

Esquel Group of Companies Communication on Progress – 2014

Our Commitment

In this communication progress report, we will touch on some of our developments in sustainability. We will also report systems, activities and outcomes that demonstrate the integration of the UNGC 10 Principles into our operations. This report covers period from 1 July 2013 to 30 June 2014.

As mentioned in last year's report, we formed a Sustainability Council, which is chaired by one of Esquel's independent board members. The council has continued its work reviewing issues and measurements related to People, Environment, Community, and Product. The council met 3 times during the reporting period and continues to provide guidance, direction, and motivation for all Esquel business units in the noted categories. One other initiative worth mentioning is our commitment to publish a Sustainability report, using the G4 format. We plan to use 2014 data, and publish the report in the first quarter of 2015.

Finally, same as before, we express our commitment and support to the UNGC and its 10 Principles covering human rights, labor, environment and anti-corruption.

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

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:

- *Esquel e-Culture.* 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.
- *Esquel Workplace Code of Conduct (COC).* With reference to the e-Culture, our COC states our position on international human rights and sustainability standards and principles. It covers employment relationship; forced labor; child labor; harassment or abuse; non-discrimination; environment, health and safety; freedom of association and collective bargaining; compensation; and hours of work. Specific policies and procedures to each principle, such as grievance mechanism, are available at each factory and at our headquarters.
- *Supply Chain Management.* 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.
- *CSR Internal oversight system.* 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 include:</p> <ul style="list-style-type: none">• <i>Policy Update.</i> Updated our Workplace Code of Conduct and policies and procedures in line with the new FLA Workplace Standards.• <i>Translation.</i> Translated our new Code of Conduct to different languages known to our workers.• <i>Training.</i> Provided workplace code of conduct training for all employees at all levels.• <i>Supplier management.</i> Enhanced our supplier selection and evaluation through our Code of Conduct.• <i>Internal Oversight.</i> Expanded the scope of our internal CSR oversight system on fabric mills, accessories, outsourcing factories, and suppliers. Conducted Headquarter CSR internal reviews on all apparel factories.• <i>Higg Index.</i> Completed the Higg Index at Esquel facilities.
Outcomes	<p>Here are the achievements as a result of the above activities:</p> <ul style="list-style-type: none">• The FLA Board approved the staff's recommendation for "FLA Accreditation" in February 2013 for 3-year period. This important achievement confirms the strength of our internal systems used to manage the implementation of sound labor standards throughout our supply chain. FLA Accredited also conveys a message that the company is committed to respecting and safeguarding the rights of its workers in line with international and local laws and regulations and the FLA Standards.• Completed the updating of our code of conduct in line with the FLA Code.• Translated our Code into 10 languages as appropriate for each site.• Trained over 50,000 employees on the Esquel workplace code through e-trainings and classroom orientations.• Fabric mills, accessories, outsourcing factories and material suppliers were also provided with training sessions related to Esquel's Code of Conduct and CSR assessments were done at the factory premises.• Headquarter CSR team completed internal reviews at all apparel factories• Each Esquel garment factory, fabric mill, and the accessory factory completed the SAC Higg index and an internal HIGG index improvement team was formed.

2. LABOR

Principle 3. Business should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4. the elimination of all forms of forced labor and compulsory labor

Principle 5. the effective abolition of child labor; and

Principle 6. the elimination of discrimination in respect of employment and occupation.

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.

