



SOCIAL REPORT

Start date FWF Membership: 2015

Reporting period (financial year): 2017

WWW.STARSOCK.COM

Content

- The future is in our hands 3
- 1. Achievements & Objectives 2017..... 4
- 2. About Star Sock 6
 - 2.1 Organization 6
 - 2.2 Sustainability 7
 - 2.2.1 Social Production 7
 - 2.2.2 Sustainable Materials..... 7
 - 2.2.3 Reducing Environmental Impact 8
 - 2.2.4 Increasing Positive Impact..... 9
 - 2.3 Star Sock Spirit 10
 - 2.4 Product range..... 11
 - 2.5 Production..... 11
 - 2.6 Production Partners..... 12
 - 2.7 Supplier relations 13
 - 2.8 Monitoring activities 15
 - 2.8.1 China..... 16
 - 2.8.2 Turkey 19
 - 2.8.3 Portugal 20
- 3. Sourcing Strategy 21
 - 3.2 Strategy and pricing 23
 - 3.3 Buying department..... 24
 - 3.4 Production cycle..... 24
- 4. Complaint handling 25
- 5. Training and capacity building 26
- 6. Transparency and communication 27
- 7. Stakeholder engagement 27

The future is in our hands

What can be learned from yesterday, to act on for today and to make it happen for tomorrow.

It is a constant challenge to stay focussed on the future and the place we want to be at, in order for everybody to live happily ever after. This final destiny is what makes us going, what makes us act and what makes us worth living for. It is with good reason why I speak about US. It is US altogether, that can make that necessary change.

I absolutely realize that for me as the owner of an European company it might seem easy to speak about better choices. Easy because we have so much and someone else has so little. Therefore we feel it as our obligation to gather our strengths and inspire others to join us in this complicated journey. Honestly speaking, I would not call this journey easy. On the contrary it is difficult, by nature we are all price driven (producers and consumers) and impulse driven. Besides that we work in a competitive market, where socks are seen and treated as a commodity product. Adding sustainable choices when there is very little wiggle room, requires an extreme level of persistence.

For me as an individual it is impossible to create a worldwide balance. This needs to be a global dream but being a small scaled business there are many smaller and feasible dreams that might contribute to the bigger picture - the global dream. We can all do small things each day, and step by step, bit by bit it will grow and become meaningful.

In our competitive market it is a great challenge to stick to your believes and keep the right spirit. Especially in 2017 it hasn't been easy for us, as we lost a substantial part of our business. But even now I stay true to the choice we made, which is contributing to the necessary change in the textile industry. However, we need additional support: assistance, training and motivators to stick to the plan, stay focussed and book results. We consider Fair Wear Foundation as our training partner, they inspire us to walk the extra mile and check if we are still going into the right direction and make the required steps. Again, it is not always easy and sometimes it takes longer than expected. The finish line is big dot on the horizon, we are not able to touch it yet and maybe we never will, but together we are able to get closer.

Lets stay focussed for tomorrow!

Eric Roosen

1. Achievements & Objectives 2017

2017 Has been different from previous Star Sock years for different reasons. Not in the least because the revenues dropped substantially which lead to an reorganization in June but it also came down to the resilience and the urge to survive of the whole Star Sock team in the Netherlands and China. Star Sock needed to re-invent itself, needed purpose and valid reasons to exist, a fresh start, but not necessarily a strategy switch. All certainties where out the window which made 2017 the beginning of a new chapter. In fashion you often work one year ahead, which enables you to forecast difficult situations. During the brand performance check in 2016, Star Sock already anticipated on a difficult 2017 and even 2018. That being said; the sustainable goals were never jeopardized and investments in this regard have been continued, with the only difference that the leverage with our supplying partners dropped significantly. Our supplying partners were informed well in advance and transparent which enabled them to take instant measures where necessary. The open communication helped us keeping most of our partners on board.

This year was used to gradually implement the FWF requirements from previous audits and WEP trainings. The stage where we needed to urge our partners for action concerning social standards and improving working conditions has past. The attitude towards these subjects and NGO's like Fair Wear Foundation has had a tremendous turn into the positive; which helps the social dialogue. Nevertheless reasonable hours of work/overtime, payment of living wage, freedom of association and collective bargaining, large turnover of workers after CNY and cultural differences keep coming back and solutions are hard to find. The bottleneck that keeps coming back is Star Sock's leverage and scaling. This report will give a good insight in what Star Sock achieved and struggled with in 2017.

Nico Zhang - Manager Star Sock Zhuji: "In general our social compliance approach in 2017 was slower in comparison to previous years. It seems that we are facing a bottle neck, now big issues like overtime, living wage and social insurance are being discussed.

The problems our factories are facing are quite the same between the different suppliers: working hours and social insurance. It is good thing that retailers, brands and Star Sock are willing to invest to improve workers conditions however in my opinion there is still a substantial gap between the hard industrial reality, the old fashion local low and the ideal situation that organizations like Fair Wear Foundation are after.

The core conflict: a low profit business versus gradually higher expenses of workers. Pushing factories to improve is becoming more complex, more efforts are needed from customer sides on multiple levels but prices are squeezed. Retailers who really care about the workers should somehow pay better than others, and monitor that the extra money is used for improving the worker's condition. In my opinion this should be an industry change and I don't see this happen on the short term, maybe only when governments are getting involved somehow and create a level playing field? Currently customers don't pay extra and meanwhile push factories to improve and invest in workers conditions, this is not a sustainable way to make changes happen. The last couple of years I have seen good changes on a more low scaled level but I am very curious to found out what bigger steps we can make in the future. Star Sock is small and does not have the buying power but we keep addressing critical issues and try to keep the ball rolling. For me personally, this goes with ups and downs. Being the middle man (between factory and Star Sock HQ) is not always easy.

To sum up, it has to come up from both sides, a factory should gain more when the input on social compliance is substantial, and so far our factories did not experience this yet. Star Sock pays a fair price but most others only care about squeezing the price as much as they can. To me this does not seem fair and this makes me question all the different social compliance initiatives".

Angelie Roosen - Financial Director Star Sock: “It is very important to me that workers all around the world are provided with a healthy work environment. That they are able to do something they like to do, are free to make their own decisions and earn a fair wage. Organisations like Fair Wear Foundation are needed to overlook if all necessary measures are taken to provide this working environment. During the last couple of years I have seen a change in the mentality of fellow entrepreneurs and different stakeholders in the industry. However, I feel consumers are far behind and are not yet permeated with this sense of urgency. Maybe they rely on retailers and brands to make the right choices.

Being a consumer myself, I experience difficulties comparing products and making sustainable purchases. That is why I am in favour of a label, like the energy label. This way consumers, producers and employees immediately know the sustainability level of a product without having to read the label.

We have to prevent a one way stream, where criteria’s are solely initiated by the Western world. Criteria’s needs to be set in accordance with producing countries and with respect for different cultures. We have to stop pointing fingers; even in the Netherlands work- and living conditions of migrant workers are not always up to standard).”

