



Esquel Group of Companies Communication on Progress – 2012

Our Commitment

Esquel has been a member of the United Nations Global Compact since it was founded in 2000. We are committed to continuously raise workplace standards in the areas of human rights, labor, environment, and anti-corruption. We also re-confirm our support for the UN Global Compact and its ten principles.

Progress Report

This is our fifth Communication on Progress (COP) report. It contains the systems and activities at Esquel that support the 10 principles, the outcomes of each, and the crosscutting effort on engagement and transparency. The period covered by the report is primarily from 1 January 2011 to 30 June 2012, except for environmental initiatives on farming, energy, emissions and water which is from 2005 to 2011, or as otherwise stated.

1. HUMAN RIGHTS

*Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights;
Principle 2. make sure that they are not complicit in human rights abuses.*

Systems	<p>We have internal Group policies and procedures that guide and control the implementation of internationally proclaimed human rights and the exclusion of abuses. The main policies and procedures are:</p>
	<ul style="list-style-type: none">• <i>Esquel e-Culture.</i> Our five e-values are: Ethics, Environment, Exploration, Excellence, and Education. It guides the way each Esquel employee thinks and acts. It also serves as the foundation of our business and the reputation of the Esquel brand.
	<ul style="list-style-type: none">• <i>Esquel Workplace Code of Conduct (COC).</i> With reference to the e-Culture, our COC states our position on international human rights and sustainability standards and principles. It covers forced labor; child labor; harassment or abuse; non-discrimination; freedom of association and collective bargaining; wages and benefits; hours of work; environment, health and safety. Specific policies and procedures to each principle, such as grievance mechanism, are available at each factory and at our headquarters.
	<ul style="list-style-type: none">• <i>Supply Chain Management.</i> We implement our COC across our supply chain by seeking suppliers who share our values. Our Procurement policy defines our support for and adherence to fair competition and compliance with legal and ethical standards. We have also provided our suppliers with information on the workplace standards we believe in and expect to see at our supplier facilities.
	<ul style="list-style-type: none">• <i>CSR Internal oversight system:</i> We have a CSR headquarter team charged with overseeing labor practices and environmental impacts throughout our operations. This internal oversight system includes, but is not limited to, reporting and tracking of various workplace activities, internal monitoring, and active follow up on areas identified as needing improvement. Further, as a Participating Supplier of the Fair Labor Association, we see to it that our systems adhere to the detailed principles outlined in the FLA Charter.

Activities	<p>Our policies and procedures are cascaded to our employees, suppliers and partners through trainings, communication, and monitoring. Some of our activities are:</p> <ul style="list-style-type: none"> • Integration of the Fair Labor Association (FLA) Workplace Standards, Monitoring Principles, and Benchmarks to Esquel Code of Conduct and implementing guidelines. • Dissemination of the Code of Conduct images and posters through information boards and intranet. • Training on the Code of Conduct for all employee levels. • Inclusion of Code of Conduct in supplier selection and evaluation. • Extension of oversight system to cover suppliers and partners. • Sharing of best practices from the pilot project of Dr. John Ruggie's policy framework for grievance mechanism. • Collaboration with GAP Inc. on the P.A.C.E. program. "P.A.C.E." stands for Personal Advancement and Career Enhancement. It aims to equip female workers with life skills essential in adapting to society and in enhancing their efficiency in the workplace. • Participation in ILO Global Business and Disability Network. This network aims to raise companies' awareness in and support for hiring people with disabilities. • Headquarter CSR internal review on all 18 apparel factories. • Pilot run of the Sustainable Apparel Coalition (SAC) environmental index on selected garment factories.
Outcomes	<p>Achievements (selected list) as a result of our activities are as follows:</p> <ul style="list-style-type: none"> • The Esquel Code of Conduct was updated and aligned with the FLA code of conduct and translated to 12 languages. • All 18 apparel factories have posted Code of Conduct posters on information boards, and uploaded images to the intranet. • Over 50,000 employees were trained through e-trainings and classroom orientations on Esquel E-Culture. • Suppliers and partners were made aware of Esquel's Code of Conduct, and evaluations were done at supplier premises. • Best practices from the pilot project of Dr. John Ruggie's policy framework for grievance mechanism was shared with all 18 apparel factories through a CSR conference with over 40 participants, along with some individual factory visit reviews. • Female workers in one of our China factories were trained through GAP Inc.'s P.A.C.E. program on Communication, Legal Literacy, and Time and Stress Management. To make the program sustainable and transferrable among Esquel factories, internal trainers were trained on the P.A.C.E. Train-the-Trainer version. • Disability inclusion in the workplace. One of our factories in Sri Lanka hosted an ILO study tour in collaboration with the ILO Global Business and Disability Network and the Employer's Federation of Ceylon. In the tour, challenges, benefits and barriers of hiring disabled people were discussed and addressed. Our factories in Sri Lanka have modified certain machines to provide an obstacle-free working environment for disabled employees. • Headquarter CSR team completed internal reviews in all 18 apparel factories. The Esquel Code of Conduct, local laws and regulations, international standards, and the FLA Benchmarks were the bases of internal review. The SAC environmental index was also tested on selected apparel factories. • FLA-appointed third-party audit firms conducted unannounced audits at randomly selected Esquel apparel factories. Esquel CSR headquarters submitted corresponding corrective action plan reports to the FLA according to agreed timelines, and monitored completion of corrective measures.

