

KWINTET

EUROPEAN LEADER
IN PROFESSIONAL WEAR



Social Report 2011

Kwintet AB

In collaboration with the Fair Wear Foundation

KWINTET

EUROPEAN LEADER
IN PROFESSIONAL WEAR

Brands



Organisation



Kwintet is a Fair Wear Foundation member as of July 2011

www.kwintet.com

Contents

Contents	2
1. Summary: Goals & Achievements 2011	3
2. Sourcing Strategy	5
2.1.Sourcing Strategy & Pricing.....	5
2.2.Organisation of the Sourcing Department	6
2.3.Production Cycle	7
2.4.Selection of New Factories.....	7
2.5.Integration Monitoring Activities and Sourcing Decisions	8
3. Coherent System for Monitoring and Remediation.....	9
3.1.Key Kwintet Production Countries in Asia	9
3.2.External Production	15
4. Training and Capacity Building.....	15
4.1.Activities to Inform Staff Members	15
4.2.Activities to Inform Agents	16
4.3.Activities to Inform Manufacturers and Workers	16
5. Transparency & Communication	16

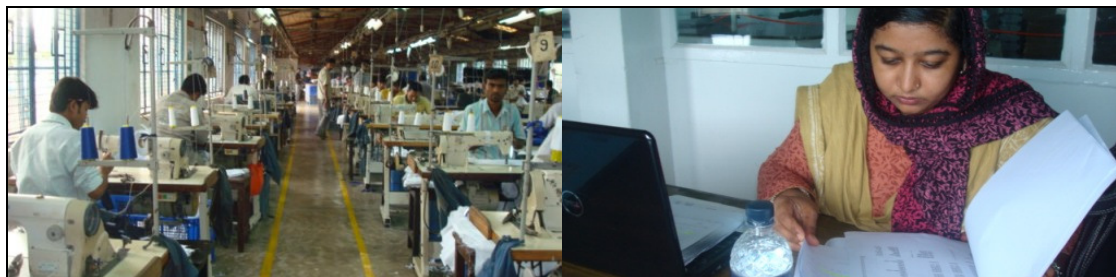
1. Summary: Goals & Achievements 2011

“By the end of 2011, 94% of the suppliers representing 90% of the company spend had signed the Kwintet Code of Conduct and Restricted Substances List”

This Social Report applies to Kwintet Group's social compliance program activities during 2011. 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: Working environment in Indian garment factory

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

The total number of Preferred suppliers is around 127 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 July 2012

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 2011:

- We closely supervised and regularly revised our compliance monitoring and remediation program including audit form and audit procedure, compliance violation matrix and business consequence matrix, as well as an approach to start by auditing the suppliers that are most important to the sourcing department, i.e. prioritized in company spend. The program has gradually been elaborated to fit Kwintet Group's new strategic sourcing program (see below in section 2.1).
- All suppliers have received the Kwintet Code of Conduct and Restricted Substances List for sign-up as a minimum requirement for being a Kwintet business partner. Regular follow-up via phone and e-mail was carried out during the course of the year to ensure that the Code and Restricted Substances List were signed. By the end of 2011, 94% of the suppliers representing 90% of the company spend had signed both the documents.
- All suppliers have received the Kwintet Compliance Manual, which serves as a handbook to offer guidance on how the supplier can be proactive and ensure compliance with our Code of Conduct.
- The percentage of spend covered by factories audited in 2011 is 79%. This means that the target of 60% as threshold for FWF affiliates on their second year as members is met. The threshold is measured against the spend represented by the Preferred finished goods suppliers. Not necessarily all production units have been audited for each supplier during 2011. Audits have been booked at the factories most important to Kwintet sourcing regarding product development, quality etc. In total, 57 factories out of 97 were audited in 2011, i.e. 75% of the Preferred finished goods supplier spend. Our contracted audit agency partner Omega Compliance conducted the audits with focus on suppliers located in China, India, Pakistan, South Korea and Vietnam.
- Non-compliance findings that fall below the minimum requirements of the Code lead to a Red grading of the audited factory. In January 2011, 24% of the audited factories were graded Red, whereas in December 2011 the figure had dropped to 8%. Although the target was 0% by year-end, we feel that the level of improvement was satisfying, since the Red-graded findings were primarily due to document inconsistency, which requires longer time for remediation. Indeed, as social compliance issues are relatively new for many suppliers in the B2B work wear industry, our suppliers need more time and guidance for revising their payroll, documentation system and manpower management.

With demonstrated progress and the suppliers increasingly gaining awareness and understanding of social compliance, we are convinced that no Red-graded factories will remain in our supply base at the end of 2012.

