

Filippa K

SOCIAL REPORT 2012

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Filippa K

About Filippa K

Filippa K is a leading Swedish, high quality fashion brand with 36 own stores, 740 selected retailers as well as several shops-in-shops. Our principal market is Sweden and the head office is located in Stockholm. Besides Sweden, Filippa K is represented on six core markets (Norway, Denmark, Finland, the Netherlands, Germany and Belgium) as well as on ten additional export markets.

Filippa K's business idea is to design, manufacture, communicate and sell fashion garments and accessories with its own, timeless style. By offering well-designed products with a clear concept and of high quality at an attractive price, Filippa K shall be one of the most attractive brands for both women and men who appreciate fashion and quality.

Our vision is to make everyday life easier for the modern woman and man, by interpreting fashion trends into wearable, timeless style solutions that are long-lasting both in quality and design.

The Filippa K philosophy is based on the values Style, Simplicity and Quality. We apply these values to every detail in everything we do. Style in the way we are authentic, creative and passionate about what we do. Simplicity in the way we communicate the Filippa K brand in a straightforward, uncomplicated and honest manner. Quality in the way we are demanding, responsible and respectful in all our processes. By being true to our core values of Style, Quality and Simplicity we aim to keep providing sustainable solutions in the way we do business. As players in a global market, we want to contribute to a more sustainable future for our stakeholders. To realise our vision, values and strategy we turn to our greatest asset – our passionate and committed Filippa K people.

FACTS AND FIGURES

Head office: Stockholm, Sweden

Brand established: 1993 by Filippa Knutsson and Patrik Kihlberg

Annual turnover 2012: SEK 571 million

Profit before tax 2012: SEK 49 million

CEO: Jon Abrahamsson

Employees: 188 in Sweden (69 in the head office)

Markets: present on 16 (6 core markets)

Retail: Filippa K owns 36 stores out of a total of 47 (3 outlets)

Market positioning: Leading Swedish high quality fashion brand

Further information: www.filippa-k.com

HISTORY IN BRIEF:

1993 Filippa Knutsson and Patrik Kihlberg launch Filippa K, with the ambition of meeting the need for simple, functional garments with a clean design.

1994 Early positive response from Denmark and Norway leads to expansion outside Sweden.

1995 Stretch jeans become Filippa K's iconic product. Women all over Scandinavia start naming themselves "Filippa K girls".

1997 The first Filippa K store opens in Stockholm.

1998 Based on enthusiastic demand, Filippa K Man is launched.

2000 Filippa K starts to expand in Europe, entering Holland and Belgium.

2001 Filippa K opens first flagship store on PC Hofstraat I, Amsterdam.

2006 The establishment of Filippa K continues apace in Europe. The Swedish investment company Novax becomes the majority shareholder in the company.

2008 Filippa K defines its environmental strategy and becomes a member of Fair Wear Foundation (FWF). A second-hand shop with only Filippa K garments opens in Stockholm.

2010 Expansion continues apace with the focus on core markets, namely Sweden, Norway, Denmark, Finland, the Netherlands, Germany and Belgium.