- *Esquel e-Culture.* (Refer to Section 1 on Human Rights, Systems)
- *Esquel Workplace Code of Conduct.* (Refer to Section 1 on Human Rights, Systems)
- *Policies and Procedures on Human Resource Management (HR).* 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.
- *Policies and Procedures on Environment, Health and Safety (EHS).* 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.
- *CSR Internal oversight system:* (Refer to Section 1 on Human Rights, Systems)



With over 20 factories worldwide, we have dedicated teams at each site overseeing and managing human resources and environment, health and safety issues. Here is a selected list of our implementation activities in addition to activities listed under “Human Rights”:

- *Integration.* Integrated applicable international and local laws and regulations to company policies and procedures on HR and EHS.
- *Re-certification.* Re-certified factories on WRAP and ISO standards.
- *STeP certification.* Applied for STeP certificate for our facilities in China Gaoming. ‘Sustainable Textile Production (STeP)’ is the new OEKO-TEX® certification system on sustainable production.
- *Training programs.* People development is the heart of our people strategy. Trainings are strategically planned and executed both at headquarter and local levels. Headquarter Training & Development organized around 80 training programs for management staff. These trainings (number of trainings in parenthesis) include: on-boarding trainings (6), management trainings (27), technical trainings (22), fun-&-learns (16), and factory and company visits (6).

Factory Training & Development teams conducted on-boarding trainings to all employees which include the Esquel Code of Conduct, Company history, policies and procedures and grievance mechanism, among others.
- *Trainer Appreciation Award 2013.* To continuously acknowledge the contribution of our employees from non-training functions, we held our annual Trainer Appreciation Awards. This award aims to appreciate employees who devoted time and effort to lead and organize learning activities which drive knowledge sharing and continuous learning. They are also our “Continuous Learning Ambassadors.” This year, we are proud to recognize 2 Honorable Star Trainers, 7 Outstanding Trainers, and 9 Outstanding Management Trainee Mentors and Coaches, who have contributed to the Education e-culture at headquarter level.
- *Worker Engagement Activities.* All Esquel factories organized various employee events to further our employee engagement and development. Some examples are: the International Women’s Day, Children’s Day, Mini-library, Employees’ Fun Day, and Workers’ Celebration Day, children’s day, World environment day, Earth hour, EHS week, health promotional campaigns and motivational speeches for employees. Special activities were organized to recognize and reward various talents of employees through the “super talent competition” & most courageous women competition held for women’s day commemoration.
- *Worker-Management Communication Activities.* All our factories has worker-management communication systems which consist of trade unions, grievance mechanism, and committees which ensures that we are continuously connecting and listening to our employees



Outcomes	<p>Highlights of our achievements are as follows:</p> <p>POLICIES & SYSTEMS</p> <ul style="list-style-type: none">• HR policies were updated according to local government new regulations and the FLA Benchmarks.• EHS policies and procedures were updated also in line with applicable standards.• All policies were made accessible to employees through the company intranet, bulletin board and orientations.• All factories renewed their certifications on ISO 9001, ISO 14001 and OHSAS 18001 as applicable.• Our facilities in China Gaoming have attained the OEKO-TEX® STeP Certification, Level 3, and are the first textile enterprise in China to be granted with this new certification. <p>TRAININGS</p> <ul style="list-style-type: none">• Completed trainings on updated HR and EHS policies to all concerned employees.• Completed machine safety, ergonomics and related technical trainings and refresher trainings for workers.• Completed annual occupational health examinations for concerned workers. <p>WORKER-MANAGEMENT COMMUNICATION</p> <ul style="list-style-type: none">• Conducted meetings on trade union matters and negotiations with legally recognized trade unions in our factories.• All factories organized various employee relations events and activities such as International Women's Day, Earth Day, Children's Day, Mini-library, Employees' Fun Day, and Workers' Celebration Day, motivational lectures for employees
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3. ENVIRONMENT

