

1. Objective

For the continued improvement of factory safety, it is necessary to rank the factories on their performance against the Assessment, Corrective Action Plan (**CAP**), and remediation goals established. Just as significant is outlining an escalation process to be used if factories fall behind on their time and action calendars established. To encourage continued progress, it is important to utilize LABS Participants' relationships to improve poor performance.

This document provides guidance and step-by-step instructions for engaging with factories that have significantly fallen behind schedule. It details the timeline and procedures for the potential termination of factories that fail to remediate identified issues in accordance with LABS Preliminary Assessment Methodology.

This Factory Escalation Policy is issued and effective as of June 1, 2025 and it replaces the Factory Ranking Policy and the SOP – Factory Escalation for Failure to Remediate.

2. Scope

This policy applies to all LABS Participants, including brands, retailers, agents, and apparel and footwear factories.

3. Guiding Principals

- 3.1. Worker safety: It is the goal of LABS Initiative to increase worker safety. To achieve this goal, it is imperative that the factories, as per the LABS Participants' contract, carry out a factory assessment (**Assessment**) by an approved LABS Inspection Firm (**IF**) in order to report findings from the Assessment and create the CAP to define the severity of threats as well as non-compliant conditions and the timing for their remediation. The factory shall remediate the issues found during the Assessment in the given timeframe based on risk level/priority level of the issue. It is necessary for the factory to remain on track with the outlined CAP time and action calendar while meeting the remediation standards established by the LABS Standard for structural, fire, and electrical safety.
- 3.2. LABS Participants' involvement: To keep the factories on track through this process, support from LABS Participants may be necessary. LABS Participants may be asked to use their relationships and influence the factories to keep the schedule on track. If for any reason the factory falls substantially behind schedule and/or refuses to achieve the desired results, each Participant will be encouraged to take necessary steps to help the factory regain an On-Track ranking.

4. Factory Ranking Designations and Escalation Process

Factory Ranking Designations	Escalation Process
1. Draft CAP Submission	
<u>On-Track</u> – The Draft CAP is prepared and submitted by the factory with support from RF within 45 days from the date of	NA

Assessment report issued as per CAP Remediation Process Flow V4.0	
<p><u>Behind Schedule</u> – The Draft CAP submission has been delayed more than 30 days from the defined timeline.</p>	<p>➤ First Reminder Email – Behind Schedule in Draft CAP Submission (30 Days)</p> <ul style="list-style-type: none"> - If the factory delays submission of the Draft CAP beyond 30 days from the defined timeline, a Reminder Email will be sent by the LABS FC to the factory. This communication will prompt the factory to submit the Draft CAP promptly and remind them of the importance of staying aligned with the overall remediation schedule. LABS Participants (Brands) will be copied on the email to ensure transparency and encourage timely follow-up.
<p><u>Critically Delayed</u> – The Draft CAP submission has been delayed more than 45 days from the defined timeline.</p>	<p>➤ Second Reminder Email – Critically Delayed in Draft CAP Submission (45 days)</p> <ul style="list-style-type: none"> - If the Draft CAP submission progress is deemed critically delayed—defined as a delay of 45 days or more—a second Reminder Email will be sent by the LABS FC to the factory, with relevant Brand(s) copied. - To address the delay, a joint meeting will be scheduled involving the factory, the assigned Remediation Firm (RF), LABS, and the associated Brand(s) to identify root causes and support the factory’s Draft CAP submission within the next 15 days. <p>➤ First Warning Letter – Ongoing Critically Delayed in Draft CAP Submission (60 days)</p> <ul style="list-style-type: none"> - If the Draft CAP has not been submitted within 15 days following the Second Reminder Email (i.e., by day 60 of cumulative delay), LABS will issue a formal First Warning Letter to the factory. <p>➤ Second Warning Letter – Ongoing Critically Delayed in Draft CAP Submission (90 days)</p> <ul style="list-style-type: none"> - If the factory still fails to submit the Draft CAP within 30 days following the issuance of the First Warning Letter (i.e., by day 90 of cumulative delay), LABS will issue a formal Second Warning Letter to the factory. - This communication will emphasize the continued non-compliance and explicitly state the factory is at serious risk of

