



KWINTET

EUROPEAN LEADER
IN PROFESSIONAL WEAR

Social Report 2012

Kwintet AB


**FAIR
WEAR**
FOUNDATION

KWINTET

EUROPEAN LEADER
IN PROFESSIONAL WEAR

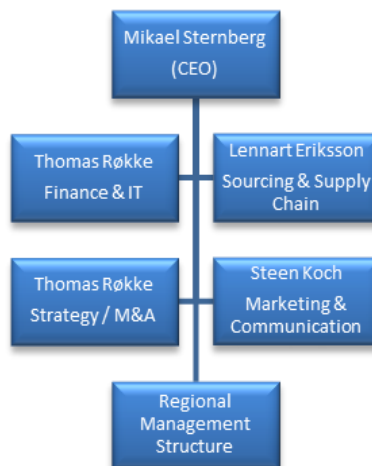


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1. Summary: Goals & Achievements 2012

“By the end of 2012, 87% of the Preferred finished goods supplier spend had been audited and enrolled in the compliance monitoring program”.

This Social Report applies to Kwintet Group's social compliance program activities during 2012. Kwintet's supply base has been carefully consolidated and integrated under a common umbrella for strategic sourcing since 2006. What was formerly referred to as KFE (Kwintet Far East Ltd; member of Fair Wear Foundation (FWF) since 2008) is now referred to as KGOA (Kwintet Global Operations Asia) and includes our International Procurement Organization (IPO) for the Far East in one unified global sourcing function.

The other two IPO's are located in Dhaka (also known as KSA – Kwintet South Asia) and in Riga, Latvia. The main countries of production in Asia are China, Bangladesh, India, Pakistan, Vietnam and Cambodia. In Europe and Northern Africa it is Russia, Latvia, Lithuania, Ukraine, Romania, Madagascar, Morocco and Tunisia.

We supply high-quality professional wear for all purposes and industries. The products of Kwintet's business entities range from heavy work wear (clothes used on oil rigs, uniforms for heat protection etc.) to light garments such as T-shirts, professional suits and uniforms, protective equipment, shoes and gloves.



Left picture: Kwintet's compliance auditor in Bangladesh reviews documentation during an audit



Right picture: Working environment in an Indian garment weaving workshop

The total number of Preferred supplier factories is 115 (active & inactive) at the time of the writing.¹ Currently around 80% of company spend is concentrated on these suppliers. By end-2013 we intend to have 90% of the spend among our Preferred supply base. KGOA manages all suppliers located in Asia, i.e. approximately 90 supplier factories.

¹ April 2013



After KGOA signed its membership contract with FWF in December 2008, a framework for Kwintet Group's social compliance program to embrace KGOA as its sourcing hub in Asia was developed in line with the FWF guidelines for affiliate members. Kwintet's Code of Conduct is based on the Code of Labour Practice. In July 2011 we took a step forward by extending our FWF membership to the entire Kwintet Group and its total Preferred supply base to show our commitment to sustainable and responsible production. We reached the following achievements during 2012:

- 87% of Kwintet's Preferred garment and finished goods suppliers (based on value of production was audited (95 out of 115 factories), i.e. exceeding the FWF minimum requirement of having audited 60% in the second year as affiliate.
 - 18 (instead of originally 25) factories were for Global Key Account (GKA) styles.
 - Annual audit of suppliers not audited in past 12 months (20 out of 21 factories, which were originally stated as 37 in the Work Plan for 2012)
 - Audit of Strategic fabric suppliers (5 out of 6)
- 50% of Kwintet's GKA garment and finished goods suppliers became Yellow graded, although the target was 100 %. Organisational changes, back orders and other priority issues during second half of 2012 can explain why set the target was not fully met.
- Clear overview of the compliance situation at 95 out of Kwintet's 115 Preferred garment and finished goods suppliers and their production units
- Compliance integrated into sourcing practices through bi-weekly or monthly regular follow-up on factory Corrective Action Plans together with the Strategic Sourcing Managers (SSM) and supplier owners.
- Although no supplier workshops have been organized during 2012, we can still confirm that we have delivered on the target of more focus on supplier dialogue and remediation for continuous compliance progress – the supplier dialogue has intensified through the SSM and sourcing team integrating the compliance issues into their communication with the suppliers.
- We closely supervised and regularly revised our compliance monitoring and remediation program including audit form, audit procedure, compliance violation matrix and business consequence matrix. The program has continued to be reviewed regularly during 2012, and the audit planning continued to fit the Strategic sourcing approach, with focus on the suppliers with most value of production.
- As mentioned above, the percentage of spend covered by factories audited in 2012 is 87%. Not necessarily all production units have been audited for each supplier during