2. LABOR

<p><i>Principle 3. Business should uphold the freedom of association and the effective recognition of the right to collective bargaining;</i></p> <p><i>Principle 4. the elimination of all forms of forced labor and compulsory labor</i></p> <p><i>Principle 5. the effective abolition of child labor; and</i></p> <p><i>Principle 6. the elimination of discrimination in respect of employment and occupation.</i></p>	
Systems	<p>With 55,000 employees under our care, we understand the importance of respecting and protecting the rights of our employees. We have policies and procedures defining daily operational standards in relation to freedom of association and collective bargaining, forced labor, child labor, discrimination, harassment and abuse, and respect of employment and occupation.</p> <ul style="list-style-type: none"> • <i>Esquel e-Culture.</i> (Refer to Section 1 on Human Rights, Systems) • <i>Esquel Code of Conduct.</i> (Refer to Section 1 on Human Rights, Systems) • <i>Policies and Procedures on Human Resource Management (HR).</i> Policies include, but not limited to: Equal Employment Opportunity, Recruiting Process, Hours of Work, Probation, Promotion, Performance Management, Termination, Retirement, Compensation and Benefits, Security & Safety, Grievances, Freedom of Association, Anti-Harassment Policy, Conflict of Interest, and Training and Development. Included in our recruitment policies are age verification procedures to prevent the recruitment of child labor, and labor agent screening procedures to reduce risks associated with illegal recruitment. Further, our management is involved in detailed evaluations of labor agents in countries employing foreign workers to reduce potential recruitment problems. They also travel to the foreign workers' country of origin to oversee the recruitment process and to ensure appropriate messages are given to the potential workers. • <i>Policies and Procedures on Environment, Health and Safety (EHS).</i> Policies include, but not limited to: Hazard Identification and Risk Assessment Guidelines, Accident Investigation Guidelines, Emergency Preparedness Guidelines, Safety Signs and Usage, Personal Protective Equipment Guidelines, Occupational Health Management, and Chemical Storage Management. • <i>CSR Internal oversight system:</i> (Refer to Section 1 on Human Rights, Systems)
Activities	<p>Being a multi-facility manufacturing company, we have dedicated teams at each of our sites overseeing and managing human resources and environment, health and safety issues. Here is a selected list of our implementation activities:</p> <ul style="list-style-type: none"> • Integration of the FLA Workplace Standards, Monitoring Principles, and Benchmarks to Esquel Code of Conduct and implementing guidelines. • Dissemination of the Code of Conduct images and posters through information boards and intranet. • Updating and dissemination of HR and EHS policies and procedures in line with local regulations and business environment. • Implementation of HR and EHS policies and procedures; particularly on worker-management communication, diversity and inclusion, and health and safety. • Headquarter CSR internal review on all 18 apparel factories. • Re-certification of factories on WRAP and ISO standards. • Training on the Code of Conduct and policies for all employees. • Sharing of best practices from the pilot project of Dr. John Ruggie's policy framework for grievance mechanism. • Collaboration with GAP Inc. on the P.A.C.E. program. (Refer to Section 1, Human Rights, Activities) • Participation in ILO Global Business and Disability Network. (Refer to Section 1, Human Rights, Activities)