2011 Filippa K enjoys its highest turnover in the history of the company, strong growth and profit development.

2012 Filippa K opens seven new stores in Copenhagen, Berlin, Malmö, Väla and München.

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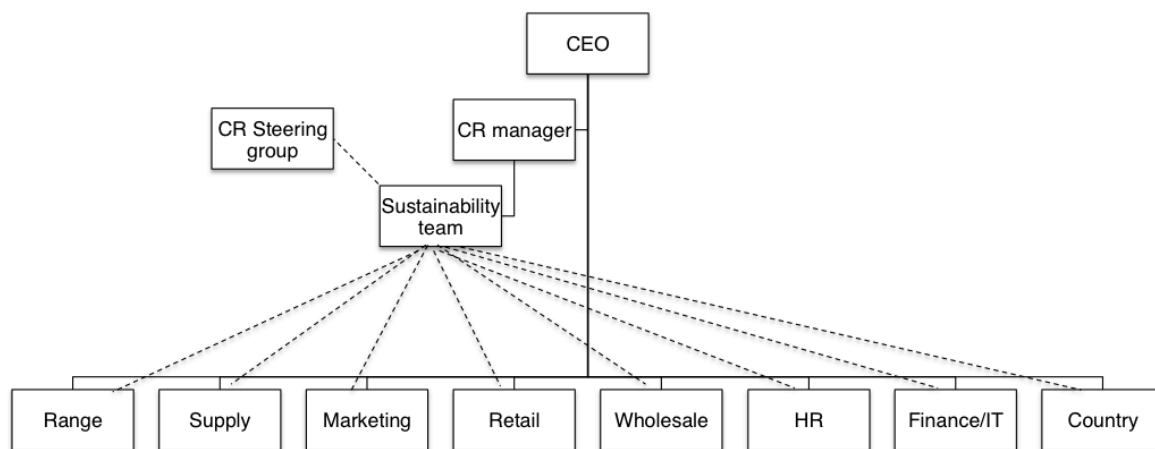
Filippa K organisation

Filippa K's head office is located in Stockholm, Sweden and employs 69 people in design/range, supply, marketing, retail, wholesale, HR, finance and Corporate Responsibility (CR). Filippa K also has separate country offices in Norway, Denmark, the Netherlands and Germany where the country managers develop the business within

their respective markets.

There are 36 Filippa K owned stores as well as eleven shops-in-shops mostly located in Scandinavia and Northern Europe. We are represented by 740 retailers who are mostly located in Europe as well as in Canada, Australia, Hong-Kong and Russia.

CR ORGANISATION CHART



The CR manager is subordinated to the CEO where it is her duty to report directly to the CEO. Simultaneously, she heads the sustainability team consisting of a representative from each department and

strives to implement the sustainable mindset in everyday work. This team is linked with the CR Steering group (where significant decisions are expedited by the top management). All departments are subordinated to the CEO.

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Summary: Social goals and achievements during 2012

Our work programme for 2012 was comprehensive and where the main focus – besides ongoing work with audits to verify our suppliers' compliance with our code of conduct – was to structure ourselves internally as well as see over our internal processes. The aim being to improve quality and make headway when working with our suppliers – and which is still an ongoing process.

We carried out three audits in China, one in Vietnam and one in Rumania; Filippa K initiated all of the audits. All in all, we audited 87% of our suppliers in high-risk countries and, as a consequence, have moved ever closer to our 90% target. However, our goal was to have audited the suppliers who are responsible for 2% or more of our production value in high-risk countries, which we almost reached: only two suppliers, one with a production value of 3%, respectively 2%, were not audited in 2012. The two suppliers who were not audited were either a cancelled collaboration or who only produce minor quantities for Filippa K's forthcoming seasons. That having been said, it is our goal to visit our suppliers on an annual basis and take the given opportunity to talk about our work with FWF – something we shall be spending more effort on.

Overtime overruns are a recurring problem at our Chinese suppliers. Even though we exert an influence on the factory, a direct consequence, is the impact this has vis-à-vis capacity ceilings at a certain supplier. We work actively with our suppliers to even out production fluctuations by switching production periods for some styles to low production seasons. On balance, we did not procure as much as we did in 2011, and this meant that we could not even out the production process as we did in previous seasons. Nevertheless, for 2013 we believe that the overall framework can be calculated much more reliably based on documented planning and purchasing data.

Our staff is engaged in our sustainability work and the group formed with representatives from different parts of the company are committed to working with a sustainable mindset. On our website we provide information to end-consumers outlining our commitment to improving the social aspects of the production process and our environmental work. We are committed to staying true to our values and producing our garments responsibly.

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Sourcing strategy

Sourcing strategy and pricing

Filippa K's business idea is to design, manufacture, communicate and sell long-lasting garments and accessories both in regard to style and quality. By offering a well-designed high quality product, Filippa K shall be one of the most attractive brands for both women and men who appreciate fashion and outstanding quality.