Willem Schilders - Supply Chain Manager Star Sock: “Without Fair Wear Foundation, Star Sock, wouldn’t be the sustainable partner in socks as we are today. The guide they give on the local laws and working circumstances help us and our production partners to act on a higher level.

Their tough but reasonable approach makes you want to work harder to establish more goals. Also the information coming back from the audited factories is very promising. The production factories really open the books to fair wear, as the fair wear auditors are really helping the factories with complex issues.

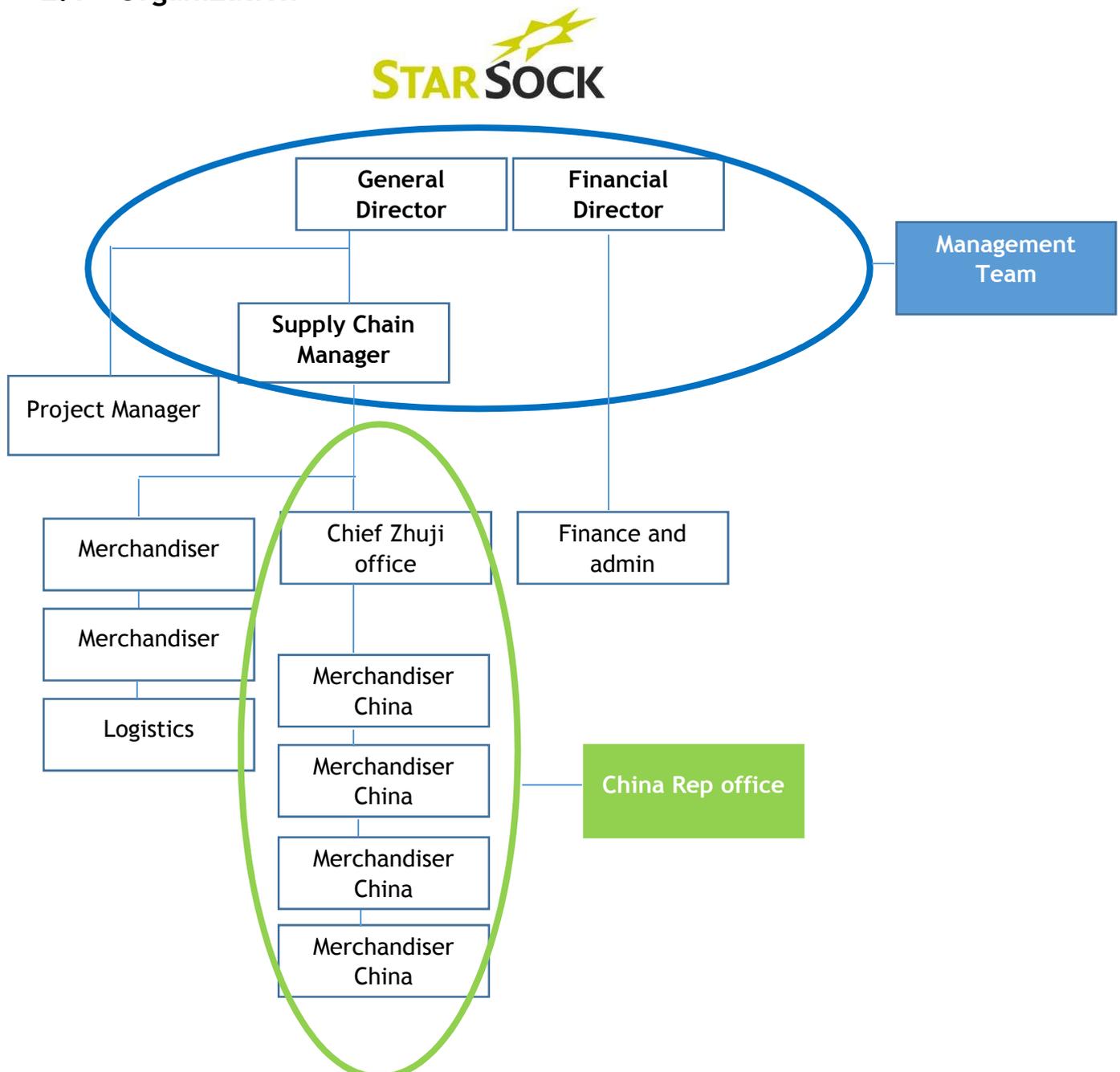
It is a pity that the mass market don’t value the Fair Wear Foundation and its companies on the real value. All the hard work that is been done, is still kept a lot under the radar.

It would really help if it also could get a commercial benefit, so that more companies and supply chains are involved and most important more money goes to the workers in well managed factories, with the ultimate goal a fair living wage for the whole textile industry.”

2. About Star Sock

Star Sock sells over 15 million pairs of socks every year. Together with the dedicated and enthusiastic teams in Oisterwijk and Zhuji (China) Star Sock strives to continuously innovate; offering surprisingly sustainable socks and 'worry-free' processes which contribute to a better world. We help our clients by being successful in selling sustainable socks. We do not keep stock but produce private label products designed according to our clients' wishes. As licensee we successfully market the sock proposition of various well-known brands such as Gaastra and NZA. Besides making socks we respect our environment and actively invest in preserving it for future generations to enjoy.

2.1 Organization



2.2 Sustainability

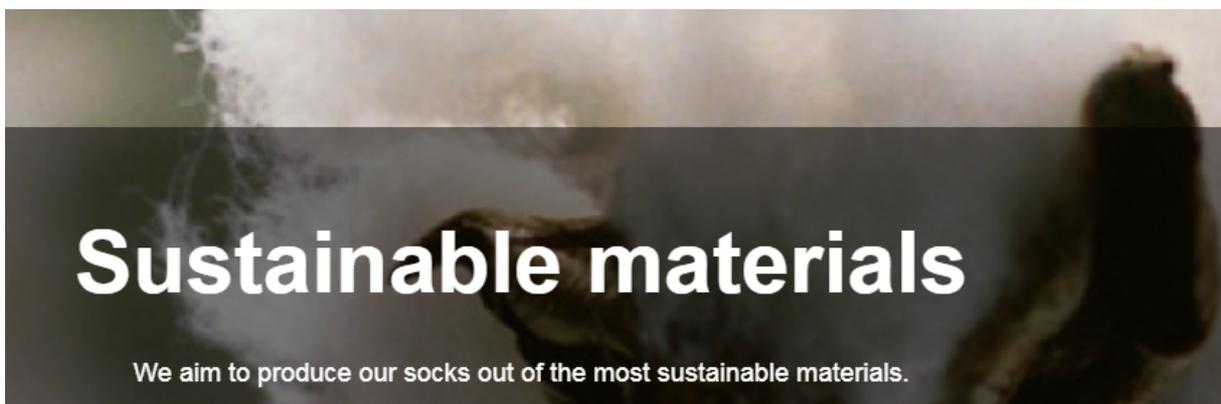


2.2.1 Social Production

We are committed to produce our socks under fair labour conditions. We strive to implement our Code of Labour Practices and Star Sock Spirit in the factories we work with. We use the Fair Wear Foundation Code of Labour Practices, based on ILO conventions and the UN's Declaration on Human Rights.

