



Strategy Paper

on the development
of the FTO structure

Objective of this strategy paper

This strategy paper defines the working basis of the Fair Toys Organization e.V. (FTO) and its members. It replaces the statute developed in the stakeholder process. It provides an overview of the basic values of the organization and outlines the concept of the procedures for determining the "fairness" of the member companies.

It currently consists¹ of the following parts:

- a) **Mission statement**
- b) **Fair Toys Organization Code of Conduct**
- c) **Admission procedure**
- d) **Classification of members**
- e) **Litigation procedure**
- f) **Classification**
- g) **Logo and use of seal**
- h) **Transparency**

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Mission statement

A good life for all

The FTO wants to ensure that people who work in the toy industry and its supply chains can live a decent and adequate life. Our vision of fairness puts people at the center and ensures a continuous improvement in living conditions. For us, this primarily includes the components "**fair work**" and "**humane and environmentally friendly production**" as important drivers for a better world. The mission statement is further differentiated in the FTO Code and prescribed in concrete specifications as a framework for implementation.

The work of the FTO is based on the following self-image:

1. Fair work

For the FTO, an improvement in work means, above all, a humane working situation, visible in the working conditions, remuneration and job structure. The working situation should be progressively improved for all employees in the supply chains.

2. Humane production

Decent production corresponds to an image of humanity that does not see people as part of a machine in production, but rather work as part of personal development. We therefore focus on holistic work processes, co-determination rights and active participation in work design. The FTO and its members are committed to promoting this image of work worldwide.

3. Environmentally friendly production

An improvement in work should also go hand in hand with the environmentally friendly manufacture of products. For us, these are above all the components Environmental protection, energy saving and sustainable use of resources. The FTO and its members work to ensure that environmentally friendly production is continuously developed by all parties involved in the supply chains.

4. Continuous improvement of the entire company

The members of the FTO are involved in the progressive improvement of the above aspects in their own and their suppliers' companies. The Fair Toys Organization relies on training and support with the aim of achieving the institutional anchoring of responsibility and human rights due diligence throughout the company. Participating companies are aware that this process-based approach requires a long-term commitment.

It is not about individual products in the range, but about the institutionalized implementation of responsibility within the company and along the entire supply chain worldwide. The FTO is aware that not all aspects can be implemented immediately. This is accepted in the sense of a transparent progress process.

5 Holistic due diligence as an assessment approach: verification instead of certification

The Fair Toys Organization sees itself as an "umbrella body" that also takes into account the application of existing programmes and procedures to improve and ensure social and environmental standards. The effectiveness of measures based solely on audits is considered to be too low. Instead, the FTO records and assesses its member companies and their supply chains in their entirety, including existing documentation and control procedures. In the event of deficits, the FTO identifies these. Together with the respective company, the FTO drafts solution strategies and defines the necessary improvement measures.

6. Credibility

In order to ensure a constructive, transparent and credible process, representatives from different areas make the relevant decisions together in the FTO's General Assembly and Board of Directors. This is guaranteed by the chamber approach: Decisions only come into force if a majority of both chambers are in favor of them.

This multi-stakeholder approach (companies, associations, trade unions, NGOs, corporations and local organizations) is intended to ensure that different points of view are included in the assessments and not just corporate self-declarations.

7. Exchange of experience

Important experiences in the implementation of measures to improve fairness are documented within the FTO and presented to members in a suitable form as examples of best practice. This results in a "toolbox" for the members, which is intended to help them achieve the FTO's goals. During this exchange of experience, care is taken to ensure that no antitrust regulations are disregarded. To this end, the FTO is developing its own compliance standard as well as a data-protected exchange basis.

The FTO supports pilot projects with new approaches. To this end, interested companies are brought together and projects for joint learning and development are initiated. Successful pilot projects can become a benchmark for the entire industry.

Fair Toys Organization - Code of Conduct

All members of the FTO agree to the following code as the basis for the evaluation of processes in the company and in the supply chain. Where there are deficits, their gradual elimination must be ensured. In the event of different interpretations of the Code and the laws of a country, the higher standard shall apply.

1. The employment relationship is voluntary

There must be no forced labor, including slave labor or prison labor (ILO Conventions 29 and 105).

2. No discrimination in employment

Recruitment, wage policies, access to training, promotion rules, termination of employment, retirement and all other aspects of employment relationships must be based on the principle of equal opportunity, regardless of ethnic origin, color, gender, sexual identity or orientation, religion, political orientation, trade union membership, nationality, social origin, disability or handicap (ILO Conventions 100 and 111).

