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## COMMITMENT TO LIVING WAGES

### LIVING WAGES

**We've long supported a transparent approach to understanding the living and working conditions of the people who produce our products. We're doing what we can to move towards a living wage, not just a minimum wage - it's one of our 14 Rules to Trade**

We set clear expectations through our 14 Rules to Trade that all workers in our supply chain must be paid at the legal wage set by the manufacturing country, and we're committed to partnering with suppliers and factories on advancement to living wages. Realistically increasing wages is not as simple as paying more for our products - the extra funds don't always make it into the pockets of workers.

#### **The difference between a living wage and a minimum wage**

A living wage is the income necessary for a worker to meet their basic needs and those of their family, including discretionary income, and should be earned during legal working hour limits.

Minimum wages have been defined as "the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or individual contract."

#### **Our Living Wage Approach**

Wages and entitlements form part of our audit criteria and worker interviews. As a result of any audit conducted at a factory, if we find an issue with wage and entitlements, we:

- Set clear corrective action plans with factory management to remediate
- Undertake training with management to ensure understanding of agreed requirements
- Ensure worker training on rights and entitlements is effectively conducted within an agreed timeline
- Ensure factory managers implement management systems to uphold their legal obligations
- Set follow-up dates for both training and re-audit

14 Rules to Trade are the ways in which we interact with suppliers and factories when sourcing and buying products. Based on the learning journey with Action Collaboration Transformation (ACT) and other signatories during the period of 2018 to 2023, we will continue to work with our "Ethical Purchasing Practices" which serves as a guideline to conduct commercial transactions in accordance with our Ethical Framework.

For our suppliers and factories, ethical purchasing practices can increase stability, leading to productivity gains, sustainable growth and building strong relationships. For workers in our supply chain, ethical purchasing practices can help create an environment that enables improvement in working conditions, efficiencies, productivity, and wages.

Our Ethical Purchasing Practices are

### 1 Itemised labour costs

Itemised labour cost is confirmed as part of the product development and costing finalisation in the ethical purchasing practices. This supports the visibility of right labor cost is being allocated within the cost of the product.

### 2 Fair terms of payments

We operate a Supply Chain Finance Program in partnership with HSBC, which enables our suppliers access to invoiced amounts within 10 days of shipment. To ensure it has maximum impact, we offer this program to our largest suppliers first and then work with our other suppliers based on availability. Other inventory purchases are based on fair terms of payment that range from 30 to 120 days which are agreed between both parties as part of the Supplier Agreement.

### 3 Planning and forecasting

We work together with our key suppliers to develop annual plans around production planning, capacity forecasting and scheduling. Engaging with our suppliers quarterly on these plans allows us to constantly improve our accuracy and make sure our suppliers can maximise their capacity and efficiencies.

We have developed a scorecard system that allows us to grade suppliers based on the following key performance metrics: quality, on-time delivery, agility, product innovation, price, logistics and social and environmental sustainability. We hold annual scorecard workshops with our suppliers, providing the opportunity to share areas of improvement, develop action plans and align on growth strategies.

### 4 Training and communicating

We conduct internal Training with our teams and work together with our suppliers on business development and product planning strategies. Through video calls and face to face in-country visits with each respective business partner and stakeholders we create transparent partnerships

### 5 Responsible exit strategies

We have had strong relationships with our suppliers for many years; while year on year factory turnover does happen, in the case of exit, the process aligns with the Ethical Framework and company values. Our Ethical Sourcing function works closely with all stakeholders in production to manage the process, which is worker-focused and has minimal business impact at the factory level.

### Living Wage Gap Analysis

We have made improvements to our Ethical Sourcing Audit Tool to provide us with greater visibility of payment breakdowns and payment methods across our supply chain.

In 2023, we conducted a Living Wage Gap Analysis for 308 of our supplier's factories, including data on wages and worker's benefits. The purpose of this analysis was to review and analyse the gap between paid wages and regional living wages in China, Bangladesh, and Vietnam. The data source came from both internal Cotton On audit reports and internationally recognised program audits including Sustainable Supply Chain Solution (SEDEX).

A Living Wage has been defined by the Global Living Wage Coalition (GLWC) as “The remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, and other essential needs including provision for unexpected events.”

Our analysis aim was to gain greater wage transparency and payment of a Living Wage using data from the lowest income pay group in each factory. This group represented employees with low skills and or at entry level. The comparison income used was the total sum of a basic monthly wage plus any allowances and incentives earned within regular working hours (excluding overtime), compared to the regional Living Wage benchmarks published by the GLWC.

The results of our Wage Gap Analysis showed positive progress in our commitment to advancing to Living Wages, and together with our supplier partners, we will continue to do the work to help get us there. And, though there is currently no global solution to the challenge of realising Living Wages for all, we will keep developing the tools and support necessary for the successful transition.