2012. Audits have been booked at the factories most important to Kwantet sourcing regarding product development, quality etc. Our contracted audit agency partner Omega Compliance conducted the initial and annual audits on suppliers located in China, India, Pakistan and Vietnam. Our own internal audit team has then followed up regularly on the audit results to generate the corrective actions necessary.

- Non-compliance findings that fall below the minimum requirements of the Code lead to a Red grading of the audited factory. In December 2012 only one factory remained Red graded. Our business consequence policy is that no new developments may be placed with a Red graded factory until they have corrected the outstanding violations. As the suppliers have gained increased awareness and understanding of social compliance during the year, we are convinced that Red-graded factories will occur rarely during 2013. However, our remediation and monitoring activities are always prioritized to Red graded factories whenever such are still found.
- In 2012 none of our suppliers participated in any FWF workshops arranged in Asia. However, four of our suppliers in Bangladesh were in the period of October to December enrolled in the FWF Worker Education Program which runs through 2013.

“In Q4 of 2012, four of our suppliers in Bangladesh were enrolled in the FWF Workers’ Education Program which runs during 2013”.

2. Sourcing Strategy

2.1. Sourcing Strategy & Pricing

“In the end of 2012 we are already close to achieving the end 2013 target of concentrating 90 % of our spend to the Group’s Preferred supply chain”

Since early fall 2009 a new sourcing organisation has been created along with a Preferred supplier program to promote strong and long-term business relationships, improved efficiency and saving and purchasing terms. We always aim to have our business relations with suppliers on several year contracts, which are ideally renewed whenever the period comes to an end.

The consolidated sourcing strategy of the Preferred supplier program that Kwantet Group runs outlines three different supplier categories – Strategic, Tactical and Complementary. This is part of the Group’s sourcing approach in which the total supply base is estimated to reach around 450 suppliers by 2013.



The term 'Preferred suppliers' refers to both Strategic and Tactical suppliers. We have a well-defined supplier rating system to manage our suppliers and how they perform in the fields of product development excellence, innovation, product solutions, fulfilling customer and Kwintet requirements, total cost effectiveness, superior supplier rating, logistics and supply chain requirements. Prices are negotiated based on total costs including raw materials, production and inbound freight and duties. Total factories sourced from Asia are more or less 100% aligned with sourcing via KGOA.



Sewing floor at an Asian garment factory

2.2. Organisation of the Sourcing Department

Our global sourcing team works in close collaboration with the business entities, with teams in Europe and Asia working together to ensure that we reach the key performance indicators established for each year.

We work predominantly directly with manufacturers. Only a limited portion of our sourcing is carried out via agents. From a social compliance perspective, all production units in use by agencies, intermediaries and suppliers for Kwintet production must be declared to us by all direct product suppliers. The agents must sign our Code of Conduct to ensure that all the factories that they assign for Kwintet production meet our compliance requirements. Once a factory assigned by an agent has been audited, the agents are involved in the remediation process by receiving the Corrective Action Plan and helping the CSR Department and the sourcing team monitor the corrections of the non-compliance findings.