Our main achievements are as follows:

POLICIES & SYSTEMS

- The Esquel Code of Conduct was updated to align with the FLA code and translated to 12 languages.
- All 18 apparel factories have posted Code of Conduct posters on information boards, and uploaded images on the intranet.
- HR policies were updated according to local government new regulations; such as, the new local legal wage, hospitalization and other employee benefits.
- EHS policies and procedures were updated and made accessible to all employees through a centralized intranet.
- Headquarter CSR completed internal reviews in all 18 apparel factories.
- Factories in China, Sri Lanka, Mauritius, Malaysia and Vietnam were re-certified on ISO 9001 (Quality) & 14001 (Environmental Management) and WRAP; factories in China and Malaysia were certified on OHSAS 18001.
- FLA-appointed third-party audit firms conducted unannounced audits at our factories. Esquel CSR headquarters submitted corresponding corrective action plan reports to the FLA according to agreed timelines, and monitored completion of corrective measures.

TRAININGS

- Over 50,000 employees were trained through e-trainings and classroom orientations on Esquel E-Culture
- All concerned employees were trained on the updated HR policies and procedures through classroom trainings and meetings.
- All machine operators were given machine safety and operation trainings.
- All employees were given general health and safety trainings.
- Senior management teams were given trainings on advanced technical processes, EHS knowledge, new-generation management, communication, coaching, and other skills.
- High potential employees were given cross-functional developmental trainings to further their understanding of the company and to enhance their management skills.

WORKER-MANAGEMENT COMMUNICATION

- Our factory management teams engaged in trade union discussion and negotiations through the formal independent trade unions existing in our Sri Lankan factories, the in-house union at our Malaysian factory, the Viet Nam General Confederation of Labour (VGCL) in Vietnam, and the All China Federation of Trade Unions (ACFTU) in China.
- Our factory in Vietnam further updated its grievance mechanism with reference to Dr. John Ruggie's policy framework and shared best practices with other apparel factories through a CSR conference in April 2012.

DIVERSITY & INCLUSION

- Disability inclusion in the workplace. (Refer to Section 1 Human Rights, Outcomes)
- All our factories organized employee events; such as, the International Women's Day, Employees' Fun Day, and Workers' Celebration Day.

HEALTH & SAFETY

- All our factories designated a month for EHS activities to raise EHS awareness among employees. Some of the activities were: First Aid Training, Maintaining a Safe Workplace, Road Safety Training, Accident awareness, EHS poster contests, and EHS Quiz.

3. ENVIRONMENT

<p><i>Principle 7. Business should support a precautionary approach to environmental challenges;</i> <i>Principle 8. undertake initiatives to promote greater environmental responsibility; and</i> <i>Principle 9. encourage the development and diffusion of environmentally friendly technologies.</i></p>	
Systems	<p>Green manufacturing can be traced to every step of our operations, from cotton farming to spinning, weaving, dyeing, knitting, and apparel and accessories production. Our guiding principles and measures are stated in the following policies:</p> <ul style="list-style-type: none"> • <i>Esquel e-Culture.</i> (Refer to Section 1 on Human Rights, Systems) • <i>Esquel Workplace Code of Conduct.</i> (See section 1, Human Rights, Systems) • <i>Policies and Procedures on Environmental Management.</i> Some of the environmental policies are: Environmental Management System Audits, Control of Treated Water and Chemicals in the Waste Water Treatment Plant, Environmental Management Review, and Environmental Training. All policies are drafted in line with ISO 14001 guidelines. • <i>CSR Internal oversight system:</i> (Refer to Section 1 on Human Rights, Systems)
Activities	<p>A list of selected green initiatives as follows:</p> <ul style="list-style-type: none"> • Re-certification of factories on ISO standards. • Review of sustainability practices in manufacturing sites in collaboration with Earth Pledge. • Pilot run of the SAC environmental index on selected garment factories. • Environmental awareness trainings. • Sustainable farming through: organic cotton cultivation, natural pest control utilization, handpicked cotton process, drip irrigation method. • Energy saving measures through: installation of frequency inverters, use of energy efficient lighting, installation of skylights, installation of water curtains, steam powered air-conditioning system, and turbo-dyeing. • Emissions control through: wholly-owned thermal power plant and desulfurization of waste lye. • Water conservation initiatives through waste water treatment plant, cold pad batch pre-treatment and dyeing technology, recycling condensed and cooling water, green washing, wet processing center innovation, low temperature pre-treatment technology, heat exchange system for waste water, and low liquid ratio dyeing. • Research and development of innovative Green Products.
Outcomes	<p>Some of our achievements are as follows:</p> <p>SYSTEMS</p> <ul style="list-style-type: none"> • Our factories in China, Sri Lanka, Mauritius, Malaysia and Vietnam were re-certified on ISO 14001. • One of our factories in China completed a review of sustainability practices through a pilot project with Earth Pledge. We now have an inventory of greenhouse gas emission. • We were awarded the Green Enterprises Award in 2011. • Last June 2012, we were given the Whitelist Qualification Award by the China National Textile & Apparel Council, and the Hangseng Pearl River Delta Environmental Award – Bronze Award. • Headquarter CSR completed internal reviews in all 18 apparel factories. • FLA-appointed third-party audit firms conducted unannounced audits at our apparel factories. Esquel CSR headquarters submitted corresponding corrective action plan reports to the FLA according to agreed timelines, and monitored completion of corrective measures.