3. No child labor

There must be no child labor. Only workers who are above compulsory school age and at least 15 years old are employed (ILO Convention 138). There shall be no forms of slavery or practices similar to slavery, such as the sale and trafficking of children, debt bondage and servitude or forced labor. [...] Children (between 15 and 18) shall not be engaged in any work which, by its nature or the circumstances in which it is carried out, is likely to be harmful to the health, safety or morals of children (ILO Convention 182).

4. Freedom of association and the right to collective bargaining

The right of all workers to form and join trade unions and to bargain collectively is recognized (ILO Conventions 87 and 98). In cases where freedom of association and the right to collective bargaining are restricted by law, the company promotes appropriate opportunities for independent and free association and bargaining for all workers. Workers' representatives must not be discriminated against and must have access to all workplaces when carrying out their representative functions (ILO Convention 135 and Recommendation 143).

5. Payment of living wages

Wages and bonuses for a normal working week must at least correspond to the legal or industry minimum and must always be sufficient to meet the basic needs of workers and their families and also include an amount for free disposal (ILO Conventions 26 and 131). Neither wage deductions as a punitive measure nor deductions that are not justified by national law are permitted. Deductions must not result in employees receiving less than the legal or industry minimum. All employees are adequately and clearly informed about the calculation of their wages, including wage scales and payment deadlines.

6. No excessive working hours

Working hours must comply with statutory provisions and industry standards. Employees must not be required to regularly work more than 48 hours per week. They must have at least one day off in every seven-day period. Overtime must be voluntary, must not exceed 12 hours per week, must not be ordered on a regular basis and must always be compensated with an overtime bonus in addition to wages (ILO Convention 1).

7. Health and safety in the workplace

Provide a safe and hygienic working environment and promote the highest possible level of occupational health and safety, taking into account current knowledge of the industry sector and any specific hazards. Pay appropriate attention to industry-specific occupational risks and ensure that a safe and hygienic working environment is maintained. The best possible, effective measures must be taken to prevent accidents and

reduce health hazards (based on ILO Convention 155). Physical abuse, threats of physical abuse, unusual punishments or disciplinary measures, sexual and other harassment, and intimidation by the employer are strictly prohibited.

8. Legally binding employment relationship

The labor and social law obligations towards employees arising from the regular employment relationship must not be circumvented by temporary work arrangements or training programs that are not really aimed at imparting skills or regular employment. Younger employees should be given the opportunity to participate in education and training programs.

9. Environmental responsibility

Ambitious environmental standards must be implemented throughout the entire supply chain and work must be done with the production companies to continuously improve these standards. The focus here is on saving energy, reducing pollutants, avoiding waste and achieving climate neutrality. The use of resources must be minimized to a level that is also sustainable for the earth in the long term.

Admission procedure

An interested organization (candidate) approaches the FTO and applies for membership. In the course of this application, the statutes as well as the strategy of the FTO and the other admission requirements are explained to the candidate by the office.

The following admission requirements apply

| | |
|---|--|
| 1 | The candidate meets the statutory definition of a member. |
| 2 | Agreement to the current version of the FTO statutes |
| 3 | Agreement with the current version of the FTO strategy paper |
| 4 | Consent to data protection in the FTO in the current version |
| 5 | Consent to compliance with the FTO in the current version |

If the candidate agrees to the above admission criteria, the office collects the following data:

a) Basic data of the company

Here, a standardized basic questionnaire is used to obtain the company's basic public data, contact persons and an initial self-assessment of current fair performance. The basic questionnaire is part of the application for admission.

b) Classification in the member classification

The office will clarify with the candidate which membership group she will be classified in. In addition to ordinary membership, this also includes the question of supporting membership. The principles defined in the articles of association apply here. This classification later defines the application of the process procedure (see membership classification).

All of the above documents are then submitted to the Executive Board by the office for the candidate's admission decision. If there are no serious reasons against admission, the Executive Board can admit the member by a simple majority in the respective chambers.

Members have no right of veto on admission. Nevertheless, concerns about potential candidates can be expressed to the Executive Board.

Member classification

The FTO has set itself the task of representing the toy industry as comprehensively as possible. This means that various market participants are involved in the FTO, which are at different stages of the value chain and can therefore also influence the implementation of the FTO Code in different ways. The FTO therefore distinguishes between the following groups in its membership structure:

| Member | Function |
|----------------------------|---|
| Producer | Companies that produce toys themselves, have them produced by production partners or procure goods as a full-service business |
| Trade and its associations | All structures that purchase goods and sell them to consumers |
| Institutions | All structures that purchase goods for their own needs, especially public/church procurement |
| NGOs | Groups that influence the manufacture of toys from an ecological/social/labor law perspective |
| Multipliers | All other members (press, trade fairs, science, associations - except trade associations) |

All members of the FTO undertake to accept and promote the mission statement and the FTO Code.