- 24% of strategic finished goods suppliers were Yellow-graded at the end of 2011. Our failure to meet the target of 50% was mainly due to a back-order crisis in the company and the subsequent considerable budget cut. In response to concentrating the focus where the need was most urgent, priority of monitoring program was given to remediation of Red-graded suppliers.
- We have developed a compliance monitoring and remediation program since 2009 and started by auditing the suppliers that are most important to the sourcing department, i.e. prioritized in company spend. To drive continuous compliance progress, we have started to put more emphasis on supplier dialogue, remediation and training in 2011. Suppliers are invited to join FWF's seminars/workshops with the Kwintet CSR team to acquire skills related to the latest development of social compliance and to share experiences with other suppliers. In 2011 one supplier participated in a FWF workshop arranged in Suzhou, China.
- An internal training program was organized within Kwintet and made available to newly employed colleagues via Kwintet Academy's Group Introduction Program. A CSR section was created in Kwintet Academy's introduction module.
- Our first community investment project was launched in June 2011 by supporting Kajoli – a school project in Bangladesh, one of our largest production countries. We have successfully raised money through employees' personal contributions matched dollar for dollar by the company to support 50 school centres and benefit 1,300 children's opportunity to learn how to read and write.

"In January 2011, 24% of the audited factories were graded Red, whereas in December 2011 the figure had dropped to 8%"

2. Sourcing Strategy

2.1. Sourcing Strategy & Pricing

"As part of the Group's future sourcing approach, the total supply base is estimated to reach around 450 suppliers by 2013"

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. The average duration of Kwintet's business relations with suppliers is approximately two years for each contract period.

The consolidated sourcing strategy of the Preferred supplier program that Kwintet Group is initiating outlines three different supplier categories – Strategic, Tactical and Complementary. This is part of the Group's future 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 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. 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 will be 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

“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”

The compliance procedure for existing Preferred suppliers offers some flexibility regarding the business consequences. Originally, the standard approach was that no new orders beyond those already running or placed may be booked before Red-graded violations have been corrected. After 10 months of suspension of this policy due to the back-order crisis in the company, the policy was reinforced in June 2011. 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.

During Q1 in 2011 we have established a supplier rating system where our Preferred suppliers are scored based on their performance regarding quality, price, delivery/lead time and compliance level. All four criteria are weighed equally. The roll-out of the vendor rating system has been put on hold until other priorities have been dealt with during 2012.

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 2011 none of Kwintet's Preferred supplier factories were holding any CBA. We continue to monitor the CBA ratio during 2012.

3. Coherent System for Monitoring and Remediation

3.1. Key Kwintet Production Countries in Asia

As the utmost majority of our Preferred suppliers audited in 2011 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
- 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.
- 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)*
25 out of 39 factories in China were audited during 2011, equal to 10% of total spend/FOB at the factory level. The most common audit findings were:
 - Minimum / 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
 - *(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.
 - *(Any other monitoring activities, e.g. factory training).*
One supplier participated in a FWF seminar arranged in Suzhou, China, in September 2011 regarding social insurance.



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
- 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.
- 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)*
18 out of 21 factories in Bangladesh were audited, equal to 50% of total spend/FOB at the factory level. The most common audit findings were:
 - Age documentation / working permit of young workers inadequacy
 - First aid inadequacy
 - Substandard sanitary condition
 - Inadequate personal protective equipment / machine safety measures
 - Escape route inadequacy
 - Fire services equipment inadequacy

- Chemical labelling / documentation inadequacy
- Excessive deduction / workers' benefit inadequacy
- 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.
- g) *(Any other monitoring activities, e.g. factory training)*
None

Although excessive overtime is standard in the textile industry of Bangladesh, we have not found it to be particularly outstanding in our audits. There is, of course, always a risk that documentation displayed to the auditor has been falsified, something that we continuously try to detect if present. But whenever we do find overtime we discuss this with the supplier, who must then submit a realistic action plan on how to reduce the overtime hours.

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 2011. 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. We intend to hold discussions with FWF during Q3 2012 on how to take more concrete actions on the matter for the future.



Dyeing section at a vertical Kwintet knit 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

- 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.
- 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)*
2 out of 5 factories in Vietnam were audited, equal to 3% of total spend/FOB at the supplier level. The most common audit findings were:
- Payroll record inadequacy
 - Excessive deduction / workers' benefit inadequacy
 - Age documentation / working permit of young workers inadequacy
 - Time record inadequacy
 - First aid inadequacy
 - Escape route inadequacy
 - Fire services equipment inadequacy
- 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.
- g) *(Any other monitoring activities, e.g. factory training)*
None