Our production locations are based in China, Turkey and Portugal. In 2009 we opened our own Chinese office in the Zhuji area. This office enables us to further implement our social and quality standards in our production locations, by engaging our Chinese staff/ QC's and making them part of our sustainable journey. The Chinese office helps us to establish long-term partnership with our suppliers. Long-term relations form a solid basis for the implementation of fair standards in the factories. Nevertheless, we have always made the decision to manufacture one-third of our total production in low-risk country Portugal. In 2017, due to the sales decrease, this goal has not been reached. Portugal is part of the European Union, which means there is already local compliance with basic labour conditions, due to the high standards and proper functioning of local (labour related) institutions.

2.2.2 Sustainable Materials



We aim to produce our socks out of the most sustainable materials. At Star Sock we like to work with sustainable materials as much as we can. We even strive to produce 80% of our socks exclusively out of sustainable materials by 2022.

- **Regenerated polyamide**

ECONYL® is used, a high-quality Polyamide yarn made from nylon waste, in the manufacturing of our socks. ECONYL® is developed through an innovative industrial regeneration process; turning nylon waste, such as recovered fishing nets and plastics, into new yarn.

- **Recycled cotton**

In the garment production a lot of cutting waste can be found. This ‘waste’ is often good quality cotton that is thrown away. In our production process these flakes are used as the base material for regenerated cotton yarn. This is a perfect yarn for our sports and workwear socks. Our sport socks from Portugal are made out of recycled cotton yarn, displacing the need for virgin cotton and significantly reducing the environmental impact of production.

- **Organic cotton**

Although cotton is a natural and very comfortable product, it is not necessarily an environmentally friendly fibre. It is a thirsty crop, requiring a lot of water and a lot of pesticides. We are therefore gradually increasing our use of certified organic cotton. To achieve this we work with organizations like Organic Content Standard (OCS) and the Global Organic Textile Standard (GOTS). They help us verify, among other things, if our socks actually contain the amount of organically grown material we believe they do. Why? Because we want to make sure our communications about these percentages are honest and correct. These organizations also see to it that our cotton is produced without using chemical fertilizers or pesticides. The result is a high quality cotton that is better for the farmer and the environment.

- **Better Cotton Initiative**

In 2017 Star Sock signed a membership with the Better Cotton Initiative (BCI). BCI exists to make global cotton production better for the people who produce it, better for the environment it grows in and better for the sector’s future, by developing Better Cotton as a sustainable mainstream commodity.

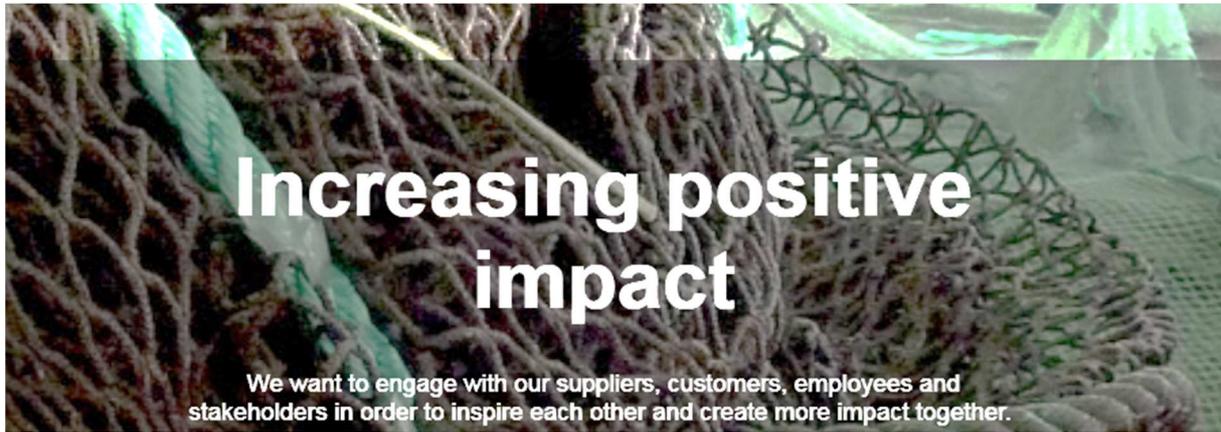
2.2.3 Reducing Environmental Impact



We aim to use less energy, less water, less chemicals and less packaging in our production process. Furthermore we strive for efficient logistics and work in an energy efficient office in The Netherlands. We currently focus on three main improvement areas: sustainable head office, environmental packaging and reduction of chemical substances.

2.2.4 Increasing Positive Impact

We aim to involve our stakeholders in our journey. In order to learn, inspire (in our role as ambassador for the Healthy Seas Initiative) and share our knowledge we visit and participate in various public meetings. We are part of working groups and our founder Eric Roosen participates in various discussion panels and is often invited to be a speaker during public or business events.



2.3 Star Sock Spirit



At Star Sock we are passionate about socks, about the people who wear them, and the people who make them. We believe that success is not measured solely in money, but also in the positive impact we have on those around us and our planet. We want to be successful as a company, and our core values **pleasure, professional, passionate and pure** are at the heart of everything that we do. Together we go the extra mile.

Therefore it is our mission to take work of our clients hands by providing **surprisingly sustainable socks**. We offer tailor-made solutions, bestsellers, competitive advantage and we help our clients to build a business case for **sustainable, good quality products** through their sock shelf.

To achieve this we intend to work with like-minded partners that share our focus, and establish **long-term partnerships**. We are committed to deliver quality products made under **fair conditions** for workers and the environment, a focus that should lead to **stepwise and continuous** improvements in our supply chain.

To guarantee that our products are made under fair conditions, as of January 2015 Star Sock is affiliated to **Fair Wear Foundation (FWF)**. As an independent non-profit organisation, FWF helps us to further improve labour conditions and advance the welfare of the workers in our production facilities. We use the FWF Code of Labour Practices as our **Social Code of Conduct**.

Where we strive to minimize our environmental impact, compliance with **local environmental law** is mandatory. From this baseline we are committed to collaborate with our partners to further minimize our **ecological footprint** through e.g. energy reduction, increased use of sustainable raw materials, minimal use of harmful chemicals, and reducing emissions. Not only will this benefit the environment, but also result in a leaner, greener, and more equitable supply chain.

Through this continuous improvement of social and environmental conditions, in which we build and expand each other's **knowledge and skills**, we aim to make our suppliers the **leaders** of their industry. An open and respectful collaboration that leads to better quality and a healthy and profitable way of doing business, for everyone involved.

This will be a continuous journey, as every challenge starts with one first step. In this journey we expect our existing and new partners to share our core values, which form the basis for our course over the coming years.

