



KUFNER

Sustainability
Report
2017

Communication on Progress
to the United Nations
Global Compact



WE SUPPORT



Preface

- Statement of continued support by the Chief Executive Officer -

The textile industry faces many sustainability challenges. Kufner, by publishing this second sustainability report, wants to provide insight to all stakeholders on how we address such challenges.

In 2017, there was a large focus on chemicals management and waste reduction, key environmental impacts in our business. We also assessed our Carbon Footprint for the third time, which keeps reducing. Our Social and Ethics efforts were constant throughout the year.

This report is also our annual Communication of Progress (COP) and will be published on the UN Global Compact Website. Hereby, we reaffirm our commitment to core values in the areas of human rights, labour, environment and anti-corruption we made with the signing of the UN Global Compact in 2016.

We invite all business partners and other interested parties to join and support us in realizing this vision and get in contact with us in case of any questions or suggestions.

Munich, July 2018

Ulrich Sogl

CEO of Kufner



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Further information:

Kufner: Corporate website

<http://www.kufner.com>

United Nations Global Compact

<http://www.unglobalcompact.org/>



1 Social Responsibility

1.1 Human Rights

Principle 1: We support and respect the protection of internationally proclaimed human rights

Principle 2: We make sure that we are not complicit in human rights abuses

Our Commitment to Human Rights

Kufner commits to fully respect the human rights. Through our activities, we avoid infringing the human rights of others and address adverse human rights impacts with which we are involved - corresponding to the UNGC principles.

Risks identified

Human rights refer to "civil and political rights, such as the right to life, equality before the law and freedom of expression; economic, social and cultural rights, such as the rights to work, social security and education, or collective rights, such as the rights to development and self-determination, are indivisible, interrelated and interdependent"¹. In the context of our work, they can relate to safe and good working conditions. Other labour human rights are treated in the "Labour" part of this document.

In 2016, Kufner has carried out a study to identify the environmental and social impacts of dedicated products lines, from the upper part of the supply chain to Kufner. Therefore, Kufner is aware that potential breaches of human rights may arise in the supply chain. As in the previous years, Kufner has again addressed these issues in 2017, in the supply chain with the audit program, and its own operations.

Human Rights in our own operations

Kufner's code of conduct and procedures related to human resources and human rights lead to an achieved objective of no breach of our code of conduct

✓ 0 human rights-related incidents

¹ Source: United Nations OHCHR



Healthy environment

Taking account of national requirements, we have implemented appropriate measures to safeguard health and safety at work with a view to preventing work-related accidents in the framework of our activities and protecting the health of our workers.

Which measures are in place to ensure that Kufner provides a healthy environment? As of 2016, our health and safety management system steered various measures in 2017:

- regular risk assessments and checks
- record of accidents
- procedure update
- legal controls performed
- employee health checks
- health and safety trainings
- noise reduction program
- personal protective equipment

As a result of this program, our injury rate and lost time injury rate are considered quite low.

✓ Injury rate: 0.023 (10 accidents)

Decent working place

At Kufner, we grant our employees the right to rest periods on each working day and recognize important statutory holidays. Minimum pay rates must not fall below those set by law or collective agreement. At Kufner, we take account of the consideration that pay for regular full-time work should be sufficient to meet workers' basic needs even in countries without a pay framework based on law or collective agreement.

Insofar, as applicable national laws or applicable workplace agreements do not specify a lower maximum working time, regular working time should not exceed 48 hours plus a maximum of 12 hours of overtime. As we want to make sure that overtime is not abusive, working hours are recorded and monitored.

In addition, we provide fair compensation, which is clearly communication through pay slips and in our code of conduct, and employees will be regularly informed about the composition of their remuneration.



Finally, Kufner focuses on career management by organizing various skills development trainings for the employees.

Last but not least, Kufner wants to foster a company culture and has focused on team building. For example, our site in Shanghai was closed for three days and the employees were paid a common trip, in order to reinforce links between the employees.

✓ Average of 8 hour of training / employee / year in 2017, same as 2016

1.2 Labour

Principle 3: We uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

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

Our Commitment to Labour

At Kufner, we respect the core labour standards of the International Labour Organisation and create a safe and decent work environment.

Risks identified

In 2016, Kufner has carried out a study to identify the environmental and social impacts of dedicated products lines, from the upper part of the supply chain to Kufner. As a result, Kufner is aware that potential breaches of human rights and labour may arise in the supply chain. Such issues are addressed directly with our supplier program. Concerning our own facilities, we have implemented the following actions.



Freedom of association

Kufner respects the right of workers and employers to establish, without prior authorisation and as they so choose, organisations whose object is to promote and to protect the interests of workers or employers, to join such organisations and to select their representatives freely.