- Headquarter CSR completed pilot tests of the SAC environmental index on selected apparel factories.

TRAINING

- In addition to the trainings listed in Sections 1 (Human Rights) and 2 (Labor), all our factories organized environmental awareness campaigns for employees.

SUSTAINABLE FARMING

- The use of natural pest control helped reduced pesticide consumption by 20-30%.
- Drip irrigation method reduced water consumption by 20%.
- Our sustainable farming initiatives resulted to increase in cotton yield, and in farmers' income and quality of life.

ENERGY SAVING

- Overall annual energy consumption fell by 42% from 2005 to 2011, which is about 184 million kWh savings per year, or equivalent to energy needs of 92,000 families. This initiative also led to a reduction of 269,000 tons of harmful greenhouse gases.
- Installation of frequency inverters resulted to 30% reduction in energy consumption;
- Factories and offices replaced over 56,000 light tubes with high efficiency fluorescent light tubes and reflectors, resulting to 50% savings on light tubes.
- Installation of skylights made possible for our factories to use more natural lights, thereby reducing reliance on energy and electricity.
- Installation of water curtains at factories resulted to better ventilation and cooling, and 80% reduction in electricity consumption.
- Use of steam powered air-conditioning systems resulted to 80% reduction in electricity.
- Turbo-dyeing of cotton and yarn saved 8 million kWh of energy.

EMISSIONS CONTROL

- Wholly-owned and operated thermal power plant led to enhanced energy efficiency and reduced carbon dioxide emissions.
- De-sulfurization of waste lye led to reduction in sulfur dioxide emissions by 600 tons per year;

WATER CONSERVATION

- Overall water consumption fell by 54% from 2005 to 2011, which is equivalent to 7.4 million tons of water, sufficient to meet the needs of 37,000 households.
- Waste water treatment plan neutralizes 32,000 tons of waste water from mills and factories.
- Cold pad batch pre-treatment and dyeing technology resulted to 70% reduction in water and 80% reduction in energy consumption.
- Recycling of condensed and cooling water from dyeing and finishing operations led to savings of 2.2 million tons of water and 100,000 tons of steam.
- Processes on apparel treatment, pre-treatment and finishing were changed to use ecologically advanced and bio-degradable products only.
- Wet processing center recycled water in the apparel washing process up to 5 times.
- Low temperature pre-treatment technology for cotton bleaching resulted to 45% reduction in water, 49% reduction in steam, and 42% reduction in electricity used.
- Adaption of heat exchange technology for waste water reduced steam consumption by 36,000 tons annually.
- Use of low liquid ratio dyeing technology led to annual savings of 1.2 million tons of water, 46,000 tons of steam, and 9.7 million kWh of energy.