2.4 Product range

Star Sock deals with socks and socks only. This is a very clear and simple choice. We take control of the full operational process, providing a ‘worry-free product’. We translate our clients’ needs and wishes into a desirable tailor-made sock assortment consisting of basic and attractive private label socks in various product categories such as:

- **Private label socks**
Generally speaking we do not keep stock but produce tailor-made private label socks on demand and take work of our clients hand. We do not only develop quality products for a fair price – we go the extra mile by implementing sustainability criteria in our production process. We currently provide private label socks for large European retail chains and department stores such as Kaufland, Zeeman, As Watson and Albert Heijn.
- **Healthy Seas socks**
As co-founder of the Healthy Seas Initiative we help our clients to market a unique, sustainable and profitable business proposition: Healthy Seas socks. These comfortable socks are made with ECONYL®, a yarn created by upcycling old fishing nets. At Star Sock we have the exclusive license to produce and sell socks with this exciting and innovative yarn.
- **Branded socks**
Such a Lotto and New Balance in the past and Gaastra, NZA and Bullboxer in the present. Each brand is distinct and has its own characteristics. As licensee for various strong brands we understand this. We design, develop, produce and sell. This means we create individual brand concepts, translating them into high-quality technical and casual products which we sell to mass-merchant retailers in Europe. Star Sock successfully markets the sock proposition for recognized sports and outdoor brands.

2.5 Production

Star Sock believes that long term, tight and personal cooperation with our supplying partners is very positive for both parties. Some of our suppliers like Yijia in China and PCM in Portugal and Gelal in Turkey have been with us since the company started, others have been with us for years already. We visit each supplier on regular basis, normally twice a year in Portugal and Turkey and three times a year in China. These visits are not only done by the purchase department but also by the owner of Star Sock, who feels the need to spread his message from a personal ground. In the first three months of a new year, there is a management meeting where results, accomplishments and improvement in that previous year of both companies is discussed. The leverage of Star Sock in terms of orders is mostly below 10% but the commitment and two way stream communication makes supplying partners loyal and dedicated to Star Sock.

2.6 Production Partners

FWF number	Country	Factory name	Start partner-ship	Production volume 2017	Production volume 2018	Leverage 2017	Leverage 2016
6427	CHINA	Yijia	2004	28%	28%	10%	35%
7741	CHINA	Sanfei	2013	20%	20%	10%	35%
11448	CHINA	Boahe	2015	14%	7%	14%	15%
7743	CHINA	Goldenkey	2011	11%	17%	12%	40%
11449	TURKEY	KGB	2016	8%	1%	7%	2%
11450	TURKEY	Bogazici	2011	3%	0%	2%	1%
7747	TURKEY	Gelal	2004	2%	1%	0%	0%
7745	PORTUGAL	MC Socks	2004	4%	4%	1%	5%
7744	PORTUGAL	PCM	2004	5%	9%	1%	5%
7746	PORTUGAL	Estrada & Costa	2012	6%	9%	5%	15%

2.7 Supplier relations

China is still our main production country and responsible for 75% our our production volume. The Rep Office of Star Sock is located in the Zhuji area, where all of our suppliers in China are located. In Zhuji Star Sock has a team consisting of:

- **General Manager** → working at Star Sock for nearly ten years. Responsible for relationship management with our suppliers, overlooking and monitoring social and environmental compliance issues, dealing with quality issues and being in the daily lead of the office.
- **Two merchandisers** → One merchandiser is working at Star Sock for nearly ten years and the other is working at Star Sock for five years. Merchandisers are responsible for the entire order follow up until goods are being shipped.
- **Two Quality Controllers** → both working at Star Sock for about eight years. Qc's are responsible for the collection of samples, inline inspections, final inspections and as of 2017 we are training them to observe factories with a social compliance mind set and report Star Sock about the findings. Next step is to use our QC's as our extension tool for addressing subcontracting and make the first risk analysis in order for Star Sock Netherlands to take necessary measures.

In China we work with four small/ medium sized manufacturers (approximately between 50 and 125 workers) because this matches our order portfolio and makes it an partnership based on equality. We choose partners where the whole process knitting, boarding, toe seaming and packing activities take place. Being a small company we choose to work with manufacturers who can offer the whole process, this way we can make efficient use of our resources. These manufacturers are visited by Star Sock Netherlands at least three times a year and on a weekly basis by our Chinese colleagues. The stable relationships is based on an open, transparent and trustworthy two-way-stream communication necessary for continuous improvement. This year the Star Sock Zhuji team event took place together with staff members of Sanfei and Yijia (on their own initiative). This is to underline the mutual cooperation. Star Sock cannot guarantee a fluent and stable order flow (more on this topic is explained in the production cycle chapter) but throughout the years the order distribution between the four manufacturers has been the same. Unfortunately the order value has dropped significantly due to the loss of sales Star Sock was confronted with in 2017.

FWF number	Country	Factory name	Start partner-ship	Production volume 2017	Production volume 2018	Leverage 2017	Leverage 2016
6427	CHINA	Yijia	2004	28%	28%	10%	35%
7741	CHINA	Sanfei	2013	20%	20%	10%	35%
11448	CHINA	Boahe	2015	14%	7%	14%	15%
7743	CHINA	Goldenkey	2011	11%	17%	12%	40%

In Portugal we work directly with the manufacturers, who we have a long-term relationship with. Unfortunately Portugal was hit the hardest by the sales decrease of Star Sock in 2017. Since Portugal has a very slim product category and hardly any competitive advantage compared to Turkey or China, they are the most vulnerable when the market struggles. Especially Estrada & Costa, being the smallest factory is faced with difficulties. In the beginning of 2016 Star Sock was already transparent to its factories about the forecasts and throughout we have been in close communication to them and we still are.

FWF number	Country	Factory name	Start partner-ship	Production volume 2017	Production volume 2018	Leverage 2017	Leverage 2016
7745	PORTUGAL	MC Socks	2004	4%	4%	1%	5%
7744	PORTUGAL	PCM	2004	5%	9%	1%	5%
7746	PORTUGAL	Estrada & Costa	2012	6%	9%	5%	15%

As of 2017 Star Sock decided to work with an Turkish intermediary in Turkey. Local presence is very important, we learned from the inconvenient relationship with some Turkish suppliers. Face to face communication with Turkish suppliers is always “good” but when back in the office the chasing for answers and information starts and delays are more common than exception. Therefore, we choose to have local presence in the factory to help with communication and order follow up. This intermediary (Tuba) is paid by Star Sock for her interference from the moment the order is placed until the moment the order is shipped. In the first instance only orders at KGB were handled by Tuba but as of end 2017, all of our Turkish orders will be handled by her. During the last sourcing trip in Turkey, Tuba assisted our purchase manager on this trip and was involved in the decision making of selecting potentially new suppliers.