<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>	
Systems	<p>Green manufacturing can be traced at 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 and ISO 14064 guidelines. • <i>CSR Internal oversight system:</i> (Refer to Section 1 on Human Rights, Systems) • <i>Research & Development.</i> Our R&D systems are engineered to ensure that we are always one step ahead of competition in terms of quality, innovation and design. Part of this system is the certification on of our products on internationally recognized eco-friendly standards.
Activities	<p>Highlights of our environmental initiatives are as follows:</p> <ul style="list-style-type: none"> • Re-certification of factories on ISO standards. • Applied for STeP certificate for our facilities in China Gaoming. • Completed the SAC Higg index on all garment, fabric mill and accessories 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, turbo-dyeing and biomass boiler. • Water conservation initiatives through waste water treatment plant, low liquid ratio dyeing technology, cold pad batch pre-treatment and dyeing technology, low temperature pre-treatment technology, heat exchange system for waste water, recycling condensed and cooling water, wet processing center innovation, and green washing. • Research with Nano technology institute of Sri Lanka for waste water treatment using Nano technology • Research and development of innovative green products and product certifications • Tree-planting activities in selected sites



Outcomes	<p>Main achievements in the reporting year include:</p> <p>SYSTEMS</p> <ul style="list-style-type: none"> • The environmental management system of our factories in China, Sri Lanka, Mauritius, Malaysia and Vietnam were all certified under ISO 14001. • Our facilities in China Gaoming have been certified under ISO 14064 to track and setup plans to reduce greenhouse gases (GHGs) emission. • Our facilities in China Gaoming have attained the OEKO-TEX® STeP Certification, Level 3, and are the first textile enterprise in China to be granted with this new certification. • Completed the SAC Higg index on all garment, fabric mill and accessories factories. • Esquel has received the Hang Seng Pearl River Delta Environmental Award – Gold Award in 2014. <p>TRAINING</p> <ul style="list-style-type: none"> • In addition to the trainings listed in Sections 1 (Human Rights) and 2 (Labor), all our factories completed environmental awareness campaigns like tree planting, tree donations, and green living. <p>SUSTAINABLE FARMING</p> <ul style="list-style-type: none"> • The use of natural pest control helped reduced pesticide consumption by 20-30%. • Drip irrigation method reduced water consumption by 20% and usage of chemical fertilizer. • Our sustainable farming initiatives resulted to increase in cotton yield, and in farmers' income and quality of life. <p>ENERGY SAVING</p> <ul style="list-style-type: none"> • Overall annual energy consumption fell by 39% from 2005 to 2013 with a saving of 325 million kWh savings, which meets the annual energy needs of 215,000 families. This initiative also led to a reduction of 330,000 tons of harmful greenhouse gases. • Installation of frequency inverters to most machineries 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 consumption. • 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 dyeing saved 8 million kWh of energy. • Use of biomass boiler reduced the use of 400 tons of diesel and carbon dioxide emissions by 1,200 tons per year. <p>EMISSIONS CONTROL</p> <ul style="list-style-type: none"> • 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 annually. • Clean low sulfur coal used for cleaner source of power fuel. <p>WATER CONSERVATION</p> <ul style="list-style-type: none"> • Overall water consumption fell by 56% from 2005 to 2013, which is equivalent to 9.84 million tons of water, sufficient to meet the needs of 55,000 households. • Waste water treatment plant neutralizes 32,000 tons of waste water from mills and factories. • A wastewater recycling program have been started since 2012 to recycle 5,000 tons of treated wastewater per day into operation use through advanced ultra-filtration and reverse
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osmosis technology. There is plan to eventually expand the program to recycle 20,000 tons of treated wastewater per day.

- 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.
- Cold pad batch pre-treatment and dyeing technology resulted to 70% reduction in water and 80% reduction in energy consumption.
- 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.
- 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 annually.
- Wet processing center recycled water in the apparel washing process up to 5 times.
- Processes on apparel treatment, pre-treatment and finishing were changed to use ecologically advanced and bio-degradable products only.