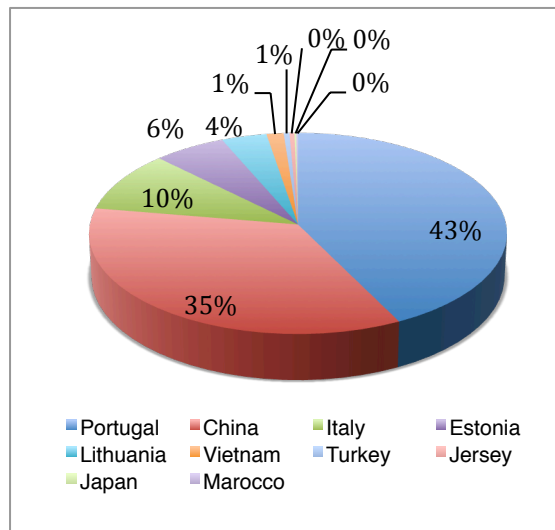
The collection consists of both men's and women's garments and accessories. We offer high quality basic items – a wardrobe for everyday life, such as knitwear, suits, T-shirts, dresses, trousers, skirts and jeans as well as outerwear and more fashionable evening items. The accessories range consists of, among other things, shoes, bags, ties and gloves. The collections are designed from a long-lasting perspective and items from different collections can be combined. A Filippa K piece is made to be loved for a long time.

The buyer selects the suppliers at the beginning of the design process and then chooses the supplier most suitable for each product – thus making sure each product receives the necessary preconditions. We develop styles in very close cooperation with our suppliers to achieve the optimum level of quality at the right price. Our core values of style, quality and simplicity are reflected throughout our processes – however we are not willing to compromise on the quality of our products. The purpose of our sourcing strategy is to create great value for our customers. This means, for example, that we need to provide optimal conditions to achieve the best outcome for each product.

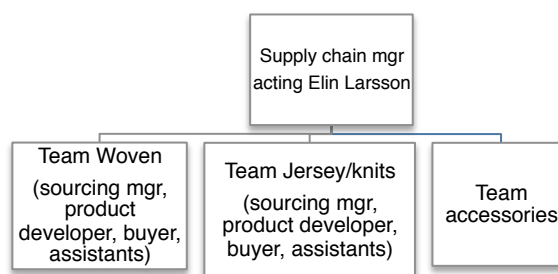
In most cases we buy on full-price terms, but in some cases we also apply CMT. Price negotiations begin during product development and end just before the order is placed, when we have the actual sales figures at hand.

Our products are made in Portugal, China, Italy, Estonia, Lithuania, Vietnam, Turkey and Jersey. The chart below shows the percentage of production by country, based on production cost.

Romanian production is purchased through Italy, where the material cutting and washing takes place. The chart changes only marginally if it were to be based on quantity.



We have a long history with most of our suppliers, and many of them have been working with us for more than 10 years. Every season we evaluate our suppliers and from 2013 we will carry out this evaluation in a much more structured way. Our partners will be conducting a supplier assessment as well as providing feedback on their performance and improvement opportunities. We aim to develop long-term relationships and when we are introducing new suppliers we take measured steps to establish an enduring business relation. To deliver a high quality product, remain competitive and to limit inherent risks we keep ourselves informed about new potential suppliers.



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The target price for each product is set at the onset of our collection process to secure the optimal sourcing of material, accessories and supplier. We encourage our suppliers to suggest changes to the pattern or accessories – to improve quality but also to improve pricing. We have requested transparent prices regarding fibres and fabrics but not all suppliers are open or willing to give us the information we asked for. In the future, therefore, transparency will become a factor with those suppliers we decide to continue working with. This, in turn, will lead to improved control functions when it comes to economic as well as environmental factors and, not least, contribute to living wages being paid.