Packaging section from a Kwintet outerwear supplier in Vietnam

India

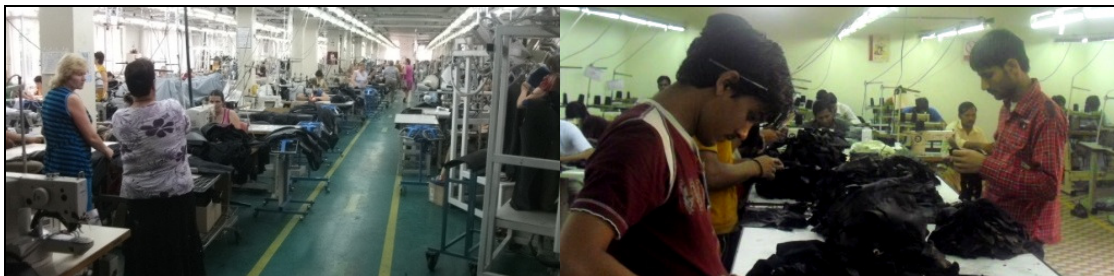
- a) *(If the factory has been visited and by whom)*
Factories are regularly visited by the sourcing team or QC staff
- b) *(Whether during the factory visit there has been discussion of code implementation, informing staff, upcoming or past audits, progress of corrective action plans etc.)*
Depending on the purpose of the visit, compliance is discussed upon the occasion.
- 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 India were audited, equal to 2 % of total spend/FOB at the factory level. The most common audit findings were:
- Fire services equipment inadequacy
 - Excessive deduction / workers' benefit inadequacy
 - Time record inadequacy
 - Inadequate personal protective equipment / machine safety measures
 - Terms of hiring inadequacy
- 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.
- g) *(Any other monitoring activities, e.g. factory training)*
None



Sewing floor at a Kwintet garment supplier in India

Other countries

- a) Other Asian countries that Kwintet sources from are Korea, Laos, Cambodia, Malaysia, 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 numbers of factories in the “other countries” category are 33. .
- b) *(If the factory has been visited and by whom)*
Factories are regularly visited by the sourcing team or QC staff
- 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.
- 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)*
16 out of 33 factories in the above mentioned countries were audited – equal to 7% 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.
- h) *(Any other monitoring activities, e.g. factory training)*
None



Left picture: Sewing floor at Kwintet supplier in Ukraine
Right picture: Factory workshop at Kwintet glove 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 will continue during 2012 – in order to change business behaviour and promote compliance awareness in the organisation, not least regarding FWF membership and in what ways we benefit from it.

The Corporate Social Compliance Manager Asia has provided internal training to make sure frontline colleagues stay abreast of the latest development within social compliance. CSR Refreshing training was arranged for all QC staff in Asia while in-house auditors study all the details of Kwintet's compliance program and audit procedure. This is important as we expand and consolidate the CSR Department, aiming for a team that works actively in line with the new sourcing strategy, organisation and streamlined supply base. One of our in-house auditors joined the FWF verification audit at Dhaka in November 2011 and gained insight into a more comprehensive way of assessing social compliance at the factory level.



First aid kit installed at factory in Bangladesh

Regular informal communication sessions have been held with the Group's business entities' supplier contact persons who are in charge of getting the non-Preferred suppliers to sign the Code of Conduct and Restricted Substances List. All Preferred suppliers have already signed the documents. CSR workshops were held at KGOA's offices and for sales teams in individual business entities in order to spread awareness of CSR and the FWF program to the employees as well as to customers.

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

Throughout 2011 the CSR Department has actively looked further into potential service providers and training programs available for suppliers in Asia regarding compliance issues, management training and workers training. The CSR team joined a few FWF seminars/workshops with our Chinese suppliers to discuss some of the most challenging areas like social insurance, controlling excessive working hours and managing an unstable workforce etc.

In 2011 we started the pre-phase work of enrolling some of our Bangladesh suppliers onto the FWF – United Nations' initiative of Ending Women Violence. We managed the selection process and nominated eight supplier factories to participate in training on anti-harassment of women workers. The workshops will be tailored to each supplier by conducting interviews with management and workers in advance. Training sessions will then rolled out to management, workers and the anti-harassment committee, respectively, in the second half of 2012.

5. Transparency & Communication

The general public is informed about Kwintet's FWF membership via our website as well as FWF's website. In September 2011 a CSR brochure was developed with the aim of creating internal and external awareness of Kwintet's CSR program, not least the FWF membership and what benefits it brings us. The market and sales representatives of our business entities and brands regularly use the brochure in client and customer communication. The Global Head of Environmental & Social Affairs participates regularly in client tenders to inform about the compliance program and FWF.

In October 2011, Kwintet participated in the A+A Fair in Düsseldorf, Germany. This coincided with the first official launch of the new Kwintet Visual Identity. Up until then the Kwintet Group's primary visual recognition had been primarily through our individual brands. When launching the Kwintet identity at the A+A Fair we also seized the opportunity to exclusively highlight our FWF membership. This, in turn, enabled FWF to address a potential group of corporate members.

Currently Kwintet's CSR-related activities are focused on implementing the Code in our supply chain but we have also initiated some community investment activities by supporting Kajoli, a school project in Bangladesh, which is one of our largest production countries (for more information, go to www.kwintet.com).



*Left picture: A schoolchild learns how to write on the blackboard in a Kajoli school centre
Right picture: A recently opened school centre funded by donation money from Kwintet*

By engaging our business partners and colleagues, we have successfully raised money to support 50 school centres and provide 1,300 children with access to literacy and education. This initiative not only empowers the local community, it also enables our colleagues to help improve the living conditions of people in countries in which we produce – by investing in education and literacy.

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.