

## Fair and Safe Work

We are committed to promoting in our supply chain the necessary preconditions for an increasingly fair fashion, seeking to require responsible labor practices in accordance with the legislation, which include workers' rights to fair remuneration.

We follow the methodology presented by the Inter-union Department of Statistics and Socioeconomic Studies (DIEESE) about what is considered a living wage (Minimum Necessary): is the one that meets the basic needs of the worker and his/her family with housing, food, education, health, leisure, clothing, hygiene, transportation and social security.

This methodology for measuring living wages considers a family standard of two adults and two children, covering nine categories of needs, distinguishing between food and non-food costs and does not include overtime, using as a reference the base salary within normal working hours.

### WHY IS IT IMPORTANT?

The payment of living wages favors the creation of a fair and healthy society and economy, collaborating with the achievement of the United Nations (UN) Sustainable Development Goals (SDGs), especially the SDGs:

1 - No Poverty.

End poverty in all its forms everywhere.

8 - Decent Work and Economic Growth

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

For companies, the payment of living wages reduces their exposure to labor risks and supports business development, reducing turnover and absenteeism, improving production quality and productivity while facilitating the attraction and retention of qualified professionals.

## Our approach

### SUPPLIERS AND THEIR CONTRACTORS REQUIREMENTS

We establish the principles and requirements required of our suppliers in our [Code of Conduct for Suppliers](#), which everyone (100%) must commit to by signing the Commercial Contract and Statement of Commitment to Responsible Conduct, declaring to assume the expected conduct in its operations.

In addition to this initial commitment, we have an intense monitoring cycle, guided by the principles of the International Labor Organization (ILO), and development of our Resale Suppliers, which produce the items we sell in our stores.

In our Annual Report, we present the main aspects of this relationship cycle that support the promotion of better working conditions and compensation. You can find out more details on pages 32 to 45 of the [2019 Annual Report](#).

We have also in our website the suppliers audit checklist, presenting all the items that are verified regarding suppliers socio-environmental practices, and the resale suppliers list, which can be found [here](#) (complimentary materials tab).

The Code of Conduct for Suppliers establishes that: the total of regular working hours and overtime must not exceed the total allowed, according to the legislation of each country where the employment relationship occurs, as well as weekly rest should be observed. Where there is no national legislation on the subject, we follow the ILO regulations.

### **Freedom of association and collective bargaining**

According to ILO and global unions, there is no universal reference on how to calculate a living wage and, therefore, one of the main focuses of actions for wage advancement should be the promotion of freedom of association and collective bargaining so that workers and employers negotiate wages and working conditions.

For this reason, our Supplier Code of Conduct states that:

- Every worker has the right to form or join unions, as well as to negotiate collectively.

The audit process assesses compliance with suppliers in relation to:

- Existence of a collective agreement in force.
- Compliance with all clauses defined in the current collective agreement.

### **FAIR PURCHASING PRACTICES**

In addition to establishing principles to be observed by our suppliers, mentioned above, we are committed to fair purchasing practices, building good business relationships, which are fundamental for promoting progress in achieving living wages in the supply chain.

We have formally established and met payment deadlines to suppliers, supporting their financial predictability, and we have previously negotiated the deadlines that suppliers have for delivery of orders.

Annually, we conduct a relationship survey with our suppliers, opening an important listening channel so that they can express their opinions and their level of satisfaction about the practices, processes and systems when interacting with the Company. In the last edition, in 2019, 92% partially or totally agreed that negotiations with the commercial area are conducted fairly.

### **Aligned teams**

Annually, we conduct trainings about our principles and practices to promote compliance and responsibility in our supply chain with the teams that develop the products and the purchasing teams that choose the suppliers for production. In these moments, we present our entire process of suppliers homologation and monitoring, the items evaluated in our risk matrix and the importance of taking into account the risk classification of each supplier when defining and choosing them.

In addition to continuous training, purchasing teams may only choose the suppliers based on homologated and approved suppliers, as well as monitor the Supplier Global Development Index (IDGF) (learn more on pages 32 to 45 of the 2019 Annual Report) for decision making,

valuing those with highest scores and therefore, the highest commitment to best practices, driving a long-term commercial relationship that creates value for both parties.

### **Value-creating relationships**

We have a Supplier Council, formed by a group of Resale Suppliers that are strategic for our operations, with which we have and continuously build long term relationships. Our average relationship with these suppliers is 10 years, considering a historical series of data that has been monitored since 2007.

Meeting quarterly, the Council is an important forum for sharing experiences and discussing themes of common interest, with the goal of building an efficient, competitive and sustainable value chain, while also allowing us to evolve our purchasing practices based on feedback from these suppliers. In 2019, 12 strategic suppliers, which represent 29% of the purchase volume, from the textile, knitwear, jeans/twill and woven fabric sectors participated in the Council.

### **IMPACT ANALYSIS**

In 2019, the index of identified non-compliance related to wages and overtime in Brazil and China, countries where we have the higher volumes of Resale Suppliers (62% in Brazil and 26% in China), was only 2.4% and 3.4% of the total audited companies, respectively. In addition, the number of solution of non-conformities related to this topic in the same year increased from 64% to 81%.

### ***Due Dilligence***

The continuous verification of audits and the risk matrix allows us to monitor the impact scenario of our supply chain. Also, in 2019 we promoted a Human Rights Due Diligence study, supported by expert advice and in line with UN guidelines, giving rise to a matrix that classify the likelihood of violations occurring and the severity of the potential impact generated, as well as potential affected audiences. Due Diligence analysis indicated a higher risk of impact in relation to the supply chain.

We are associated with the Brazilian Textile Retail Association (ABVTEX) and, since 2015, 100% of our domestic clothing, footwear and accessories supply chain has been ABVTEX certified, which assesses adherence to good corporate social responsibility and environmental practices.

To mitigate risks in the supply chain, in 2018, we began mapping and auditing international Resale Suppliers and joined the Social & Labor Convergence Project (SLCP), - connected to the SAC (Sustainable Apparel Coalition) - with the objective of monitoring the supply chain on issues such as respect for human rights, labor laws and occupational health and safety.

In 2019, we audited 99% of international Resale Suppliers (tier 1) and created a risk rating methodology, aligned with international principles, in which suppliers are ranked by their performance in levels A, B, C and D audits (level D means high risk, but today they represent less than 5% of the international suppliers). For 2020 we aim to have no business relationships with companies at level D of the matrix.

## Support for supplier development

We want to maximize our potential for a positive impact on the textile chain and, therefore, we work on capacity building and long-term training to support the development of Resale Suppliers.

- Productive Chaining Program: In partnership with SEBRAE, since 2016, the project promotes the capacity building of companies contracted by our suppliers both in the core textile operation and in business management issues, such as positions and salaries and administration. 204 companies have been supported until 2019, which showed significant gains in efficiency, compliance and management maturity:

- 35% increase in productivity, 10% increase in time delivery and 48% reduction in disapproved parts.

- Considering the companies that already worked in our supply chain before the beginning of the Program, we identified that in 2015 40% of them had non-conformities related to compensation and, in 2018, after the beginning of the Program, the number of non-conformities reached zero, and was maintained in 2019.

- Training: we continuously conduct training with our suppliers about our compliance process and the items to be observed in the audits. Therefore, we support the dissemination of knowledge and engagement on the relevance of the principles and practices considered in the audits to foster good socio-environmental practices.

Learn more about resale supplier development programs on pages 43-45 of the 2019 Annual Report.