2.3. Production Cycle

The large majority of Kwintet's items are long running articles. We also do bespoke collections that can be a one off collection or longer running items. In addition, we produce a few seasonal collections too. In general, the lead-time is 8-12 weeks on an average cross product category. Ready-made garments and raw material take around 4-6 weeks. Through the new centralized sourcing organisation all production sourced from KGOA suppliers was in 2012 planned centrally in accordance with the supplier category targets described in section 2.1.

2.4. Selection of New Factories

An initial technical inspection is performed at KGOA suppliers by our quality team or by the regional sourcing manager. Although the factory turnover is generally low, new factories are sometimes added to the sourcing base. Updates are reflected in the Supplier Register submitted to FWF at the time of each Annual Work Plan.

All potential new suppliers have to fill out the pre-assessment questionnaire through our FiVe supplier screening tool online, including the compliance self-assessment section. The Quality Manager or merchandising team at KGOA also checks the status of basic social compliance level (core ILO conventions and no hazardous work environments) and reports it to the Corporate Social Compliance Manager Asia. Once the factory is considered basic-level compliant according to the pre-assessment results and the sourcing department has confirmed the intention to use the factory, the supplier first needs to sign the Kwintet Code of Conduct and the Restricted Substances List. Only then will the factory be approved for production start.

In the next step an initial social compliance audit is booked, primarily with the contracted agency (Omega Compliance). The supplier also receives a Compliance Manual, which describes how the production units can work proactively to be compliant with the Code. No new orders or product developments may be placed with a supplier unless or until it passes the minimum requirements in the Code of Conduct at the initial audit, and the findings listed in Corrective Action Plan within stipulated timeframe have been corrected.



Kwintet's compliance auditor conducts a visual inspection of the sewing floors during an audit.



2.5. Integration Monitoring Activities and Sourcing Decisions

“Our business consequence policy is that no new developments may be placed with a Red graded factory until they have corrected the outstanding violations.”

The compliance procedure for existing Preferred suppliers offers some flexibility regarding the business consequences. The standard approach is that no new orders beyond those already running or booked may be placed before Red-graded violations have been corrected. In cases where Red-graded violations at a Preferred supplier may take longer time to correct, the Corrective Action Plan is accompanied by a more detailed action plan with milestones for how the Red-graded finding will be corrected.

Suppliers that have a valid Collective Bargaining Agreement (CBA) and/or factory union are always to be highlighted to the sourcing team as preferable for future order forecasting. However, during 2012, as in 2011, none of Kwantet's Preferred supplier factories were holding any CBA. We continue to monitor the CBA ratio during 2013 and urge suppliers in countries where trade unions are forbidden to provide alternative means for worker representation in the factories.

3. Coherent System for Monitoring and Remediation

3.1. Key Kwantet Production Countries in Asia

As the utmost majority of our Preferred suppliers audited in 2012 are located in Asia, the outcome of our monitoring activities in this region is described by country below:

China

- a) *(If the factory has been visited and by whom)*
Factories are regularly visited by the sourcing team or QC staff. The QC's systematically fill out a light CSR inspection form regarding visible non-compliance with our Code of Conduct. Visible remarks refer, for example, to occupational health and safety standard on the factory floors, such as blocked fire exits. The inspection forms are then sent to the Regional Compliance Manager and remarks are logged to be addressed in the upcoming audits. This procedure is run in all Preferred finished goods factories across the production countries.
- b) *(Whether during the factory visit there has been discussion of code implementation, informing staff, upcoming or past audits, progress of corrective action plans etc.)*



Depending on the purpose of the visit, compliance is discussed upon the occasion. Compliance auditor's visit always include in-depth discussions with the management regarding Code implementation, corrective action plans that the management has to sign off, and how the factory management intends to maintain good working conditions in the factory.

c) *(If any complaints have been filed and how these were handled)*

Two complaints were filed.

