiding certain producing countries, we believe it is essential, within our scope of influence, to ensure that our suppliers implement improvement measures within the working conditions.

BSCI Membership

In cooperation with others, solutions can be developed that go beyond the capabilities of individual companies to exert influence. The BSCI is an initiative of commercial enterprises and operates under the umbrella of the Foreign Trade Association (FTA). It stands for a globally uniform system for monitoring and improving minimum requirements, which encompasses a joint auditing system and the corresponding training measures. MARC O'POLO International GmbH has been a member of the BSCI since 2009. In 2014, the membership was extended to MARC O'POLO AG to expand the system step by step to the subsidiaries as well. Restructuring of the subsidiaries entails that our partners need to become more familiar according with the BSCI Audit Standard. BSCI offers its member companies an industry-leading supply chain management system to improve working conditions in the global supply chain. This way, social standards can be monitored and a continuous improvement process initiated.

3. Policies

MARC O'POLO Code of Conduct

The MARC O'POLO Code of Conduct forms the basis for the production of our products and the implementation of our values. It combines our requirements and is compulsory for all our suppliers. Criteria for the implementation of decent working conditions are regulated by the Business Social Compliance Initiative (BSCI) Code of Conduct. This takes into account the relevant international guidelines and agreements on human rights, labor protection and fairness in the supply chain such as – among others - the United Nations Universal Declaration of Human Rights (1948); the International Labour Organisation's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (1977); The Global Compact (2000); the UN Guidelines for Business and Human Rights (2011) and the Guidelines for Multinational Enterprises developed by the Organisation for Economic Co-operation and Development (OECD) (2011). It forms the basis of the MARC O'POLO Code of Conduct and is monitored by regular audits.

The BSCI Code of Conduct includes - among others - the principles *'No Bonded Labour'* and *'No Child Labour'*. The violation of these principles is regarded as *'Zero Tolerance Issue'* in the BSCI auditing scheme.

MARC O'POLO Ethical Sourcing Standard

Beyond that, our Ethical Sourcing Standard stipulates the requirements for animal welfare, use of materials and the prohibition of certain production techniques, such as sandblasting.

4. Due Dilligence

Mapping of the Supply Chain & Risk Assessment

As part of our risk assessment, we are in the ongoing process of mapping our supply chain. The suppliers risk assessment is being conducted based on the production country, BSCI audit reports, other third party audits such as Sedex or SA8000 and the information given in our Supplier Profile.

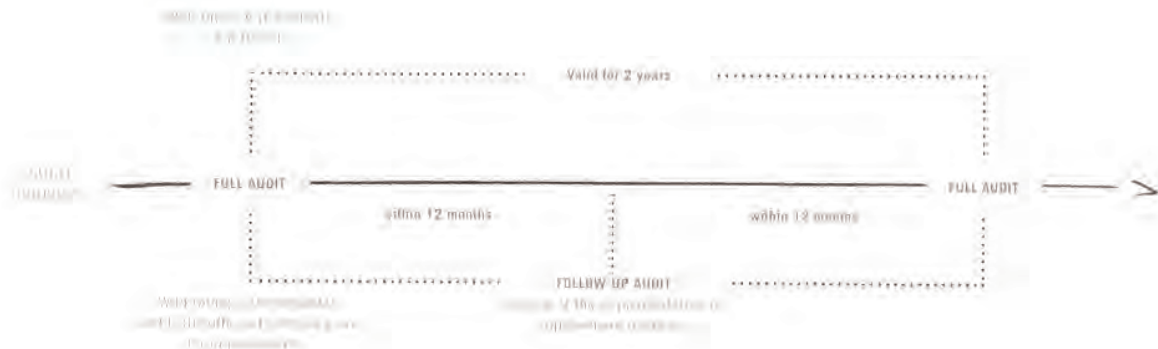
Audits to ensure compliance with social standards

We primarily perform BSCI audits in countries of risk. Whether a country is considered to be in the risk category is defined according to the Countries Risk Classification by the Foreign Trade Association. In this context, the particular focus is on sewing, since this activity is less automated and very personnel intensive. Independent auditors perform the audits. The audits allow us to gain a better impression of the state of implementation of decent working conditions. They can reveal weaknesses and highlight possible opportunities for improvement. Violations of our Code of Conduct cannot entirely be eliminated. As a BSCI member, we, therefore, expect continuous improvement from our direct suppliers.

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The audit process

In the context of the BSCI audits, we work with independent auditing and certification companies accredited by the Social Accountability Accreditation Services (SAAS). The BSCI approved auditing companies are regularly audited as part of the BSCI quality assurance program. The auditors usually come from the same region as the production facility under review and they speak the same language as the workers. We aim to ensure that our social audits are carried out according to globally uniform standards. The scope, validity, and duration of these audits are defined according to the regulations of the BSCI. Moreover, the BSCI conducts unannounced audits in the course of so-called Random Unannounced Checks (RUC). The sampling procedure is the responsibility of the Secretariat of the Foreign Trade Association.



The BSCI audits examine the extent to which suppliers comply with minimum social standards, with the following potential implications:

- If a supplier completes the first or repeated BSCI audit with the grade “excellent” or “good,” a re-examination will only be carried out after two years.
- If the rating falls below that, an action plan for improvement shall be drawn up, the implementation of which will be reviewed after one year at the latest.
- If a supplier is found to be in serious or repeated breach of the BSCI Code of Conduct, we may consider terminating the business relationship. However, we use the exclusion of suppliers only as a last resort.

Improvement through dialog as a central goal

In line with the goals of the BSCI, we aim to engage in a dialog with our suppliers that leads to continuous and lasting improvement. It includes training measures within the FTA Academy that leads to an increased understanding and acceptance of the social requirements among factories and their managers. The BSCI also counts on a dialog with governments, trade unions, and other non-governmental organizations. In 2016, the FTA, the umbrella organization of the BSCI, launched the FTA Academy. Production facilities that require support in implementing the BSCI requirements can participate in free workshops and webinars. The costs are borne by the annual membership fees.

This statement was approved by all members of the Executive Board.

Signed

Dieter Holzer (CEO)
MARC O'POLO AG