The sourcing department

The design and production departments work closely together during the collection process and product development, and have shared targets for quality, sustainability, delivery performance and margins. The buyers and product developers are responsible for the sourcing of suppliers, while the sourcing manager is responsible for finding the best materials. One of the main tasks of our buyers and product developers is to maintain a close dialogue with our suppliers to ensure we achieve the best possible outcome for both parties.

Filippa K works both directly with suppliers and through trading companies. The role of a trading company when it comes to sourcing essentially consists of presenting suppliers based on our requests. However, the final decision on whether to start collaborating with a supplier is always taken by Filippa K and we always try to visit every factory before embarking on a new partnership. Relationships established by a trading company are transparent and these usually result in an ongoing business partnership in the forthcoming seasons.

The design, pattern and purchasing departments have common targets for margins, delivery performance, quality and sustainability.

Production cycle

Filippa K manufactures one principal collection and one extra, smaller collection every season – so-called winter/summer capsule. Each season has a

set time plan with deadlines for each step in the process.

The lead time from a supplier can vary significantly, depending on the type of product they produce and the supplier's location. We carry out our planning together with the supplier so that lead times can be discussed and requested delivery times met. The lead times differ with different suppliers and are also dependant on the quantity of orders for the period. We try to place orders in advance on estimated sales figures to underpin the planning process. This detailed planning means that we can avoid production peaks and prevent overtime overruns. Filippa K is thus able to initiate an optimal delivery.

Our European orders are, in the main, transported by land. 82% of all our Asian orders are transported by sea, which requires a certain degree of planning if the products are to arrive on time. We establish production planning together with our suppliers to ensure that all parties have optimal conditions to deliver on time as well as use the most cost effective and sustainable delivery option. The delivery performance of Filippa K is considered excellent as a consequence of this detailed planning.

Selection of new factories

Before starting production with a new supplier, we need to verify that the supplier can comply with our stringent standards. Factories are visited in order to ascertain that faultless collaboration is possible regarding machinery, working methodology and, of course, conditions for workers at the factory. Before embarking on a full production order, we conduct a trial test period during which a supplier must show that they can work according to our collection production process. We then place test orders with the factory to ensure that their working methods meet our stringent standards. Before cooperation commences, we inform suppliers about our Fair-Wear-Foundation membership and ask them to complete a questionnaire. In the questionnaire a production/site manager is asked questions regarding subcontracting and labour standards and the supplier needs to certify that they can comply with the document. The signed document is returned and filed at Filippa K's head office in Stockholm. Filippa K makes sure that the

Filippa K

questionnaire is available in the local language to facilitate cooperation and understanding. When signing an order from Filippa K, suppliers commit themselves to our guidelines, which include our Restricted Chemicals List and our Code of Conduct. The Code of Conduct is based on the FWF Code of Labour practices. Our relationships are built on mutual trust as well as transparency and we aim to support the development of our suppliers.

Introduction of new supplier process:

- Collate supplier references
- Inform supplier about Filippa K brand structure, philosophy and values
- FWF membership information
- Supplier fills in Questionnaire
- Ask about previous audits carried out at the factory
- Place prototype order
- Evaluation of sample to ensure that the Filippa K quality philosophy is understood and achieved
- Trial period to make sure high quality can be met
- Visit new supplier
- Place test orders
- Signing of a new order (Code of Conduct and Restricted Chemicals List included)
- Place production order
- Recap and evaluation of bulk order and supplier

Integration of monitoring activities and sourcing decisions

Filippa K works in close cooperation with its suppliers and they are required to sign and implement our Code of Conduct. We conduct monitoring in full, once a year, which involves drawing up scorecards for each supplier. We measure parameters such as their quality, cost developments, deliveries, organisation and flexibility and Corporate Responsibility. Even though we do not have a set structure in place we evaluate each supplier before production. The result might lead us to stop working with a factory for one or more reasons – however our first priority is to always help our suppliers improve and reach our standards by having a closer dialogue and appropriate evaluation. It may also mean that we need to carry out closer monitoring to increase closer mutual effort and improve production. We always try to have an open and transparent relationship with our suppliers, thus leaving room for discussion and improvements rather than termination of our cooperation. We have never terminated a supplier relationship due to noncompliance with our Code of Conduct. We make sure that relevant information is updated and available for Sourcing Managers to evaluate which suppliers they choose to work with.