i) A worker from a factory in the north complained about excessive overtime, overtime premium, illegal deduction and coaching of workers before an audit. The complaint was received by FWF through its local complaints handler in China in June 2012 and is still being investigated by Kwintet's CSR department and FWF at the time of the completion of this report.

ii) 5 workers from a factory in the south filed complaints in June and July 2012 regarding correct hourly compensation. FWF sent auditors in late July to investigate the cases, with the presence of Kwintet's Regional Compliance Manager. The auditors found some complaints to be ungrounded. For those aspects appearing to be arguable, the auditors agreed with the factory's decision on taking legal actions. For those not performing sufficiently, the factory listened to the valuable advice from the auditors and compensated the workers as per the legal requirements. The cases were settled without further complaints. A subsequent internal follow-up in year-end found that the factory continued to make improvements as to the former suggestions.

d) *(Cooperation with other clients, for example on complaints or corrective actions)*

None

e) *(If the factory has been audited)*

34 out of 37 factories in China were audited during 2012, equal to 21% of total spend/FOB at the factory level. The most common audit findings were:

- Excessive working hours
- Overtime wage inadequacy
- Payroll record inadequacy
- Time record inadequacy
- Excessive deduction / workers' benefit inadequacy
- Fire services equipment inadequacy
- Inadequate personal protective equipment/machine safety measures
- Chemical labeling/documentation inadequacy
- First aid inadequacy



f) *(If there is a Corrective Action Plan and what corrective actions that have been taken).*

Corrective Action Plan has been set upon each audit and corrections are executed within stipulated timeframes. Red graded issues are prioritized and must be addressed immediately. If they concern failure to pay minimum wage or compensate for overtime, the factory will have three months to implement the correct payment. Also issues concerning fire safety are prioritized in the follow-up and the factory management must confirm immediately when they intend to demonstrate corrective actions.

- *(Any other monitoring activities, e.g. factory training).*

No suppliers in China participated in any seminars during 2012.



Ironing section at a Kwintet garment supplier in China

Bangladesh

a) *(If the factory has been visited and by whom)*

Factories are regularly visited by the sourcing team or QC staff (see more under China section a).

b) *(Whether during the factory visit there has been discussion of code implementation, informing staff, upcoming or past audits, progress of corrective action plans etc.)*

Depending on the purpose of the visit, compliance is discussed upon the occasion (see more under China section b).

c) *(If any complaints have been filed and how these were handled)*

None



- d) *(Cooperation with other clients, for example on complaints or corrective actions)*
None
- e) *(If the factory has been audited)*
23 out of 26 factories in Bangladesh were audited, equal to 22% of total spend/FOB at the factory level. The most common audit findings were:
- Restricted freedom of association
 - Minimum / overtime wage inadequacy
 - Excessive working hours
 - Inferior working conditions
 - Fire services equipment inadequacy
 - Pollution to environment
 - Comparatively poor management practices
- f) *(If there is a Corrective Action Plan and what corrective actions have been taken)*
Corrective Action Plan has been set upon each audit and corrections are executed within stipulated timeframes. As described in China section f), Red graded issues are prioritized and must be addressed immediately. If they concern failure to pay minimum wage or compensate for overtime, the factory will have three months to implement the correct payment. Also issues concerning restricted freedom of association, fire services equipment and inferior working conditions are prioritized in the follow-up, and the factory management must confirm immediately when they intend to demonstrate corrective actions.
- g) *(Any other monitoring activities, e.g. factory training)*
None

Excessive overtime is standard in the textile industry of Bangladesh, and hence it is also frequently found in Kwintet's supply chain. Whenever we do find excessive overtime in audits we discuss it with the supplier, who must then submit a realistic action plan on how to reduce the overtime hours. They are also urged to inform us whether the excessive overtime can be directly tied to Kwintet's purchasing practices, so that the CSR department can address it with the sourcing team.