Manufacturers are the basis of the FTO:

Only companies from the manufacturing sector can obtain the FTO seal for their products and companies in an assessment procedure (see process procedure). They focus on the implementation of a manufacturing policy in accordance with the objectives of the FTO.

Members from other segments are also regarded as manufacturers for certain products as soon as they are responsible for the manufacture of these products themselves. They are then also subject to the process procedure for the manufacture of these products.

Trade, institutions and NGOs are accelerators of the FTO:

Companies from the retail sector as well as institutions and NGOs undertake to implement the FTO idea in their companies and facilities and to publicize it to third parties. They encourage their partners or customers to also implement the FTO idea or to include and promote it in their corporate partnerships. However, there is no process procedure for them, which is why they cannot use the FTO seal for their company services. They identify themselves as members of the FTO and encourage their trading partners to follow the FTO's guidelines. In this way, they play an important role in enforcing the FTO policy among manufacturers and consumers.

Associations and others are multipliers of the FTO:

Associations and others undertake to publicize the mission statement and code among their members or to third parties, to encourage their members and addressees to implement the FTO idea or to include and promote it in their corporate partnerships.

Process procedure

The process procedure is a sequence of defined steps that the members of the "Manufacturers" group go through. The aim of the process procedure is to enable these member companies to carry the FTO seal.

1. Assessment of the current situation: recording the company's starting position

After the company has been accepted, a standardized onboarding questionnaire (as well as personal discussions with the office if necessary) is used to record the current starting position with regard to the FTO policy of the company itself. This includes various categories, e.g. certifications, company policies, ILO standards, etc. and, above all, the production structure, whereby the relevant suppliers and their structures must be recorded. All information must stand up to subsequent verification. The head office carries out a corresponding plausibility check. In consultation with the company, an initial company profile is created for the FTO website from the location determination.

2. Action plan

The FTO office works with the company to develop an action plan based on the assessment using a procedure developed by the FTO. The main responsibility for drawing up the action plan lies with the company - the FTO office is only involved in an advisory capacity.

This action plan describes how the member company will implement the FTO's objectives. This action plan is defined by both the member company and the FTO as a concrete implementation plan and divided into milestones.

The FTO management also assesses with the member whether the plan is plausible, appropriate and expedient.

The action plan is based on the following pillars, among others:

- Training measures in the member company and in the production facilities
- Introduction of a sustainability strategy, reporting system and structure
- Consideration of management structures with regard to labor and environmental standards
- Implementation of a complaints system
- Audits and reports
- Review of the respective situation on site by suitable actors, including interviews with workers (contracts, remuneration, health protection, accommodation, etc.)

3. Implementation

After approval by the FTO, the company works through the action plan. The FTO supports its members during implementation. The action plan is generally designed for several years, but is updated annually. The FTO supports and accompanies this implementation through training, advice and verification.

4. Verification

The member companies are assessed in two independent steps:

a.) Implementation report:

The company submits an annual report to the FTO on the implementation of the action plan. The specific implementation steps specified in the action plan are reviewed by the FTO and summarized in an implementation report. The result of the review serves as the basis for the creation of a new action plan.

b.) Fair Performance Check (FPC)

The company undergoes an annual Fair Performance Check. It is rated in terms of its measures with regard to human rights due diligence and the implementation of the FTO Code. The company is assessed on the basis of objective criteria. The degree of target achievement results in a classification which can lead to the

award of the seal (see chapter "Classification"). The results of the FPC are published in an appropriate form on the FTO website.

This can mean that the *implementation report* certifies that a member company has made good progress in implementing the individual measures, but the *Fair Performance Check* shows that the objective criteria for awarding the seal have not yet been met.

5. Processuality

The process cycle is not a one-off procedure; it does not end with the implementation report or the awarding of the seal. Rather, it is a regularly recurring process. The FTO determines how the relevant topics are repeatedly queried with the respective member. The implementation report and updating of the action plan take place annually.

The member undertakes to regularly check compliance with the relevant standards.