	<p>termination from the LABS Initiative if corrective action is not taken immediately. Brands will be notified and strongly encouraged to intensify their engagement to support the factory in resolving outstanding issues.</p> <ul style="list-style-type: none"> - To address the delay, another joint meeting will be scheduled involving the factory, the assigned RF, LABS, and the associated Brand(s). This meeting will identify the root causes and support the factory's Draft CAP submission to avoid further delays. - If the remediation completion is delayed due to a delay in Draft CAP submission, the escalation process will be determined based on the extent of the remediation completion delays (Refer to Appendix 2).
<p><u>CAP Signed Off</u> – The Draft CAP has been approved and signed off by the IF through the CAP Sign Off meeting.</p>	<ul style="list-style-type: none"> ➤ Once the Draft CAP has been submitted by the factory to FFC and reviewed by the IF, the LABS FC will schedule the CAP Sign Off meeting between the factory, RF, IF, and LABS within nine days of the Draft CAP submission. The CAP will be signed off by the IF through the meeting and marked on FFC. ➤ The IF will decide if the Design Submission & Approval Process will be applied for any issues as per CAP Sign Off, Design Approval, and CAP Closure Requirements policy. ➤ The Design Submission timelines will be defined as per Design Preparation and Submission Timelines. ➤ The remediation completion date will be determined from the CAP Sign Off meeting date, based on issue priorities as per LABS Methodology. The Design Submission & Approval Process timelines will be added where applicable.
<p>2. Remediation Implementation (including Design Submission & Approval Process if applicable)</p>	
<p><u>On-Track</u> – The CAP is being implemented, and all stipulated timelines are being met.</p>	<p>If the Design Submission Process has been delayed, the FC will send reminder emails and a joint meeting will be scheduled if needed as below:</p> <ul style="list-style-type: none"> ➤ First Reminder Email – Delay in Design Submission (30 Days) <ul style="list-style-type: none"> - If the factory delays design submission beyond 30 days from the Design Preparation &

	<p>Submission timelines, a Reminder Email will be sent by the LABS FC to the factory, prompting the factory to submit the designs and remind them of the importance of staying aligned with the overall remediation schedule. Brands will be copied on the email to ensure transparency and encourage timely follow-up.</p> <p>➤ Second Reminder Email – Delay in Design Submission (60 Days)</p> <ul style="list-style-type: none"> - If the factory delays submission of the designs beyond 60 days from the Design Preparation & Submission timelines—a second Reminder Email will be sent by the LABS FC to the factory, with relevant Brands copied. - To address the delay, a joint meeting will be scheduled involving the factory, the assigned RF, LABS, IF, and the associated Brand(s). The meeting will identify root causes and support the factory in submitting the designs to avoid further delay of the overall remediation progress. - If the remediation completion is delayed due to a delay in design submission, the escalation process will be determined based on the extent of the remediation completion delays (Refer to Appendix 2).
<p><u>Behind Schedule</u></p> <p>The remediation completion has been delayed for more than 60 days.</p>	<p>➤ First Reminder Email – Behind Schedule Remediation Status (60 Days)</p> <ul style="list-style-type: none"> - If a factory falls behind schedule by 60 days based on its CAP time and action calendar, a Reminder Email will be issued by the LABS FC to the factory, with relevant Brands copied. The purpose of this reminder is to prompt the factory to take corrective steps to recover from the delay and adhere to the remediation timeline.
<p><u>Critically Delayed</u></p> <p>The remediation completion has been delayed for more than 120 days.</p>	<p>➤ Second Reminder Email – Critically Delayed Remediation Status (120 Days)</p> <ul style="list-style-type: none"> - If a factory's remediation progress is deemed Critically Delayed — defined as a delay of 120