FWF number	Country	Factory name	Start partner-ship	Production volume 2017	Production volume 2018	Leverage 2017	Leverage 2016
11449	TURKEY	KGB	2016	8%	1%	7%	2%
11450	TURKEY	Bogazici	2011	3%	0%	2%	1%
7747	TURKEY	Gelal	2004	2%	1%	0%	0%

2.8 Monitoring activities

Factory Data			Monitoring Activities							
Production country	FWF factory number	Factory	FWF COLP signed	Star Sock self assessment questionnaire	FWF Audit 2017	Wep Training 2017	BSCI Audit	Auditor	Status CAP	Visits 2017
China	11448	Boahe	Yes	Yes	8-2017	X	1-2018	BSCI/ TUV	C status	1-2017 3-2017 7-2017 11-2017
China	7743	Golden key	Yes	Yes	X	X	11-2017	BSC/ BSI	Follow up C status	
China	7741	Sanfei	Yes	Yes	X	9-2017	2-2018	BSCI/ Intertek	Follow up B status	
China	6427	Yijia	Yes	Yes	7-2017	X	11-2017	BSCI/ TUV	Follow up C status	
Turkey	11450	Bogazici	No	No	X	X	1-2018	BSCI/ Intertek	Follow up D status	2-2017 5-2017 7-2017 12-2017
Turkey	7747	Gelal	Yes	Yes	X	X	4-2017	BSCI/ Intertek	No action A status	
Turkey	11449	KGB	Yes	Yes	X	X	1-2018	BSCI/ SGS	No action C Status	
Portugal	7745	MC Socks	Yes	Yes	X	X	5-2017	BSCI/ Intertek	No action A Status	3-2017 11-2017
Portugal	7744	PCM	Yes	Yes	X	X	2-2017	BSCI/ ITS	No action A Status	
Portugal	7746	Estrada Costa	Yes	Yes	X	X	4-2016	BSCI/ SGS	No action B Status	

The work to follow up on audits and verify that suppliers act per agreed Corrective Action Plans is an on-going work-in progress. During the year, several meetings took place between factory managers and Star Sock team members. These meetings are documented and form the basis of next conversations, this works the most efficient in our opinion and give good insights in the progression made and bottle necks that re-occur.

In total we have audited suppliers who carry 62% of our production volume in total, and 76% including the low-risk countries. 2017 has been the third member year of Star Sock and we had the ambition to monitor at least 90% of our supply chain but in Turkey, where an audit at a KGB was already scheduled, we ended the relationship with this specific manufacturer due to re-occurring communication issues and the not cooperative attitude of the owner, who is not willing to make necessary changes. Golden Key in China was nominated for an audit but this manufacturer is changing its business model due to the changes in the market (drop of Star Sock order contributed to this decision), Golden Key is going to work as a knitting subcontractor for larger manufacturers instead of supplying international clients directly.

Working as a knitting subcontractor and not offering the complete package is a deal breaker for Star Sock. We have discussed the consequences of this decision for our mutual business and that Star Sock can only partner with suppliers that are willing to make necessary investments and continuous improvements for the whole process. We have always been transparent about this and felt confident about the qualities and possibilities of Goldenkey also in regards to providing better working conditions to their workers. Goldenkey already anticipated on this decision by hiring less workers after Chinese New Year especially in the boarding, toe seaming and packing department. Business with this factory will be limited to the minimum in 2018 and therefore the decision is made not to sign them on to the Fair Wear monitoring program. Both decisions lead to Star Sock failing to live up to the Fair Wear monitoring thresholds in member year three.

2.8.1 China

We conducted one Fair Wear monitoring audit in 2017 at Boahe in China and at Yijia in China a verification was conducted. FWF auditors were able to earn management's trust and official documents are shown during audits. With many workers getting paid a piece rate, systematic record keeping is vital to ensure that workers receive the compensation they are due. There is a need for action in China for all suppliers in respect of management practice, working hours, compensation, occupational health and safety, and environment protection in particular. Another reoccurring issue is the high turnover rate after Chinese New Year (CNY). In China it is common that after CNY the workforce is renewed. During CNY workers go back to their home regions and families and determine future steps for the year to come. This often leads to the re-installment of a majority of the workforce after CNY by numerous of reasons but mostly because they choose work in another region, they choose another employer because of other family members or they can earn more money somewhere else. The market demand for workers is high and therefore this situation puts pressure on the factory management to keep workers satisfied and happy so they return after CNY. The re-installment of new workers puts pressure on factory management, it is a waste of resources and slows down the production start-up after CNY.

We have also enrolled one of our Chinese suppliers in the Workplace Education Program offered by Fair Wear; where the response is very positive but since the worker turnover rate after CNY is very high (in most cases 75% of the work force is not coming back after CNY and need to be replaced), and therefore knowledge is not warranted for the long term. The WEP tool raises awareness and improves communication between workers and management. The challenge to educate workers and involve them, centralizing them as the important motor block of the factory and create involvement among the workers is a big challenge and made difficult due to cultural heritage.

- **Working hours:** There is still excessive overtime. Workers work up to 84 hours a week and work consecutively up to 20 days without a day off. Usually workers have a rest day after 6 days but workers voluntarily want to make more hours in order to earn as much money as they can. This is how the industry is set up. Working hours, mentality, culture, living wages are all very closely intermingled. Often overtime is not a result of bad planning or last minute changes in deadlines; it is to keep the workers satisfied and happy. They want to work as much as possible, because it is only work what drives them to a region far away from their families. The conclusion can be drawn that this is a unhealthy market force; Star Sock has little control over. We keep addressing this point and convincing factory management of the risks they take; accidents, dropouts, consistency, quality issues etcetera. Workers are the most valuable players in this industry and both parties see overtime as a win/ win situation.

- **Safety and Health:** All minor issues have been solved but we are facing difficulties with social insurances. The law requires the insurance fee to be paid by both company and workers, the company needs to pay 70% and workers need to pay 30%. But workers are not willing to pay the 30%, they prefer to have extra salary. This is not only a problem our factories are faced with but this is a general problem. The main reason for this conception is that insurances do not have national coverage. Insurances are only valid in the province you are working at. But since most workers are labour migrants, they need to go to their home province in case anything happens to them and when they do so, they are not insured. That is why workers prefer to receive extra money instead of insurances. Most office staff is insured because they do come from that same province.

- **Living wage:** At this moment our factories are paying a decent living wage, but only when the workers are making overtime. We have long discussions with our factories what we could do change this situation but we are facing the following issues:
 1. Most of the workers who are working in socks are not coming from the production area, and they are migrating from all over the country. A lot of steps in the supply chain are handled by unskilled workers that is why it is interesting to work in this field. As they are only in the area for working they want to work as much as they can to earn money for their family back home. If the factories increase the money to the fair living wage level, the workers still want to work more hours and earn even more money. If the factory offers the workers the same amount without overtime the workers will leave to another factory, located next door where they can work more hours and hope that in the end they will collect more money. We also heard workers say, what should we do with the extra spare time in the evening and weekend? They don't want to spend more money in their working city and save everything for their home town.
 2. In Zhuji there are many socks factories on 15 minute drive distance. So the workers can swap easily the factory where they want to work and do that often. All our factories face huge movement of personnel. This is also a form of collective bargaining, basically if the factory doesn't live up to the area standards, no workers will stay there. In 2017 Star Sock started the discussion how to avoid these issues, which occur especially around Chinese Newyear. Hopefully these results will be visible in the brand performance check 2018.
 3. Together with factories we have calculated what investment is needed for workers to receive a living wage without calculating overtime premiums. Bottom line is a price increase of minimum 8% for an ordinary plain sock (which needs to be paid by all clients of this factory). Due to point 2 and 3 this would not solve overtime and thus no guaranty that a factory holds on to their workers. It would harm the competitiveness of the factory and also brands/ retails/ importers sourcing from this factory.

