

# 2018 NEW BALANCE HUMAN TRAFFICKING AND MODERN SLAVERY STATEMENT



The New Balance Human Trafficking and Modern Slavery Statement is issued in response to the reporting requirements of the California Transparency in Supply Chains Act of 2010 (SB 657) and the United Kingdom (UK) Modern Slavery Act of 2015. In addition, New Balance intends for this statement to help inform consumers, suppliers and other stakeholders of the company's efforts to identify and manage risks, as well as remedy any reported incidents, of human trafficking and modern slavery in our global supply chain. This statement covers our policies, programs and activities implemented during the 2018 fiscal year ending December 31. To access previous annual statements, please see the [Archive link](#) on our website.

For more information on New Balance and our commitment to Responsible Leadership, including our social and environmental programs and performance, please click [here](#).

## NEW BALANCE BUSINESS AND SUPPLY CHAIN

New Balance Athletics, Inc., including its affiliates (New Balance), is a privately-owned athletic footwear, apparel and sporting goods company headquartered in Boston, MA with over 8,000 associates globally. Associated brands under New Balance include PF Flyers, Warrior and Brine. New Balance sells products to consumers through owned retail stores and online, as well as through global wholesale markets, distributors and licensees.<sup>1</sup>

In 2018, New Balance sourced products from approximately 200 contract manufacturers located in 31 countries. New Balance publishes annually the names and addresses of direct [Tier One suppliers and footwear subcontractors](#), organized by country and product type, on the company's website. In addition to working with contract manufacturers, New Balance owns and operates five factories in New England as well as a manufacturing facility in the United Kingdom. Warrior Sports, Inc. owns and operates three factories located in Mexico, the United States and Finland. In an effort to increase our supply chain transparency, we have recently also published the list of our [Tier Two wet processing suppliers](#) and our [licensee suppliers](#).

## OUR APPROACH: POLICIES AND GOVERNANCE

New Balance is committed to doing business with manufacturers and suppliers that share our commitment to uphold fundamental human rights and abide by the standards in our [Supplier Code of Conduct \(Code\)](#). The Code has been translated into 39 languages and is based on the Universal Declaration of Human Rights and the International Labor Organization (ILO's) Core Conventions. The Code incorporates several principles related to human trafficking and slavery, including but not limited to:

- Working conditions
- Workplace health and safety
- Prohibition of child labor
- Prohibition of forced labor; and
- Maintaining a workplace free of discrimination and harassment.

New Balance also publishes a [Supplier Standards Manual](#), which provides suppliers and stakeholders with detailed guidance on how to implement each element of the Code. Key requirements designed to protect against human trafficking include voluntary employment, freedom of movement, and elimination of worker recruitment fees. New Balance considers any forced labor violation a "zero tolerance" issue, which requires immediate and thorough remediation to continue doing business with the company. New Balance is an accredited member of the Fair Labor Association (FLA) and FLA most

1. For the purposes of this disclosure, New Balance conducts business in both California and the UK and brings in annual "gross receipts" worldwide that exceed \$100 million and has an annual turnover of over £36 million.

recently reaccredited New Balance's social compliance program in 2018. A link to the New Balance Reaccreditation Report can be found [here](#).

In 2018, New Balance became a signatory to the [AAFA/FLA Apparel and Footwear Industry Commitment to Responsible Recruitment](#). The commitment reinforces our work with suppliers that employ migrant workers to create conditions so that:

- No workers pay for their job;
- Workers retain control of their travel documents and have full freedom of movement; and
- All workers are informed of the basic terms of their employment before leaving home.

The New Balance Responsible Leadership Steering Committee maintains oversight of the policies, programs and strategies that the company implements to address the risks of human trafficking and slavery in the company's supply chain. The Vice President of Responsible Leadership, who also heads the supply chain Global Compliance program, provides regular updates to Committee members, including New Balance ownership, on supplier compliance performance and critical risks and issues.

Additionally, New Balance pledges to uphold the highest standards in the company's owned manufacturing facilities and for New Balance associates globally. The company's commitment to employee health, safety and development, as well as ethical recruitment and hiring, is reflected in the company's policies and practices and in accordance with national and international law.

## RISK ASSESSMENT

Human trafficking and slavery risks are most commonly found in the footwear and apparel industry where there are migrant workers. Based on an annual country risk assessment process, we identified the following countries in our supply chain as highest risk for forced labor: China, Haiti, India, Taiwan (ROC), Thailand, Turkey and Vietnam. The risk assessment is based on data from the US Department of State (Trafficking in Persons Report) and US Department of Labor (List of Goods Produced by Child Labor or Forced Labor), as well as supplier information and industry non-governmental organization (NGO) reports.