INNOVATIVE GREEN PRODUCTS

Some of our innovative products are:

- Organic Cotton Shirts. Using less pesticides and fertilizers in production, yet offering a much softer and gentler feel; organic cotton shirts are excellent for people with sensitive skin.
- Wrinkle-free shirts. These shirts eliminate the need for ironing.
- PerformanceCare™ shirts. Shirts with this trademark take pride in its durability as compared to ordinary cotton shirt.
- Oeko-Tex® Certified. Textiles bearing this certification offers skin-friendly clothing for various consumers;
- Elemental textile. A successful collaboration with Novozymes (a company specializing in biotechnology), elemental textile is the only textile that uses substantially less water, emits less carbon dioxide in the process of manufacture, and consumes significantly less processing time. An ideal fabric for green living and green fashion.

4. ANTI-CORRUPTION

Principle 10. Business should work against corruption in all its forms, including extortion and bribery

Systems	<p>At Esquel, we place great emphasis on ethical behavior. All Esquel employees are expected to maintain an impeccable ethical behavior under all circumstances. Policies related to anti-corruption are:</p> <ul style="list-style-type: none"> • <i>Esquel e-Culture.</i> (Refer to Section 1 on Human Rights, Systems) • <i>Esquel Workplace Code of Conduct.</i> (Refer to Section 1, Human Rights, Systems) • <i>HR Policies.</i> Acceptance of Advantages and Conflict of Interest. • <i>Supply Chain Management.</i> (Refer to Section 1, Human Rights, Systems) • <i>CSR Internal oversight system:</i> (Refer to Section 1 on Human Rights, Systems)
Activities	<p>A list of selected activities as follows:</p> <ul style="list-style-type: none"> • Trainings on e-Culture given to all employees. • Headquarter internal audit and CSR teams conducted internal reviews on business transactions and operations. Audit reports were sent to senior management for review and remediation.
Outcomes	<p>Some of our achievements are:</p> <ul style="list-style-type: none"> • Over 50,000 employees were trained on our e-Culture through e-trainings and classroom orientations. • Headquarter internal audit and CSR teams completed internal reviews at manufacturing sites and offices as scheduled. • Our Chairman Marjorie Yang was awarded the Asian Corporate Director Recognition Award for Corporate Governance in June 2012. This award aims to recognize business leaders with high standards of corporate behavior and governance, and actively promotes honesty, integrity and ethics within the company by implementing the necessary structure and mechanism.

5. CROSSCUTTING: ENGAGEMENT & TRANSPARENCY

We want to be an agent of positive change in our industry and in the communities where we operate. To fulfill this end, we actively seek and engage reputable organizations on the topic of corporate sustainability. This section presents some of our partner organizations and achievements realized through collaborative efforts.

LABOR

5.1 Fair Labor Association (<http://www.fairlabor.org/>)

The Fair Labor Association is a non-profit organization seeking to combine efforts of companies, civil society organizations, colleges and universities to protect workers' rights and improve working conditions of factories worldwide by promoting adherence to international labor standards.

We are a Participating Supplier affiliate of the FLA since 2008. We have worked with them to develop and refine our Esquel's Workplace Code of Conduct, our internal oversight system, and our public reporting. We have also welcomed FLA-unannounced factory audits, and submitted corrective action plan reports in response to the audits. Our affiliation with the FLA drives our commitment to transparency, as the FLA publicly posts our list of factories and any audits they conduct on their website.

In addition, we are also an active participant to the FLA Board meetings. Last 2010, we were awarded the opportunity to host their annual meeting in one of our factories in China. In April 2012, our Director of Corporate Social Responsibility, Tammy Rodriguez was elected as Board Member to the FLA, becoming the first supplier representative in the FLA Board. This appointment acknowledges our commitment to continually improve working conditions throughout the supply chain, and to contribute to broader discussions on the implementation of International Labor Standards.

5.2 Dr. John Ruggie's Grievance Mechanism Principles

Special Representative of the UN Secretary-General (SRSG) for Business and Human Rights, Dr. John Ruggie, in his 2008 and 2009 report, put forward that businesses are responsible to provide effective operations-level grievance mechanism to employees. He further proposed six principles that should underlie any non-judicial grievance mechanism, namely: legitimacy, accessibility, predictability, equitability, rights-compatibility and transparency.