INNOVATIVE GREEN PRODUCTS

- Our products were certified on: (1) OE Blended & OE 100 Standards of The Organic Exchange, (2) Global Organic Textile Standard, (3) Organic Content Standard, (4) Oeko-Tex Standard 100, and (5) Global Recycle Textile Standard
- 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.
- 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

<i>Principle 10. Business should work against corruption in all its forms, including extortion and bribery</i>	
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> Business Ethics and Conduct • <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 is as follows:</p> <ul style="list-style-type: none"> • e-Culture trainings 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. • Developed a set of corporate level “Business Ethics and Conduct” policies and procedures and provided a series of “Ethics 360” training workshops
Outcomes	<p>Some of our achievements are:</p> <ul style="list-style-type: none"> • Completed internal audits on all selected factories and offices. • Completed CSR internal reviews on all garment factories, selected fabric mills, accessories, and outsourcing factories. • Completed a series of “Ethics 360” at headquarters and factories.

5. CROSSCUTTING: ENGAGEMENT & TRANSPARENCY

We want to be an agent of positive change in our industry and in the communities where we operate. As a result, 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 (PS) affiliate of the FLA since 2008. As a PS, we have worked with the FLA in the development and refinement our Workplace Code of Conduct, our internal oversight system, and our public reporting. We have also had FLA assessors at our factories to conduct unannounced audits. Following each audit, we have submitted corrective action plan reports and have conducted our own follow-up reviews. Our affiliation with the FLA drives our commitment to continuous improvement and transparency. The FLA publicly posts our list of factories and any audits they conduct on their website.

In February 2013, the FLA Board voted in approval of the accreditation of our systems for 3-year period. This accreditation acknowledges the effectiveness of our systems to ensure respect and protection of workers rights in relation to international and local laws, regulations and standards.

5.2 Better Work Vietnam (<http://betterwork.com/vietnam/>)

Better Work Vietnam (BWV) 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.

We are continuously participating in and working with BWV. As of the writing of this report, we have 2 factories in Vietnam that are members of BWV. They work with Better Work assessors and assist them in their factory audits, meetings and activities. In addition, our Headquarter CSR team also hosted one of the BW meetings here in Hong Kong.

We believe our partnership with BWV will not only lead to the continuous improvement in workplace conditions, it will also enable greater competitiveness in Vietnam's apparel industry.

5.3 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, Esquel 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.

5.4 The Employers Federation of Ceylon (<http://www.employers.lk>)

The EFC is the largest employers' organization in Sri Lanka. Its membership of some 525 companies represents an employee base of over 440,000 people.

EFC is part of the ILO Global Business and Disability Network.

The Employers' Federation of Ceylon (EFC) established the Employers' Network on Disability to promote the employment of people with disabilities within the Sri Lankan business community in 2000. Esquel Sri Lanka operations joint hands with EFC in the Disability networking event in 2008 and since then increased the number of disable employment in the manufacturing plants in Sri Lanka.

ENVIRONMENT

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

Esquel shares 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 adoptions of the Higg index in our factories.

5.6 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.

Esquel is in partnership with the IPE through their Green Choice Alliance program. We access their database to evaluate suppliers and to drive improvements in our supply chain.

5.7 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. An example 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."



5.8 National Cleaner Production Center of Sri Lanka (<http://www.ncpcsrilanka.org>)

The National Cleaner Production Centre (NCPC) is the foremost Cleaner Production solutions provider in Sri Lanka. The centre was established by UNIDO under the Ministry of Industry and Commerce to assist enterprises in adopting Cleaner Production (CP). Founded in early 2002, the centre has over ten years of experience promoting Cleaner Production and resource efficiency in various industrial and non-industrial sectors in the country. NCPC is a member of the UNIDO/UNEP Global Network of Cleaner Production Centres and is also a member of the Resource Efficient and Cleaner Production Network (RECP.Net).

Esquel Sri Lanka operations join with NCPC in late 2012 for assessing and implementing cleaner production concepts in the manufacturing process. In 2013, we communicated with them for a project called "Prosper Sri Lanka" where the aim of the project was to measure and implement strategies in resource (material, water, energy) utilization and optimisation. Apart from this, our factory staff attends various training programs & Discussion forums organised by NCPC

- End of Report -