In 2018, New Balance also worked with third-party experts to conduct a human rights and environmental risk assessment for our Tier Two supply chain, guided by the United Nations (UN) Guiding Principles on Business and Human Rights and the Organization for Economic Cooperation and Development (OECD) Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector. Our assessment focuses on 12 risk areas identified by the OECD Guidance, including issues such as child and forced labor. As an outcome of the risk assessment, forced labor risks in textile mills and other material suppliers in Taiwan were identified as a priority focus area.

The Countering America's Adversaries through Sanctions Act (CAATSA), passed in 2017, declared that products manufactured wholly or in part by North Korean nationals, including outside of North Korea, are automatically deemed to have been made with forced labor and are, therefore, prohibited from entry into the United States. As a result, we developed an annual internal risk assessment process to review potential supply chain risks for North Korean labor. We also visited some of our licensee suppliers and subcontractors to further assess risks on the ground. In 2019, we will continue to communicate the risk to our suppliers and continue implementation of our due diligence process.

## SUPPLIER AUDITS: DUE DILIGENCE, MONITORING AND REMEDIATION

Suppliers seeking to do business with New Balance must sign a supply agreement that includes the obligation to abide by our Code of Conduct and undergo a compliance inspection (audit) before production orders can be placed. Compliance audits are conducted by members of the New Balance Global Compliance team or qualified third parties and may be announced, semi-announced or unannounced audits. The New Balance audit tool includes verification of supplier performance against the Code. In addition to a physical site inspection, the audit includes interviews with supplier management and confidential employee interviews. If a supplier employs foreign or domestic migrant labor, New Balance applies additional scrutiny to potential forced labor risks and concerns.

In cases where noncompliance issues are found, suppliers must complete a Corrective Action Plan (CAP). For new suppliers,

verification of corrective actions is required before orders can be placed. For existing suppliers, they must also implement a CAP and our team works with them to improve workplace practices. New Balance's preferred approach is to continue working with suppliers to improve and remedy conditions rather than to terminate the business relationship. By staying engaged, New Balance seeks to improve the lives of those impacted, as well as help to change industry practices. However, if compliance violations are serious or persistent, New Balance will terminate the business relationship. In 2018, New Balance ended business relationships with five suppliers due to various non-compliances that the factories were not willing to remediate, including excessive overtime work hours, illegal wages, refusal to set up a third-party worker hotline and poor safety conditions in the factory.

### Tier One

In 2018, New Balance assessed over 260 supplier compliance audits of our Tier One suppliers (including pre-sourcing, annual and follow-up audits) and observed nine noncompliance findings at nine different facilities related to potential forced labor or restricted access situations (e.g., workers restricted from leaving the factory during breaks, restrictions to taking vacation leave, workers paying fees to be hired at the factory). Of these nine facilities, one employed foreign migrant labor. None of the noncompliance findings involved zero tolerance forced labor issues, five of the findings involved high-risk issues in Vietnam and the Czech Republic. The high-risk issues identified included foreign migrant workers who paid for travel expenses from their home country and workers experiencing restricted access to restrooms or being able to leave the factory premises during breaks. Four of these five noncompliances have been fully remediated and one case is awaiting a re-audit for verification.

Since New Balance started reporting on forced labor findings in our Tier One suppliers in 2016, we have seen marginal improvement in the number of findings each year – 15 in 2016 and 11 in 2017 and nine in 2018. In 2018, all the suppliers with findings were existing suppliers, which illustrates the need for ongoing supplier engagement, training and awareness. However, we have seen a decrease in our zero tolerance findings linked to forced labor each year – five in 2016, three in 2017 and none in 2018. It is hard to draw any conclusions from this limited data, but

it may be an indicator that progress is being made in the industry in Tier One suppliers to eliminate the most serious forms of forced labor risk.

### Subcontractors

Starting in 2016, New Balance expanded our compliance program coverage to include footwear processing subcontractors<sup>2</sup> and measure their performance against our zero tolerance issues, including forced labor<sup>3</sup>. New Balance launched the subcontractor program both to increase awareness of Tier One suppliers about these types of serious issues, as well as to build supplier capabilities to help manage the risks further down the supply chain. Out of 85 subcontractor audits conducted in 2018 (including 24 initial audits), three of the audits in China involved potential forced labor issues, where new employees paid fees for required health checks during their recruitment process or were not permitted to resign in the first three months of employment. The subcontractor factories have since remediated these violations by updating their policies and repaying workers for fees paid during their hiring.