Classification

Each member receives an assessment of their current results in the Fair Performance Check, which leads to a classification in the levels listed below. This classification is determined using a points system.

| Steps | Target achievement FTO Code | Seal usage |
|-------|--|-------------|
| 0 | Insufficient or no implementation of all components of the FTO Code / High need for improvement | None |
| 1 | First recognizable implementation of individual components of the FTO Code / medium need for improvement | None |
| 2 | Satisfactory implementation of most components of the FTO Code / medium to low need for improvement | None |
| 3 | Good to very good implementation of all components of the FTO Code / little need for improvement | Utilization |

Use of logo and seal

If a member company has been classified in level 3, the company can label its products with the FTO seal. The member company undertakes to refrain from using the seal if the threshold value is no longer reached in the subsequent assessment. Further details are regulated in the seal usage agreement.

In principle, the following applies to the use of the FTO logo and the seal:

- a. The *FTO logo* is used exclusively to represent the FTO.
- b. The *membership logo* is a sign of membership in the FTO.
- c. The *Fair Toys seal* is the central element to indicate whether a manufacturing company complies with the relevant FTO requirements. The award is the result of the "Fair Performance Check."

a.) Association logo of the Fair Toys Organization e.V.

The FTO logo is used exclusively to represent the Fair Toys Organization e.V.



b) Logo as a sign of membership

I. all members (except trading companies)

The logo "Member of the Fair Toys Organization" can be used by all members. It may only be used for the purpose of communicating one's own membership in the Fair Toys Organization and may not be used for product advertising or on products or packaging. If the membership logo is used, users must submit a specimen copy to the FTO office. Only members are entitled to use the logo for the duration of their membership. Use is subject to the conclusion of a logo usage agreement.



II. Trading company

In addition to the logo in the specified design, pure trading companies use the addition "We as toy retailers promote the idea of the FTO and work together to improve social and ecological standards in the supply chain". In addition, the regulations as under 1.



c) Seal as a rating label

The signet of a seal will be published at the appropriate time. This seal may only be used by companies that have reached Fair Performance Level 3. The use of the seal is regulated in a separate contract of use between the company and the FTO. The seal is not awarded for individual products, but for the entire company and its range of services.

The seal can only be used by members of the FTO. There are no license fees for the use of the seal, as the seal must be earned and cannot be purchased. The use of the seal is only permitted for the period defined by the FTO in the seal usage contract and which corresponds to the verification result. The seal usage contract is accompanied by a style guide that precisely defines the graphic shapes and sizes in which the seal can be used.

Seal liability of the rating seal

The FTO does not assume any liability for claims arising from the use of the seal. The seal is not an enforceable legal right that can be claimed by a company that supposedly complies with the FTO's requirements. The FTO merely evaluates the corresponding efforts and results. The FTO therefore assumes no liability towards third parties that the content of the seal is also verifiable for all companies using the seal, although the FTO endeavors to ensure this.

Seal recognition of the evaluation seal

If a member does not comply with the agreements in the seal usage contract or grossly negligently violates the FTO Code of Conduct, the FTO has the right to prohibit the use of the seal as a rating seal and to make this public. Further details are regulated in the seal usage contract.

Useful life of the rating seal

The seal is awarded to the company until the next Fair Performance Check (usually one year) and relates to all of the company's services in the toy sector.

Seal usage agreement

Every member wishing to use the seal as an evaluation seal must conclude a corresponding seal usage agreement with the FTO. This agreement regulates the use of the seal in detail and also the corresponding CI requirements.

Transparency

The following explanations are always based on the premise that aspects relevant to antitrust law are taken into account. Appropriate checks are carried out in advance for this purpose. The FTO's compliance concept and the FTO's Data Protection Regulation apply.

The members of the FTO make relevant information available to the public. This information requires regular updates (at least once a year). In this way, the results of the Fair Performance Checks have a public impact and thus contribute to the transparency of the member companies' human rights due diligence obligations. Our transparency policy is therefore based on the following elements:

Data collection from member companies

At the start of membership, the data is recorded using an onboarding questionnaire and discussed together with the member company. They are summarized and published in a company profile. A precisely defined part of the data remains confidential.

As part of the annual Fair Performance Check, the action plan and the company's progress in terms of achieving FTO targets are recorded and stored in the company's profile.

All relevant suppliers and upstream suppliers are also recorded during data collection. This information is not published under any circumstances and is only shared with other members with their explicit consent.

Publication of the data

The company's profile and annual fair performance status are published in summary form on the FTO website. In this way, the FTO fulfills its commitment to transparency and provides a picture of what the member company is doing in the areas of CSR, human rights due diligence and environmental standards. Before publication, the company is informed about the data to be published. There is an opportunity to raise concerns with the Executive Board prior to publication.

Correction of the data

If a company makes significant improvements during a year and thus changes important information for the public, this information can be corrected in the company profile on the website. This also applies in the opposite direction, should the FTO become aware of a corresponding negative development.