	<p>days or more—a second Reminder Email will be sent by the LABS FC to the factory, with relevant Brands copied. This communication will formally request the factory submit a clear and realistic action plan, including updated timelines aligned with LABS Methodology, within seven calendar days.</p> <ul style="list-style-type: none"> - To address the delay and reassess the path forward, a joint meeting will be scheduled involving the factory, the assigned RF, IF, LABS, and the associated Brand(s). The purpose of this meeting is to review the factory's updated action plan, evaluate the status of remediation efforts, and determine subsequent steps. - The factories will go through a 40/80/120-day progress period while being reviewed by LABS FCs at each interval and local Brand representatives whenever necessary. <p>➤ First Warning Letter – Ongoing Critically Delayed in Remediation (160+ Days)</p> <ul style="list-style-type: none"> - If the factory has not demonstrated sufficient remediation progress in line with the approved action plan within 40 days following the second Reminder Email (i.e., by day 160 of cumulative delay), LABS will issue a formal First Warning Letter to the factory. - This letter will outline the ongoing non-compliance, reiterate the remediation expectations, and highlight the risk of further escalation including potential termination if immediate corrective action is not taken. Brands will be informed and encouraged to engage with the factory to drive timely progress. <p>➤ Second Warning Letter – Ongoing Critically Delayed in Remediation (200+ Days)</p> <ul style="list-style-type: none"> - If the factory still fails to show adequate remediation progress as per the approved action plan within 40 days following the issuance of the First Warning Letter (i.e., by day 200 of cumulative delay), LABS will issue a formal Second Warning Letter to the factory.
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	<ul style="list-style-type: none"> - This communication will emphasize the continued non-compliance and explicitly state that the factory is at serious risk of termination from the LABS Initiative if corrective action is not taken immediately. Brands will be notified and strongly encouraged to intensify their engagement to support the factory in resolving outstanding issues.
<p><u>Suspended</u> – If the factory still fails to demonstrate sufficient remediation progress in alignment with the approved action plan at the end of the 40/80/120-day progress period, the factory will be moved to the “Suspended” status.</p>	<p>➤ Suspension Letter – Suspension from the LABS Program Due to the Ongoing Critically Delayed Status in Remediation (240+ Days)</p> <ul style="list-style-type: none"> - If the factory still fails to demonstrate sufficient remediation progress in alignment with the approved action plan within 40 days of issuing the Second Warning Letter (i.e., by day 240 of cumulative delay), LABS will issue a formal Suspension Letter to the factory. - The LABS country team will immediately contact the Brand(s) to notify them of the factory’s status change. - Brand(s) will be encouraged to re-evaluate their relationships with any factories in the “Suspended” status and to individually assess the status of the facility. - If a situation arises whereby the IFs find life-threatening situations during an Assessment, steps will be taken as defined in the IDEP Policy that includes the IF informing the senior factory management and the LABS team. While briefing factory management regarding the IDEP, the IF’s lead assessor should reference the need for the factory to inform relevant local authorities to determine subsequent steps, and the factory needs to inform the LABS FC and share a copy of intimation sent to local authorities.
<p><u>Completed</u> – All issues identified in the CAP have been resolved by the factory and verified by the IF through the CAP Closure Visit.</p>	<p>NA</p>

Note: The remediation timeline may be extended in the event of delays caused by force majeure, including but not limited to natural disasters (e.g., earthquakes, hurricanes, floods), wars, terrorism, riots, pandemics, epidemics, government actions or regulations (e.g., lockdowns, trade restrictions), and strikes or labor disputes, subject to approval from the CM.

5. Reporting

Factory ranking will be published on LABS Fair Factories Clearinghouse (FFC) Platform by factory name.

6. Post Suspension

If suspended factories wish to rejoin the LABS Program, they will need to undergo a new Assessment at their own expense as outlined in the LABS Suspended Factory Reinstatement Policy.

7. Appendix 1: Definitions

LABS: Life and Building Safety

CAP: Corrective Action Plan

FFC: Fair Factories Clearinghouse Platform

IF: Inspection Firm

CM: Country Manager

FC: Factory Coordinator

RF: Remediation Firm

8. Appendix 2: Sample Remediation & Escalation Schedule