Minimum wage is paid in our supplier factories but we are aware of the fact that this does not necessarily equal living wage. We are trying to assess the wage gaps through the Fair Wage ladder not the least, although we have not had a systematic approach to it during 2012. We participate in the Local Buyers' Forum in Bangladesh on a regular basis to join forces with brands and buyers on how to address living wage. During 2013 we intend to conduct an internal living wage analysis at some of our largest suppliers in Bangladesh to get a better understanding of how payment of living wage may affect the piece price.





Dyeing section at a Kwintet supplier in Bangladesh

Vietnam

- a) *(If the factory has been visited and by whom)*
Factories are regularly visited by the sourcing team or QC staff (see more under China section a).
- b) *(Whether during the factory visit there has been discussion of code implementation, informing staff, upcoming or past audits, progress of corrective action plans etc.)*
Depending on the purpose of the visit, compliance is discussed upon the occasion (see more under China section b).
- c) *(If any complaints have been filed and how these were handled)*
None
- d) *(Cooperation with other clients, for example on complaints or corrective actions)*
None
- e) *(If the factory has been audited)*
4 out of 5 factories in Vietnam were audited, equal to 8% of total spend/FOB at the supplier level. The most common audit findings were:
- Excessive working hours
 - Inferior working conditions
 - Comparatively poor management practices
- f) *(If there is a Corrective Action Plan and what corrective actions have been taken)*
Corrective Action Plan has been set upon each audit and corrections are executed within



stipulated timeframes. As described in China section f), Red graded issues must be addressed immediately. Among the most common findings in Vietnam audits, the issues of inferior working conditions are prioritized. Factory management also has to submit a realistic action plan on how to reduce the overtime hours.

- g) *(Any other monitoring activities, e.g. factory training)*
None



Packaging section from a Kwantet outerwear supplier in Vietnam

India

- a) *(If the factory has been visited and by whom)*
Factories are regularly visited by the sourcing team or QC staff (see more under China section a).
- b) *(Whether during the factory visit there has been discussion of code implementation, informing staff, upcoming or past audits, progress of corrective action plans etc.)*
Depending on the purpose of the visit, compliance is discussed upon the occasion (see more under China section b).
- c) *(If any complaints have been filed and how these were handled)*
None
- d) *(Cooperation with other clients, for example on complaints or corrective actions)*
None
- e) *(If the factory has been audited)*
5 out of 5 factories in India were audited, equal to 3% of total spend/FOB at the factory level. The most common audit findings were:
- Minimum / overtime wage inadequacy



- Excessive working hours
- Inferior working conditions
- Terms of hiring inadequacy
- Fire services equipment inadequacy
- Inappropriate chemical management
- Comparatively poor management practices

- f) *(If there is a Corrective Action Plan and what corrective actions have been taken)*
Corrective Action Plan has been set upon each audit and corrections are executed within stipulated timeframes. As described in China section f), Red graded issues must always be addressed immediately. Among the most common findings in India audits, the issues of inferior working conditions and fire services equipment inadequacy are prioritized. Factory management also has to submit a realistic action plan on how to reduce the overtime hours.
- g) *(Any other monitoring activities, e.g. factory training)*
None



Sewing floors at a Kwintet garment supplier in India.