- **Subcontracting:** In the different audit reports from Fair Wear Foundation it was found that our suppliers use subcontractors; in almost all cases the use of subcontracting is approved by Star Sock but we found out there is a proliferation on different subcontractors. Subcontracting is approved by Star Sock when the articles placed have uncommon sizing (baby 62/68 or large men size 47/50), have rare needle counts (168/200 needles), have rare toe linking or are just uncommon products like tights, leggings and footies. Most medium sized factories cannot handle uncommon issues because they do not have the machines to run production or they just do not want to change their machines. The reasons why subcontracting is so entangled to this industry is because medium sized factory's hardly reject any order, they have little influence on the order flow for the years to come and therefore they take what they can get. This means when a factory has approximately 100 machines which is about 300 pairs a day, 10.000.000 pairs a year is needed to keep production running full time and cover the costs. If a factory accepts more orders than the 10.000.000 pairs a year needed, subcontracting is needed to meet market demand. Again, factories take what they can get.

3 Knitting and toe seaming subcontractors

- Subcontractors are always checked for a business license.
- Always with a written agreement.
- Payment is 10 days after original factory receives payment from their client. Star Sock is not happy with this and conversations on this topic are on-going. Star Sock believes that the payment must be done sooner, maximum of 10 days after delivery.
- Quality is key and needs to be guaranteed. A well-developed and organised subcontractor gives security and is more sustainable on the long run.
- Workers often get paid the same or even more than the workers in the "original" factory. Secondary employment conditions might be less (dormitory, meals etc.) and this is compensated in their wages. For this type of labour, worker position is strong because there is more demand than supply.
- Inline quality inspections are done by the original factory.

4 Boarding subcontractor

- Subcontractors are always checked for a business license.
- Always with a written agreement.
- No skilled workers needed and thus higher risk for social issues.
- Payment is 10 days after original factory receives payment from their client. Star Sock is not happy with this and conversations on this topic are on-going. Star Sock believes that the payment must be done sooner, maximum of 10 days after delivery.

5 Packing subcontractor

- Not checked for a business license.
- Not always with a written agreement.
- Problems on social and environmental issues are more likely to occur when dealing with this type of subcontractor. This is a high risk for Star Sock because you only need a free space and workers for this job. Workers are recruited for one job only and not continuously. Often local (disapproved/difficult) non skilled workers or retired people, who are looking for extra money.

Star Sock knows subcontracting is part of the industry but would like to work with pre-selected preferred subcontractors and arrange subcontracting for packaging in a more transparent and organized way. In 2017 we have been visiting many subcontractors and tried to get a better understanding of this complicated, underlying industry. All visited subcontractors have been sent the FWF CoLP, the Fair Wear Worker Information Sheet to be displayed in a visual place and a questionnaire along with a basic self assessment that is conducted. By the end of 2018 we want to have pre-selected subcontractors for knitting, boarding and toe seaming and keep track-records of the different stages of the production of our orders. A new PLM system Star Sock purchased, called Eezeebie, will enable Star Sock to actively monitor orders and know every phase an order goes through. The implementation of this system takes place in May, six months later than expected but we can definitely share results of this improvement in 2018.

2.8.2 Turkey

As mentioned before in the report we experienced a very difficult relationship with the in 2016 affiliated supplier KGB. To upscale the monitoring activities in Turkey we have reached out to an intermediary (Tuba), who objectively assists our purchase manager and merchandisers with the business we have running in Turkey. Tuba is our eyes and ears in the production facility and she weekly checks up on running production and reports back to Star Sock. Tuba is in the textile business for more than twenty years and is working for multiple retailers and brands and educated on social and environmental issues. In 2017 business with Turkey stabilized, but the sales decrease which affected China and Portugal resulted into a higher production volume percentage in 2017 for Turkey. End of 2017, in accordance with Tuba, Star Sock eventually ended the relationship with KGB and we started the sourcing procedure for a new Turkish supplier. More on this is described in the next chapter - sourcing strategy.

We put a lot of effort in building our knowledge and know-how concerning the political instability in Turkey and the refugees situation in Turkey. Publications, reports and findings concerning these topics are studied. In February we facilitated an in-company training, where a co-worker of the Dutch Embassy in Istanbul came to Star Sock for one week. She was in contact with our suppliers on topics concerning political stability and the Syrian refugee problems.

Child labour was almost banned from Turkey but with the current refugees development, we are taken back in time. By visiting Turkey on a weekly basis, during production, we keep a close look on what is actually happening. So far, no factory of Star Sock has enrolled Syrian workers. Supplier Gelal is rewarded with the The problem is not the Syrian workers but the terms and conditions they have to work in.

2.8.3 Portugal

The main monitoring activity is to update Star Sock Form Factory questionnaire, the FWF self assessment questionnaire, a photo of the code of labour practices and the review of Amfori BSCI (or other) audit results. Unauthorized subcontracting is the main concern in Portugal and we tackle this by:

- Semi un-announced visits (we announce them a few days in advance). Travelling to Portugal is very easy and we often organize these trips in a short period of time. Our factories are used to this. During every visit we check running production.
- We regularly (at least two times a year) visit our suppliers in Portugal and since the product locations are centralized, the gossip circuit, often provides us with valuable information that we track. We check the quality of the socks thoroughly upon arrival in the Netherlands (subcontracting in Portugal, due to simplicity if the product, is often revealed by inconsistent quality). Over the years the production in Portugal has decreased significantly; heavy socks handed in on popularity.

As we highly value the collaboration with our Portuguese suppliers, we keep searching for ways to work together.

3. Sourcing Strategy

Star Sock follows a traditional approach regarding our sourcing strategy and management of suppliers. Long-term partnerships with our suppliers enjoy the highest priority as this helps us achieve and maintain a consistent quality level and is allows us to implement social responsibility standards, even when our leverage it very little. For us, continuity is more important than short-term financial success.

Creating best sellers, adding value to products is what determines the success of our business. Therefore Star Sock has three different approaches for product development:

- 1. Collection:** two times a year, a summer and winter collection is designed with accessible products. Through a sample request, products are requested in the designated factories, determined by purchase. Star Sock defines the quality, technical properties and target price but expects factories to come with counter proposals. Star Sock do not have the quantities and order guaranties to enforce competitive prices and therefore competitive advantage need to come from developing clever and innovative products. This process is in close cooperation with our suppliers. Giving the supplier an important voice in the development phase has many advantages for both parties: cross-pollinations of knowledge, anticipating on production issues in an early stage and creating successful articles together. The development of the collection takes about three months from start to finish.
- 2. Product meetings:** Once every two months the whole Star Sock team meets for product sessions, to discuss qualities, market developments and trends. It is important for the whole organisation to be involved in these important brainstorm meetings. During these meetings a few “seasonals” products developed in between the two main collections are selected. Process is the same as in previous step. These two steps form the important basis for our product assortment.
- 3. Tailor made products:** Sales and merchandising have regular KAM meetings where appointments with key accounts are discussed. In these meetings tailor made products for key accounts are developed. The development stage is similar to previous steps, only timelines are shorter. These products need to be developed in three weeks’ time.