### Beyond Tier One

New Balance does not currently require pre-sourcing audits or social compliance audits for Tier Two raw material and component suppliers. However, we recognize that the risk for forced labor may be greater in the upstream supply chain where business relationships are more diffuse and where suppliers often work for multiple industries. These levels of the supply chain are also less frequently audited by the footwear and apparel industry. In 2017, we started work to map our Tier Two footwear and apparel supply chain and identified nearly 500 material suppliers in over 20 countries.

As part of our work to address forced labor risks beyond Tier One, New Balance is engaging with other brands and external stakeholders and participating in industry initiatives to identify and tackle forced labor issues further upstream in the supply chain. New Balance is a signatory to the Uzbekistan Cotton Pledge, which prohibits the use of cotton sourced from Uzbekistan in our products due to the documented use of forced labor in Uzbek cotton production. In Taiwan, we have been working with other apparel and footwear brands to identify and communicate with shared material suppliers

2. Processing subcontractors refers to subcontractors that conduct specialized processes that Tier One factories may not have the capacity or capability to do in-house, such as screen printing, high-frequency welding and embroidery.  
3. Footwear sales comprise more than 80 percent of total company revenue.

about foreign migrant worker labor standards, including the elimination of recruitment fees. In 2018, we launched a project with a graduate student team of the Johns Hopkins University School of Advanced International Studies to conduct a gap assessment of strategic Tier Two suppliers in Taiwan to help inform our responsible recruitment implementation plan. In addition, in 2018, New Balance joined a Fair Labor Association project with other brands and civil society organizations (CSOs) to assess the working conditions of the natural rubber supply chain in Vietnam. Through this project, we hope to better understand the labor and human rights risks in rubber procurement.

In 2018, we also assessed our largest third-party distribution center in China. The audit uncovered that workers were required to pay health-checks before they could be hired. The facility has since discontinued this practice and updated their recruitment policy to pay for the workers' pre-employment health examinations.

### **Third-Party Grievances**

In addition to our supplier monitoring program, New Balance is expanding communication channels directly with workers by facilitating the establishment of confidential grievance mechanisms for workers in contract manufacturing facilities. In addition to the New Balance email address listed on the supplier Code of Conduct that is available for any third party to contact us directly, we are helping to implement third-party operated worker hotlines in our strategic sourcing countries of China, Vietnam and Indonesia.

In 2018, New Balance received one third-party complaint through a worker hotline in Vietnam that involved allegations of workers being forced to work overtime. The factory remediated this violation by replacing the factory director who had approved the practice. A later follow-up audit confirmed that the forced overtime had not recurred.

### **TRAINING AND AWARENESS RAISING**

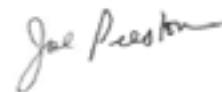
The New Balance Global Compliance team is comprised of approximately 20 staff members located around the world who manage and implement the New Balance supplier compliance program. Team members visit New Balance suppliers on a regular basis, conduct factory audits, help suppliers to implement remediation plans, and provide trainings to improve supplier self-management capabilities. In 2018, to increase

our team's awareness and understanding around the work being done and complexity of eliminating recruitment fees for foreign migrant workers, we engaged the Issara Institute, a civil society organization based in Thailand, to discuss its work to eliminate recruitment fees for migrant workers coming from Myanmar to Thailand with our team. New Balance also attended a forum in Thailand on human rights and ethical sourcing to engage with stakeholders in the region and gain additional insight on this issue in Thailand. A number of team members working on forced labor in our supply chain also completed an e-learning module on forced labor offered through the Fair Labor Association.

In 2018, the New Balance Global Compliance team conducted annual refresher training on the Global Compliance program for New Balance associates, located in China, Hong Kong, Indonesia, Vietnam, the United Kingdom and the United States. New Balance also conducted regional supplier workshops in China, Vietnam and Indonesia, which included additional awareness training on zero tolerance issues, including forced labor. Targeted forced labor training was also conducted for suppliers and licensees at regional supplier summits and one-on-one supplier meetings held in China, Hong Kong, Japan, Korea and the United States.

This statement was reviewed and approved by the Board of Directors of New Balance Athletic Shoes (UK) Limited on June 5, 2019.

Signed



**Joe Preston**

President & CEO, New Balance Athletics, Inc.

Director, New Balance Athletic Shoes (UK) Limited

June 7, 2019