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Coherent system for monitoring and remediation

We profit from FWF representatives performing audits. We ensure that audits are carried out professionally as well as guaranteeing their credibility. Furthermore, the supplier shall understand that we take the auditing process seriously. The aim with the audits is to help our suppliers improve and develop their social compliance standards.

An audit takes place at the factory premises and takes approximately one day. All parts of the premises are inspected. Meetings and interviews with management and workers are also conducted. Interviews with managers involve inspection of documents regarding labour, health and safety and other general documentation. Individual interviews with factory workers are also conducted outside of the workplace and out of working hours. These interviews are carried out prior to the date of the factory audit with a number of workers. The interviewees' identities are never revealed to the management. The interviews are an important form to verify that the information provided by the management is correct and that policies are implemented in the workplace. The inspection on site is conducted in all factory premises, including dormitory and canteen when applicable. Local stakeholders and organisations are also consulted in order to gain an understanding of the current situation in the country or region concerning labour standards and expectations.

The audit is documented in an Audit Report and a Corrective Action Plan (CAP) is set up. The CAP is a document that enables overview, pinpoints issues and monitors progress. The CAP is the main tool used for follow-ups and the timeframe for each issue is agreed with the management in the audited factory. Filippa K makes sure that all audit documentation is available in the local language as well as in English. The documents

are available to the production team on our local server and we encourage our staff to keep themselves informed about its content(s) and any updates.

All documents and dialogues regarding the audits, complaints and action plans are filed on our server, where the whole production team can access it.

Informing manufacturers about the Code of Labour practices

The buyers are in charge of informing the factories and suppliers of our Code of Conduct. The Code of Conduct in its entirety is brought out and carefully reviewed together with the supplier. Every time we visit a factory we inspect the working conditions and the standards pertaining to the factory.

Roles of staff and agents

Filippa K personnel as well as the agents are both obligated to confirm that the CoC is being carried out to the letter at the factories concerned.

Execution of corrective action plans

We have a close dialogue with both the suppliers and our agent in order to facilitate improvement in the working conditions. Our supplier relationships are long-term and based on mutual need and trust.

Cooperation with other clients

Regrettably, no cooperation was established in 2012 with other clients. Cooperation with other clients is something we advocate and facilitates workloads.

External production

We have no external production.

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Complaints procedure

We make sure that workers are informed of the connection the factory has with FWF, via Filippa K, during audits. In each factory a copy of the complaints information sheet and the procedure explaining, who to contact in grievance cases should be visibly posted for all workers to see in the local language on notice boards. Any complaints or grievances can be reported to the FWF complaints handler in each country. The complaint is then passed on to the FWF bureau in Amsterdam and they communicate with the appropriate companies. Any complaints are forwarded from FWF to Filippa K. In Filippa K's case, the corresponding production manager will be responsible for taking care of the claim and instituting a dialogue with the factory.

Filippa K has received one complaint in 2012 from a Chinese factory, which was visited lastly in September 2012. The worker complains concerned the lack of adequate compensation during rest days of the long national holiday (30 Sept to 4 Oct), the regular excessive overtime hours at the factory and the bad food at the canteen. This is a good opportunity for Filippa K to actively work on a concrete issue and to ensure workers receive the holiday (compensation) they are entitled to. To follow up, Filipp K has contacted the agent company who works with the factory. According to their management, they pay adequate compensation for holidays and overtime working is voluntary. FWF will monitor this case closely to see how it evolves.