This process requires a lot of sampling which is often the problem for suppliers and valuable information throughout this process is not always kept in the right way. A bottleneck which affected the suppliers negatively and therefore in May 2018 a new PLM system will be introduced called Eezeebie. This product database will guarantee structure which prevents requests for unnecessary samples and information. This will make the development process considerably more efficient.

If the development of new suppliers or production country becomes necessary, Star Sock has policies in place. It becomes necessary when current suppliers are repeatedly fail to deliver and no solutions can be found such as the KGB Turkey situation. Besides that, a product leader (focus on socks only) always needs to be on top of the market and examine new possibilities. In 2017 we explored possibilities in Ethiopia together with our Chinese supplier Yijia. Even in these situations we try to cooperate with our existing partners as much as possible and see if certain investments can be done together. Ethiopia is a fast growing economy with beneficial aspects but Star Sock will not invest or expand business anytime soon. Star Sock is not in the position to invest time, money and energy in building a relationship with an entire new country.

In Turkey we sourced a new supplier, which we know is a time-consuming process if you approach it correctly. Back in 2016 we aligned KGB to our business but this is where Fair Wear Foundation addressed some gaps in our sourcing policy. When sourcing for a new partner this time, we made sure the right steps were taken into account.

1. The buyer examines countries very thoroughly, by finding persons/ organisations that already have established an business and by reading country studies/ Amfori database.
2. We plan a visit, where the buyer (often accompanied by the owner of Star Sock) will investigate the country and supplier based on a long list of potential suppliers. Just before the sourcing trip, all factories are requested basic information (general list 1 and 2) and quotations for preparation. The preparation request indicates the type of consumer we are and the output often indicates the suppliers we are dealing with. Suppliers are rated by a checklist, where social compliance aspects are an integral part of the selection and decision making process. Important factors are location, capacity, manufacturing abilities as well as quality and pricing of the products. Most important indicator is the extended factory tour. We generally check workplace safety, work force atmosphere and working conditions and we go through the Healthy and Safety check.
3. These findings will be presented to the management and a short list of potential suppliers is listed.
4. The short list of potential suppliers is requested for more in-depth information on working conditions (Form Factory list, self-assessment questionnaire) as also actual audit reports and a copy of the FWF CoLP and worker information sheet. At this point a sample request is placed to check qualities.
5. The next step is placing a trial order, where both parties can experience a real case with no commercial value. In 2016 with KGB, the trial order did have commercial value, which already puts Star Sock at risk.
6. The trial order is evaluated with all involved departments, to determine whether we will continue working with this supplier.
7. A positive outcome will result in a Fair Wear monitoring audit. From the beginning Star Sock would like to align new suppliers to the Fair Wear programme and intensifying the relationship with clear expectations and demands. With KGB this is another point where Star Sock failed to deliver.

With Sabi and Vader in Turkey, Star Sock has gone through step 1 until 5, currently we are in the middle of a trial order which needs to be delivered in June. Product are for stock purpose.

3.1 Terminating partnership

Ending the relationship with a Turkish supplier has been a process of a year, where we had intensive meetings over skype and in person. The purchaser of Star Sock travelled regularly to Turkey, mostly only for that one factory, to take this supplier by the hand but without success. In the end they failed to deliver and communicated poorly about it; which damaged the relationship even more. When clients of Star Sock started to get duped by the situation, we decided to give this supplier one last chance. This was communicated as such and an Turkish intermediary was brought to the situation, to accompany Star Sock and the supplier fully. In July 2017, Star Sock personally ended the relationship because communication issues remained, even with a local intermediary. During a face to face meeting the reason for termination was explained to the owner and merchandising team. A price decrease from the factory, as a last rescue measure, could not keep Star Sock on board. In February 2018, this factory contacted Star Sock with the statement that necessary changes were made and another chance was highly appreciated. Star Sock decided not to anticipate on this request, production was already re-placed in China and the sourcing procedure in Turkey in an advanced stage.

3.2 Strategy and pricing

Our orders are placed on full price terms. Price negotiations are undertaken both at an early development stage and later on again with order figures in hand. The time between these phases is often between 3 to 6 months; in that period a lot can change both from the suppliers perspective (raw materials pricing, timing and capacity etc.) as also from Star Sock's perspective (volumes, exchange rates etc.). Star Sock is operating in the lower retail segment and honestly price is essential and leading. Negotiations start with the supplier that is responsible for the product development. When negotiations fail or targets are not reached, we investigate how we can change the product to reach the target, in the last attempt we reach out to other suppliers. When pricings deviate strongly, we need to examine the reason and we openly discuss pricings with suppliers. With basic items (repeats), where prices are stable, we divide orders equally between suppliers. As mentioned, price is very important but we will not compromise on quality nor on sustainability and looking for the cheapest solution out there is not in our DNA. The reason why we never actively sourced in Cambodia, Myanmar and Bangladesh.

Open cost calculation and price transparency is communicated with suppliers but still in a very cautious way. At this point we can say, we have a good insight in the cost price of a sock, which enables us to value a price (developed a cost price calculation tool). The impact of social changes such a living wage/ production shifts on the cost price are being discussed on management level. Understanding the pain of the supplier is key, if you want to make changes. Nevertheless margins and finding out exactly what suppliers are putting on top, of a product is a grey area, where we feel we need to give suppliers some wiggle room. Western companies tend to control their supply base in every aspect of the business, but we think it is more constructive when both parties take control of their own businesses and communicate transparent about it.

3.3 Buying department

Supply Chain Manager & Purchase

- Coordination of the merchandising department
- Coordination of the China Office
- Supporting the implementation of CR actions and introducing them in China
- Maintaining relationship to suppliers and sourcing new suppliers
- Identifying targets for CR action
- Contributing to new impulses from market analysis

Project Manager

- Development and implementation of CR activities
- Monitoring FWF membership
- Coordination of CR communication (internal and external)
- Reporting to management on CR status

Merchandiser

- Communication (on order basis) with our Chinese colleagues and factories
- Observing “critical” issues and activities

All strategic goals and activities are determined by the Management of Star Sock existing of the director/owner, the financial manager/ owner and supply chain manager. Approximately every other week there is a meeting planned where, among other things, social compliance and the supply chain is discussed and plans are forged to reach our goals. Star Sock has the ambition to invest 1% of the FOB turnover in social compliance projects.

3.4 Production cycle

At the moment we work mostly according the Make and Ship principle. This means that we place the order once we receive it from our client and ship on the requested date. Before confirming this date we calculate the critical path and ask for an confirmation from the factory. This calculation is done per order and includes the time of production to avoid causing overtime in the production facility. The production orders are based on the client orders, we have very little influence on that process. All lead times are dependent on clients demand, internal planning, capacity of our suppliers and material lead times. The critical path we draw up together with our suppliers.