Other countries

- a) Other Asian countries that Kwintet sources from are Korea, Laos, Cambodia, Pakistan and Thailand. Main production countries in Europe are Russia, Ukraine and Latvia. There are also Preferred suppliers in Romania, Morocco, Madagascar and UAE. The total number of factories in the “other countries” category are 43.
- b) *(If the factory has been visited and by whom)*
Factories are regularly visited by the sourcing team or QC staff (see more under China section a).
- c) *(Whether during the factory visit there has been discussion of code implementation, informing staff, upcoming or past audits, progress of corrective action plans etc.)*
Depending on the purpose of the visit, compliance is discussed upon the occasion (see more under China section b).
- d) *(If any complaints have been filed and how these were handled)*
None
- e) *(Cooperation with other clients, for example on complaints or corrective actions)*
None
- f) *(If the factory has been audited)*
29 out of 42 factories in the abovementioned countries were audited – equal to 33% of total spend/FOB. Both factories in UAE were graded green.
- g) *(If there is a Corrective Action Plan and what corrective actions have been taken)*
Corrective Action Plan has been set upon each audit and corrections are executed within stipulated timeframes. As described in China section f), Red graded issues must always be addressed immediately, regardless of the field of non-compliance. Most common findings in the group ‘other countries’ – not the least Europe – are inconsistency in records, for which the factory management must state a realistic time for correction.
- h) *(Any other monitoring activities, e.g. factory training)*
None



Sewing floor at a Kwintet supplier in Morocco.



Factory workshop at a Kwintet light knit factory in Pakistan.



3.2. External Production

At the moment the only suppliers of external production that occur in Kwintet's Preferred supply chain are within the product categories of PPE, fabric, trims and accessories. Such external suppliers are required to fill out a questionnaire based on the FWF Manual for Affiliate Members section 3.2.2 (external production). The brands with external production also need to declare to what extent they have their own compliance programs.

4. Training and Capacity Building

4.1. Activities to Inform Staff Members

Kwintet's intranet CSR section is regularly updated on all development within Kwintet's social compliance program, including news regarding the FWF membership for Kwintet. We have also created a CSR section in Kwintet Academy's introduction module – our internal training program that was rolled out during 2011 and continued during 2012 – in order to change business behaviour and promote compliance awareness in the organisation; not the least regarding FWF membership and in what ways we benefit from it.

- The Kwintet Academy's Group Introduction Program for new employees was held on one occasion during 2012. CSR awareness sessions for various sales team have also been held by the Global Head of Environmental & Social Affairs upon demand.

Regional Compliance Manager Asia joined the FWF verification audit in China in July 2012 and observed the auditors' detailed examination of a factory's working conditions and assertion of the validity of workers' complaints.



First aid kit installed in a Bangladeshi factory



4.2. Activities to Inform Agents

Suppliers that are agents and do not own any production units themselves must sign our Code of Conduct (see 2.2 for more details). By signing the Code they commit to only assign for Kwintet production factories that meet the minimum requirements stipulated in our Code. They also commit to informing management of the individual factories about the Code requirements.

4.3. Activities to Inform Manufacturers and Workers

In 2012 we continued the pre-phase work of enrolling some of our Bangladesh suppliers onto the FWF – United Nations' initiative of Ending Women Violence, also known as the Workers' Education Program. We managed the selection process and nominated eight supplier factories to participate in training on anti-harassment of women workers. In the period of October to December, four suppliers confirmed their participation and a supplier video conference was held with them in December. Training sessions for management, workers and instalment of anti-harassment committees, respectively, were postponed from second half of 2012 to 2013 and are now ongoing for the enrolled suppliers.

5. Transparency & Communication

The general public is informed about Kwintet's FWF membership via our group website, brand web sites as well as FWF's website. The Global Head of Environmental & Social Affairs continued through the year to participate regularly in client tenders to inform about the compliance program and FWF.

However, in general we have in 2012 put focus on the internal awareness raising regarding our FWF membership, instead of emphasizing the external communication. We feel a need in the organisation to first create a better knowledge among our sales teams and staff about the membership and what it means, in order to reach out properly to customers and other external stakeholders. Through the year we have regularly posted news on our intranet section about events in field of our CSR activities, including progress reports on the Worker Education Program.

In Bangladesh we are engaged in the Local Buyers Forum, a network for the largest international brands sourcing garments from the country. Through the network we share projects and experience with the other brands on a regular basis, and when needed we participate in joint actions to strengthen the garment industry in Bangladesh and improve the working conditions.