Training and capacity building

Activities aimed at informing staff members

It is very important to us that we provide clear and honest information to all our stakeholders. We believe that it is our duty to be responsible in everything we do. We have therefore instigated a responsibility agenda and defined key focus areas. We have created a model for our ethical work that contains four equally important elements: environmental, social, financial and ethical work. By our environmental work we contribute to a more sustainable future by providing long-lasting fashion. Furthermore, we strive to constantly minimise our environmental impact. Bona fide social performance is very important to us and we want people and partners to grow with us – and our business. We care about our relationships and base them on honesty and transparency. Doing business in a long-term sustainable way secures financial growth and profitability for all.

Our Sustainability Team with representatives from all departments meets every three months to discuss the way forward regarding

sustainability issues and implementing CR in an optimal manner. Representatives are responsible for driving the CR agenda within each respective department. Thereby, we make sure that all parts of the business get involved and take responsibility for our everyday work. Together we find solutions and share the responsibility.

We always try to have Filippa K staff present at audits, together with representatives of FWF, as this gives us a deeper understanding of local factory conditions. We believe in the importance of carrying out professional audits – both out of respect to the factories concerned and to demonstrate the importance of workers' rights. The audits are also an important way of educating our staff in matters of social compliance.

During our monthly supply meetings we discuss CR related issues and the work we do with FWF. We share the outcome of audits and discuss how we are to proceed in order to make progress. All Audit Reports and CAPs are stored on our server and are accessible to the entire production team.

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We update head office staff on CR issues regularly throughout the year.

Each supplier has a copy of our guidelines that include our Code of Conduct and they commit

themselves to the guidelines and Code of Conduct every time they sign an order. We do not currently have any specific training activities for the workers.

Information management

We have close relationships with our trading companies and we always report the outcome of audits that are relevant to them. The trading companies are closely involved in our plans to improve working conditions. We also send the above-mentioned newsletter to trading companies and inform them when FWF is holding workshops or meetings in their area.

Once a year, the production department updates the supplier register for FWF in the Excel file by extracting information from our business system.

Our business system is updated regularly by each product department and the production manager oversees this. When we implement a new collaboration with a supplier our system requires that all necessary information is filled in. Since we have a close dialogue with our suppliers they let us know if there are any changes.

We keep all labour practice documents on our file server.

Transparency and communication

The central components of Filippa K's communication philosophy are honesty and transparency and Filippa K's website reflects this dedication to our CR work. Here we inform end-consumers and, on the basis of our Code of Conduct, how we work with our suppliers and other aspects of our environmental work. We also provide information on our engagement with FWF and other organisations. In addition, the sales department provides information to wholesalers and their customers. The sales-assistants are informed via the newsletter on CR developments and can pass this information on to interested end-consumers.

The company also provides information and works together with students who are writing their dissertations on CR issues. We inform the end-consumer as well as the media through our website. The sales department provides information to wholesalers and sales-assistants are schooled in answering questions that are relevant to our stores.

We also receive a great number of requests from students who wish to write their master dissertations with/on Filippa K and CSR issues. Filippa K is a popular company in this respect.

Management system evaluation and improvement

The Supply Chain manager is responsible for this area. We will be conducting an annual evaluation of our suppliers and where CSR is taken into account.

We implemented GRI-inspired sustainability reporting in 2012 as part of our on going work.