In 2017 we started with a new pilot; in order to get more grip on expected business and orders. For an important client of Star Sock, we created a sustainable basic sock with BCI cotton within the Jack Brent private label of Star Sock. The socks are pre-priced for this specific client and Star Sock will keep stock of these items. Because of that fact, the client is obligated to take on al socks but we have not decided on a time frame; which is quite unique in our business. When the client has an open-to-buy budget, these stock items will be delivered immediately. Advantage for the client is fast delivery without putting pressure on suppliers and Star Sock has an ongoing product flow. In this way Star Sock is able to deliver sustainable socks, factories have a better production flow and the client is offered flexibility. Open to buy is released when sales volumes are better than anticipated on.

4. Complaint handling

An important element of our membership to Fair Wear Foundation is the use of the “complaints mechanism”. The grievance procedure in place allows workers to confidentially and anonymously report any complaints or incidents to an independent and local FWF representative, that they have not been able to solve with their management. FWF provides the contact details and a summary of the labour rights in the respective languages and displays the information prominently in the production site. During every visit (also by our QC’s) we will check if the Worker Information Sheet is still clearly visible and accessible to workers. The procedure is explained to management and workers at the production site during trainings, audits.

Star Sock would see complaints through this mechanism as an indication of the progressiveness of the production partner and a healthy atmosphere where workers want to speak up and contribute to change; unfortunately Star Sock never received complaints through this procedure.

Most factories have their own grievance mechanism but in most cases you see management and workers meet on a regular basis to discuss improvements on working conditions and complaints. The frequency differs per factory from once every 6 months until monthly meetings. In China this is definitely progress in comparison to a few years ago. Three suppliers have an elected worker committee in place. Star Sock is trying to get a good understanding on how this works, how this is continued also after CNY when the workforce is often re-newed, how these members are compensated for the effort they put into it and how independent and free they can operate.

Quote from management Yijia: “ we start these meetings from topic to topic and discuss the problems with department manager/workers, together we search for solutions that we can present to all workers. Find questions and solve them, it takes time but is helpful for management.

Quote from management Boahe: “We have a grievance mechanism. If workers have questions, they tell to department manager, the worker committee or workers can write a note anonymously in the suggestion box. Office persons and director will have a meeting to give a solution.”

- **Complaint from Heat setting worker:** this person complained about similar wages. A lot of workers feel it is unfair when the output of a worker differs, they still get the same payment. They feel this is not motivating and they would like management to see what can be done about this issue. This issue came up during an audit at Sanfei. Sanfei decides to give premium wages to workers that work fast and have good quality output. This solution was in accordance with the workers and factory considers this complaint as closed.

- Complaint from workers: several workers complaint that they were not happy with the purchased new chairs. They want the old chairs without back support to be replaced. In the toe seaming and packing areas the management of Sanfei invested in chairs with back support because this is better from an ergonomic point of view but workers do not care and after multiple efforts and education; old chairs have been replaced to the workers on request. The same goes for the 200 anti-fatigue mats that were purchased by the factory but in reality nobody uses them. Sanfei says they have information meeting with workers where these changes and complaints are discussed jointly.

In all countries where we produce Portugal, Turkey and China we see good workers are getting more and more difficult to find and to recruit. In China but also Turkey we see an additional problem and that is workers lacking loyalty to their employers. The grievance mechanism but even more worker committees are seen as a tool to take the voice of the workers serious and involve workers more in the daily operation. In China this process is still in the beginning phase, where Portugal and also Turkey already use this tool to their advantage.

5. Training and capacity building

Keeping our employees up to date about our sustainability efforts matters a lot to us. Our people are the most important ambassadors of our company and the journey to become a leader in our industry. During the quarterly operational meeting with the whole team, the steps made in this journey (both environmental as social) are discussed. For team members who are not familiar with the processes, particular terms and abbreviations; we made a quick scan for their reference. The journey is a team effort and for that reasons we need everybody on board. The buying team (see 1.3) is educated on a more substantial level. Workshops from BSCI, seminars from Amfori, FWF meetings, Covenant meetings are attended by various Star Sock members. As these seminars and meetings are increasing; the choice what to attend and what not to attend is becoming complex. Star Sock would like to see some cooperation between the various organisations. The Dutch employees as also the Chinese employees receive detailed information from the Manager Customer Care about the FWF membership, auditing processes and social activities. At least a few times a year, we like to organise a fun activity, where employees get acquainted with difficult compliance issues during breakfast sessions, or an internal workshops. With our Chinese colleagues we have tried the same approach but it more difficult; they need more time and education because they are raised in a different way. Their mind set is not the same. They still feel it as an obligation which is pressured by retailers and brands rather than a choice of the organisation itself.

We regularly invite the management of our factories to trainings and seminars on a range of issues, the response is still very limited but this is slowly changing. More and more questions arise when these invites are sent. Participation is more valuable when management is taking these invites voluntarily. We never force or put pressure on participation.

6. Transparency and communication

More and more retailers are establishing a procurement structure, with a little reliance on importers as possible. Most important reason is price and transparency/ control in the countries/ companies they source from. Star Sock, being an importer, is put heavily to the test and needs to proof added value in the supply chain on a daily basis. Being transparent about production locations and Corrective Action Plans is a boundary condition to do business. We work business to business and in our company presentation we always pay attention to our membership of Fair Wear and how we live by this membership. On our website we have a special focus on social responsibility, the Fair Wear membership is an important issue. In our social reports, we try to be as transparent as possible; about the achievements but also the failures or subjects that are under developed.

Just recently we were in contact with the company Neue Masche concerning labour minute costing. Contact came from a webinar about the living wage organized by FWF. Star Sock already has experience with labour minute costing in the sock production and we were happy to inform Neue Masche, another sock intermediary about this.

7. Stakeholder engagement

Star Sock is co-founder of Healthy Seas and one of the commitments of all three co-founders is education. Sharing the story, explaining sustainability from a business perspective and encourage others to join this journey. Even though the focus in 2017 was on sales, expanding business and recover from the sales loss, we feel this is the time where we should focus on helping each other to reach sustainability goals and ambitions.

Engaging stakeholders is done on several ways:

1. Accompanying multiple student projects on different levels (elementary school, MBO, HBO and universities).
2. Guest speaker at different school and universities such as Tilburg University - International business.
3. Organising elementary school activities to learn more about sustainable materials.
4. Contributing to international case studies on innovative but sustainable resources.
5. Guest speaker at companies with sustainable ambitions and questions such as where to start.
6. Providing company tours due to the “different” working environment of Star Sock and the sustainable choices that are made.
7. Communicating frequently through the Healthy Seas social media channels.
8. Keeping our Star Sock website up to date with goals and achievements; could be done in a more structured way.
9. Speaking on the podium of the national innovation top 100 organised by the Chamber of Commerce and organised in Amsterdam.
10. Panel member in the discussion on sustainable materials and ethical sourcing at the SVP Trade Show in London.
11. Speaking at the National Sustainability congress organised in November in Den Bosch.
12. Multiple network meetings on social and environmental events.