We strive to ensure optimal working conditions for all employees, meeting and where possible exceeding all legal requirements. For example, in our site of Weisskirchen in Austria, regular meetings are organized with the workers committee (Betriebsrat), where workers' representatives are elected. Our sites of Munich (Germany), Weißkirchen (Austria), Kuty (Slovakia) and Shanghai (China) have existing employee representatives.

✓ 72% of our workforce have access to existing employee representatives

Equal opportunities and discrimination

We have a policy in place to prevent sexual harassment. At Kufner, we treat our workers with dignity and respect.

We refrain from any form of inappropriate treatment, abuse, harassment and intimidation as well as illegal punishments vis-à-vis workers. Disciplinary measures are set out in writing and in a form which the worker can understand.

In addition, there is a non-discriminatory recruitment policy. We commit to refrain from all forms of discrimination, exclusion or preference based on ethnicity, skin colour, gender, religion, political opinion, nationality and social origin resulting in the removal or restriction of equality of opportunity or treatment in employment or profession. Furthermore, the principle of equal pay for male and female workers for the same work should be applied.

We keep a record the number of incidents regarding employee rights or discrimination (e.g. formal complaints, legal conflicts etc.), of which there were **none** in the last two years. For 2018, we aim to keep this number at zero.

✓ 0 discrimination incidents for the past two years





No child or forced labour

At Kufner, we do not accept any economic activity based on forced labour, bonded labour or serfdom. We prohibit specifically all type of child labour and actively promotes its effective abolition. Our employment policy is in accordance to legal requirements.

For younger workers in apprenticeship, our program strictly follows the law: no overtime for them, no work with hazardous chemicals, among other measures. We also have a process to prevent recruitment of underage workers (including proof of age).

For the second year in a row, since we have implemented such monitoring, no case was reported.

✓ 0 case reported in 2016 and 2017

Further information

- Kufner: Code of Conduct: at [www.kufner.com / company / downloads](http://www.kufner.com/company/downloads)
- Collective Convention RKV (In German): <https://www.wko.at/branchen/gewerbe-handwerk/mode-bekleidung/textilreiniger/kollektivvertraege-textilreiniger.html#>



2 Ecological Responsibility

Principle 7: We support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility;

and **Principle 9:** encourage the development and diffusion of environmentally friendly technologies

2.1 Environmental Protection

Our Commitment to Environmental Protection

Kufner complies with applicable laws, provisions and administrative practices regarding the protection of people and the environment in the countries where we are active. All Kufner factories naturally work following Environment management standards, certified at our site of Weisskirchen in Austria according to ISO 14001 without compromises.

Risks identified

In the study carried Kufner has identified the following main impacts for the upper part of the supply chain and our facilities: chemicals management, energy and emissions, water usage and waste and materials. We interact with the suppliers on such topics, and have our own measures at Kufner.

Chemicals Management

Textile industry involves the use of chemicals, in the dyeing process for example. It is then crucial to properly manage, store, handle, transport and dispose of chemicals. Kufner respects all applicable laws regarding chemicals, and has formalized them into a chemicals management system, including various processes (such as verification process, or dedicated responsibility for chemicals management) as well as dedicated trainings for the employees to differentiate the hazards and properly deal with them. Supporting tools are also used, such as inventory of chemicals, or dedicated safety sheets. Finally, prevention measures are put into place, such as separate storage rooms which are properly ventilated, for example.

In 2017, Kufner has deepened its chemical management program to move more and more in direction of the ZDHC Program (ZDHC Roadmap to Zero Programme takes a holistic approach to tackling the issue of hazardous chemicals in the global textile, leather and footwear value chain)² The target was to analyse and replace all chemicals and auxiliaries used

² Source: <https://www.roadmaptozero.com/>



to produce and finish textiles, in order to achieve ECO – TEX Class 1 Chapter 6+7 instead of Class 2,4+5. The efforts during the year 2017 led to the Class1 Certificate (Chapter 6+7) in Spring time 2018.

In June 2017, we have obtained the STeP certification by Oeko-Tex, for our site of Weisskirchen in Austria, which also emphasizes proper chemicals management. Our site of Shanghai also achieved the re-audit "Trim Supplier Qualification Program", provided by the company Intertek, which contains a focus on environmental management.

✓ 2 Audits in 2017

In addition, Kufner also invested in the reduction of environmental impacts due to dyeing processes. In 2017, the site of Shanghai started to transfer from standard black PES Material to spun-dyed fibres (black). The Dying process during spinning is much more environmental friendly compared to a standard dyeing process in a dyeing vessel with dispersion dyestuff. Although the total output of production has increased in the first quarter of 2018 about +4%, the site reduced the amount of dyeing processes for about -17% due to the changes in 2017

✓ reduction of 17% in dyeing process

Water management

As last year, some of our production processes rely on water inputs. To avoid pollution of water, we use state-of-the-art technologies, like in our site of Weisskirchen.