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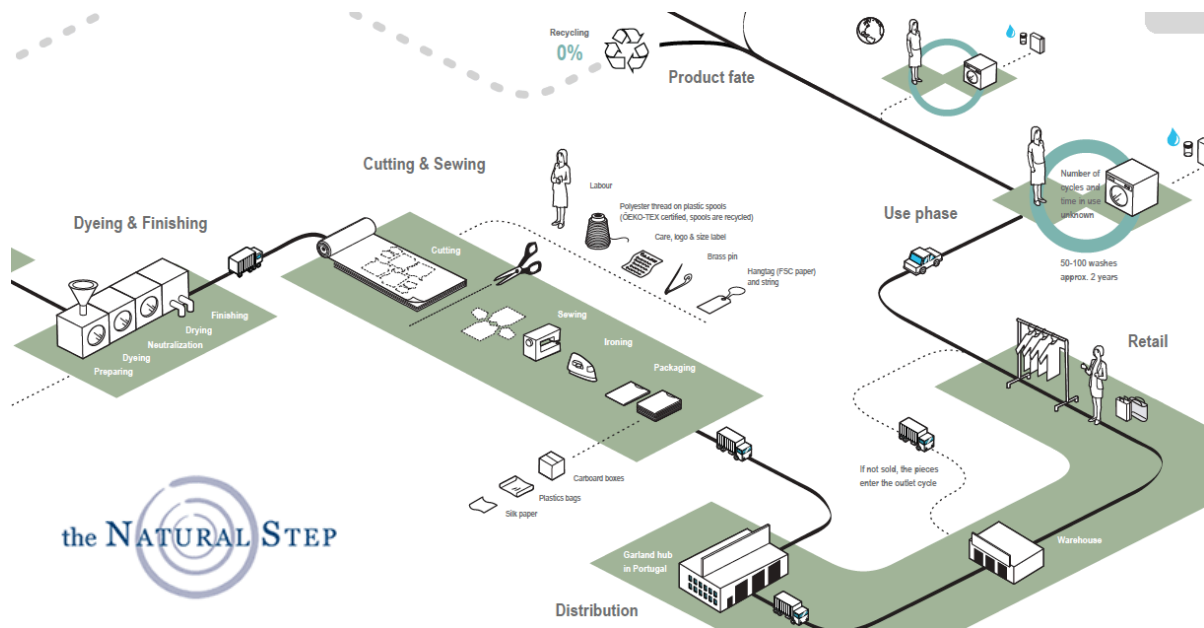
Corporate Social Responsibility

In 2012 we defined our Corporate Responsibility (CR) agenda in a more concrete manner and developed tools to ease the implementation into our organisation. During 2012 we also developed a fibre tool to support our designers and sourcing managers in their fabric choices.

Since the main focus centered on “the product” during 2012, we conducted a Social Life Cycle Assessment (SLCA), together with The Natural Step, on one of our products. The fine lycra scoop neck top was chosen. The aim with this was firstly to identify and understand the impact our product has from a sustainability perspective. Secondly, we aspire to increase the awareness around the product and its impact within the

company. Thirdly, we conducted this study to have a base from which we can follow up and improve our performance in minimising the ecological footprint our products leave.

Furthermore, we aim to select key fabric suppliers with whom we can build closer relationships to. Here, we invest resources in suppliers we see potential in – not only from an economic perspective but also out of shared values and responsibility. This way we contribute to the sustainable development of our business relations. We consider it of the utmost importance that we support suppliers over a longer period of time, so that they can grow with us – and we with them.



Picture 1- Excerpt from the lead map of the Fine Lycra Scoop Top (2012), created in cooperation with The Natural Step.

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Forthcoming CR work – 2013

After what has been a significant year, Filippa K's responsibility work in 2013 will be crucial if we are to advance corporate responsibility and shared values. We have a full agenda and we aim to take several leaps and bounds forward. The principal mission is to understand the impact our product has. By this, we aim at increasing the awareness of what the ecological footprint of one chosen product is. In detail, this means understanding the processing consequences and identifying the most crucial factors throughout the product's life cycle. This information shall then play a pivotal role in our understanding and lift our competence and engagement.

Our auditing work will continue apace. As in the previous year, the goal is to audit 90% of our suppliers in high-risk countries and all suppliers who produce more than 2% of our total

production in high-risk countries during 2013. Additionally, we have enlisted one Chinese factory in the FWF Workplace Education Programme.

Another focal point in 2013 will be to increase the everyday awareness of responsibility in everything we do. This includes increasing the process control throughout our product's life cycle, to optimise the business and minimise the negative impact we still have. This will be implemented with a 360° frame of reference and through the creation of tools to support increased responsibility. Conscious choice of fibres and fabrics, responsible sourcing and purchase as well as in-depth transport considerations are further details we will be putting into action in our day-to-day work during 2013.