To refine these principles for business operations, Esquel was invited to the pilot project of 4 large-scale global companies to test the grievance mechanism for 12 months. Our factory in Vietnam was selected as testing ground. Under the supervision of Mr. Doug Cahn of the Cahn Group and the support of the FLA through the SCOPE and SCAT Assessments, the pilot project was successfully completed in 2011.

The results of the pilot project were evaluated and published into a report by the Corporate Social Responsibility Initiative (CSRI) of the Harvard Kennedy School. Later in June 2011, the United Nations Human Rights Council endorsed a new set of global guiding principles, called the "Protect, Respect, and Remedy" Framework. This framework lays the foundation of a system for better managing business and human rights challenges based on distinct yet complementary responsibility for States and corporations to effectively remedy cases of abuse.



5.3 Better Work Vietnam (<http://www.betterwork.org/sites/VietNam/English/Pages/index.aspx>)

Better Work Vietnam is a part of the Better Work global program, which is a partnership between the International Labor Organization (ILO) and the International Finance Cooperation (IFC). It aims to improve working conditions and promote competitiveness in Vietnam's apparel industry through multi-stakeholder engagement and factory development programs.

Our factory in Vietnam joined the Better Work Vietnam since its inception in 2009. Better Work assessors have visited our factory to conduct annual assessments, partnership meetings, and advisory and training sessions. We have also played an active role in the Better Work fun-run to raise safety awareness and to commemorate the world day on safety and health at work.

When we acquired our second factory in Vietnam in 2011, we also registered it to the Better Work Vietnam program. We believe that our participation in and support of this program will help improve working conditions and increase the competitiveness of Vietnam's apparel industry.

5.4 P.A.C.E (Personal Advancement & Career Enhancement) (<http://www.bewhatspossible.com/pace>)

P.A.C.E is a female garment worker-focused initiative founded and funded by Gap Inc. P.A.C.E. focuses on enhancing life skills of female garment workers through series of trainings and activities.

In 2010, we joined force with P.A.C.E. and its partner organizations, namely, Swasti, ICRW (International Center for Research on Women) and Beijing Qianqian Law Firm, to pilot and launch the program in our selected site in China. Our female workers were equipped with an array of life skills, including, time and stress management, communication, legal and financial literacy, problem solving and decision making skills, enabling them to fulfill their responsibilities both at home and in the workplace.

5.5 HERproject (Health Enables Returns) (<http://herproject.org/>)

Sponsored by J. Crew, we launched HERproject, in collaboration with BSR (Business Social Responsibilities) and Maria Stopes China, in our factory in Changzhou this 2012. This women's health-focused, peer education program has come to its 6th year, benefitting more than hundreds and thousands of female workers worldwide.

ENVIRONMENT

5.6 Sustainable Apparel Coalition (<http://www.apparelcoalition.org/>)

We share the vision of sustainable operations which affect positive change on people, the environment, and the community. Being a founding circle member of the Sustainable Apparel Coalition (SAC), we collaborate with leading apparel and footwear companies and social and environmental organizations to address challenges and maximize opportunities in the industry. Our goal is to develop ONE system to measure sustainability throughout the supply chain.

Since 2010, we have contributed to the development of the SAC index (now called the Higgs Index) through working groups, discussions, reviews and testing of the SAC index in our factories.

5.7 The Institute of Public and Environmental Affairs (<http://www.ipe.org.cn/>)

The Institute of Public and Environmental Affairs (IPE) is a non-profit organization based in Beijing. It monitors environmental performance of companies and facilitates public participation in environmental governance. The IPE's database enables visibility into the environmental performance of factories in China.

We are in partnership with the IPE through their Green Choice Alliance program. This allows us access to their database to evaluate suppliers and to drive improvements in the supply chain.

5.8 Natural Resources Defense Council (<http://www.nrdc.org>)

The Natural Resources Defense Council (NRDC) is one of the most prominent environmental action groups headquartered in New York. We support them by providing information and assistance to their research work. One of the outcomes of our collaboration with the NRDC is the published study entitled, "NRDC's Ten Best Practices for Textile Mills to Save Money and Reduce Pollution."

- End of Report -