We first use the well water for process cooling; secondly, we use the same (after cooling) for the dyeing process; thirdly we run this (hot) water through the chiller (heat exchanging device) to get the energy and finally we put this water to the Kufner water cleaning plant and back to the public water cleaning plant. In this sense, we reduce our water consumption.

Also, we have the waste water monitored twice a year, by an independent authorized lab testing body.

✓ same water reused 2 to 3 times



We also strive to reduce our water pollution in other production sites. For example, we installed a special unit in our site of Shanghai to reduce the Chemical Oxygen Demand of waste water, from 300 to 100.

✓ reduction of Chemical Oxygen Demand from 300 to 100 for one of four production sites

Energy and emissions

At Kufner, we want to reduce our energy consumption and CO₂e emissions.

Our energy-saving measures in 2016 and 2017 are alike:

- heat recovery
- heat exchange
- frequency controlled engines
- heat insulation of machines
- heat insulation of distribution pipelines

Such focus is mainly put on the production sites, where most of the environmental impacts lie.

In addition, we checked the efficiency of these actions by measuring our energy consumption, and through energy audits.

✓ Use of renewable energy in at least 1 site

Regarding the carbon footprint, in 2016 we launched our first-year estimation. The project target was to calculate a first Corporate Carbon Footprint of Kufner Holding GmbH ("Kufner"). Covered are direct emissions from own facilities, own vehicles and purchased energy, as well as indirect emissions along the value chain.

The Carbon Footprint for Kufner was assessed via a complete analysis considering the selected inventory boundaries. The calculation is based on the methodology of the Greenhouse Gas Protocol (GHG Protocol) and covers all relevant Scope 1, 2 and 3 emissions. We have now assessed three years of carbon footprint.

✓ estimated total Carbon Footprint amounts to **119,348.00 t CO₂e** for 2015, **103,112.00 t CO₂e** for 2016 (-14%) and **99,391.00 t CO₂e** for 2017 (-4%).



The reduction from 2015 to 2016 can be explained by a change in the product portfolio. Some of the used resources are very emission-intensive, others are not. A minor change of that portfolio can have a huge impact on the footprint. A slightly higher or lower use of certain critical chemicals or materials can result in a huge rise or fall of emissions. In addition, the energy measures described above can also account for a smaller carbon footprint.

The reduction from 2016 to 2017 can be accounted by several factors:

- regular reduction activities from Kufner side (waste and chemicals management for example)
- Reduction of the purchased goods and services, which account for more than two thirds of the carbon footprint. The share of materials with higher emissions factors such as PES has for example decreased, leading to less CO₂e emissions.
- Change in emission factor for gas. Gas consumption represents the second large share in our corporate carbon footprint. The emission factor has been updated to reflect the latest standards, leading in a decrease in CO₂e emissions.

Natural resources and waste

Proper management of waste as well as possible reuse in the framework of the recycling economy are important insofar as this is possible under local circumstances. For example, our measures include:

- Waste recycling for cardboard and plastic
- Waste sorting process
- Reuse of PES or packaging material

Moreover, there was a focus on waste management during the year 2017. An important Group Goal was to have a more efficient usage of material in all stages of production. Training the department managers and shift masters had a positive effect on the workers to avoid scrap and waste.

One of the key point was to improve the sewing to connect rolls together. With cleaner and more professional connection, there are less folds in production and less waste.

✓ reduction of -28% in waste from 2016 to 2017



2.2 Animal and species protection

We want to use the opportunity of the Sustainability report to renew our commitment to animal protection. In our business actions, we respect the principles of animal protection. Animal husbandry and use should be organised to meet the needs of specific species. We adhere to the Washington Convention on protection of endangered species of fauna and flora (CITES) and orient their business actions accordingly.

Further information:

- GHG Protocol: <http://www.ghgprotocol.org/>
- Carbon Footprint: <http://dfge.de/en/corporate-carbon-footprint/>
- CITES: <https://www.cites.org/>
- STeP Certification: https://www.oeko-tex.com/en/business/certifications_and_services/step_by_oeko_tex/step_start.xhtml
- ZDHC: <https://www.roadmaptozero.com/>
- Trim Supplier Qualification Program: <http://www.intertek.com/business-assurance/supplier-management-tqp/>



3 Ethical Responsibility

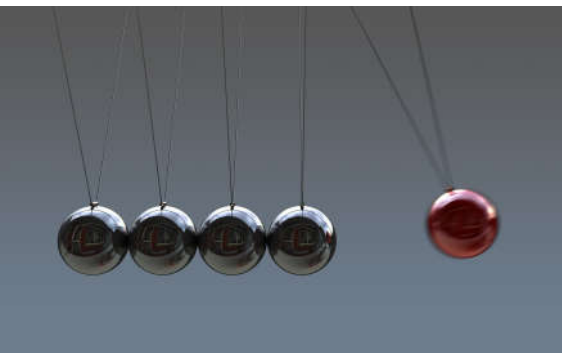
3.1 Anti-Corruption & Fair Business Practice

Principle 10: We work against corruption in all its forms, including extortion and bribery.

Our Commitment to Anti-Corruption

As Kufner, we only engage in legal business practices taking account of fair competition, intellectual property rights of third parties as well as antitrust and competition rules. We reject all forms of corruption and bribery and promote in an appropriate manner principles of responsible business management such as transparency, accountability, responsibility, openness and integrity. Business partners should be treated fairly. Contracts should be complied with insofar as the framework conditions do not change fundamentally.

Risks identified



As a global solution provider, Kufner acknowledges some risks of corruption in its interactions with stakeholders, despite stringent law in Europe. Corruption is identified as the abuse of entrusted power for private gain according to Transparency International. To address such issues, Kufner has updated its code of conduct in 2017.

Kufner monitors the number of incidents related to corruption of any form. In the last two years, there were **none** reported to us.

We want to keep this goal for 2018.

✓ 0 corruption-related incidents



3.2 Consumer interests

Our commitment to consumer interests

Kufner takes appropriate measures to safeguard the quality of the products we offer. We ensure that our products comply with all statutory rules with regard to health and safety and are harmless and safe in health terms for their intended use. We also take consumer interests into account by applying fair business, marketing and advertising practices and promoting consumer education.

Risks identified

Customers are increasingly requesting sustainable products. Kufner wants to match the needs of the customers worldwide. Also, quality is key on the interlining market, therefore Kufner has a strong quality management in place.

Quality

In 2017, our quality program was still structured around dedicated responsibilities, and a quality manual. We follow the standard ISO 9001. As such, we use quality methods such the Plan-Do-Check-Act, or Quality circles; production processes are planned and described, records are kept. We monitor the number of complaints and address them according to our processes.

✓ -43.6% in number of complaints from 2016 to 2017

Sustainable products



In 2016, we launched the 2016/2017 Kufner Sustainable Collection, to match the growing demand of customers for more sustainable products. Such products were presented at various fairs in 2017. In addition, in 2017 we invested 3.250 hours of R&D Time for sustainable Program (Products).





The Naturals collection is made of organic raw materials while the Recycle collection is composed of recycled fibres.

Below is an overview of our collection:

ARTICLE	WOVENS	NONWOVENS	CANVAS	
SW1070V27	•			
SW1120V	•			
SE5065M27		•		
SE5080M27		•		
SC2400M			•	
SC2500M			•	
SC3700M			•	
SC4350M			•	
SC9300M			•	
SW2046M31	•			
SW2048M31	•			
SW2056M31	•			
SW2081M31	•			
SW7065M31	•			
SE1340M31		•		
SE2025M31		•		



3.3 Sustainable Procurement

Suppliers are part of our stakeholders. As such, we include them in our sustainability and overall strategy, especially since most of the environmental and social impacts are located within the supply chain.

Our Commitment to Sustainable Procurement

Our Code of Conduct also applies for our partners. We want our suppliers to follow the same standards as we do regarding all areas of sustainability.

Risks identified

Kufner has carried out a study to identify the environmental and social impacts of dedicated products lines, from the upper part of the supply chain to Kufner. The outcomes of such survey are that there are indeed environmental and social risks inside Kufner supply chain, including water pollution, child labour, energy management, chemicals, forced labour, working conditions, among others.

Our actions

We strongly promote the use of UNGC principles towards the suppliers

In addition, our main suppliers are frequently audited with a questionnaire. Since January 2017, we have now added questions on sustainability in the audit questionnaire to match the recent risk analysis and new code of conduct. We had 37 audits in China in 2017.

New questions feature for example: "Do you resort to sustainability frameworks", to increase the use of recognized standards, or "do you set sustainability requirements towards your suppliers", to foster improvement in the supply chain.

✓ 37 supplier audits



4 Outlook

At Kufner, we want to keep being as proactive as possible regarding sustainability. In this sense, we want to keep assessing our carbon footprint and investigate the use of emissions reduction targets and measures.

We want to keep our chemicals management in order to reduce our impacts in this sense.

We will keep our focus on relevant certifications and standards and keep promoting our sustainable products.

If you are a stakeholder of Kufner, and you wish to share with us any ideas or suggestions for improvements, we welcome such initiatives. We see it as an opportunity to improve, and we rely on our long-term partners to help us identify further steps in terms of sustainability.

GLOBAL
SOLUTION
PROVIDER



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