



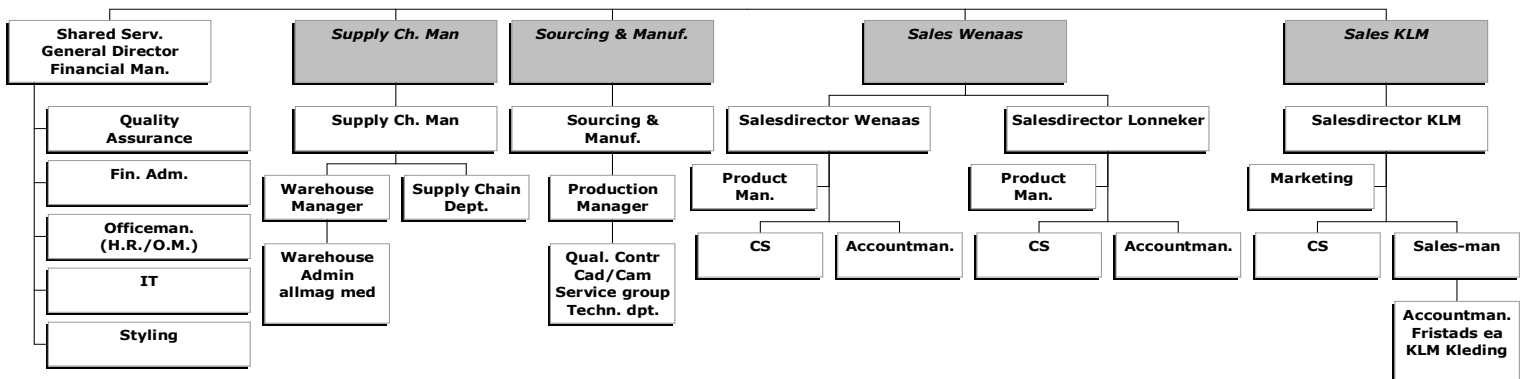
Kwintet KLM Kleding NV



Start date membership

January, 2004

Organisational chart



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1. Summary: goals & achievements 2009

Kwintet KLM Kleding NV, part of the Wenaas division of the Kwintet Group, is a FWF member since 2004, with six of its suppliers representing approximately 95 % of their turnover. Since five out of these six suppliers are KFE suppliers, they are included in the KFE Social Report for 2009. This annual report is only about Nedanco, Tunisia.

Kwintet Far East Ltd. (KFE) joined FWF and submitted its Work Plan for 2009, Kwintet Group has reconstructed its sourcing organisation and developed a Preferred supplier program. Right now Kwintet Far East (KFE) accounts for most of the Asian sourcing within the group, and at least for all the Preferred suppliers located in Asia. The total number of Preferred suppliers is approximately around 130, out of which KFE handles around 80 %.

Therefore, in the first phase the FWF membership applies only to KFE and thereby 77 suppliers in total, with 172 production units in use for Kwintet production. Gradually Kwintet will apply for membership for other business units in the group, depending on how far they have come in their sourcing consolidation process. The target is that all of Kwintet Group shall be a member of FWF by the end of 2011, and that the total number of suppliers will be in the range of 450 suppliers by the end of 2013, sourcing to at least 90 % from the Preferred suppliers.

The following achievements have been reached during 2009:

- Nedanco signed both the Code of conduct and the Restricted substances list of the Kwintet Group.
- On 14 and 15 october 2009 a Verification audit was executed at Nedanco

2. Sourcing strategy

2.1. Sourcing strategy & pricing

As we are a member of the Kwintet Group, we have to follow the group's rules. The sourcing procedures for Kwintet Group are in a process of fundamental consolidation. When KFE joined FWF the ambition was primarily to significantly reduce the number of suppliers in our supply base, to in turn reduce the amount of CMT sourcing in favour FOB sourcing, and to move production from Europe to Asia. Since early fall 2009 a new sourcing organisation has been created along with a Preferred supplier program, in order to promote strong and long-term business relationships, improved efficiency, as well as better saving and purchasing terms. On an average, the duration of business relation with suppliers is approximately two years for each contract period.

The consolidated sourcing strategy of a Preferred supplier program which Kwintet Group is embarking on outlines three different supplier categories – Strategic, Tactical and Complementary – as a part of the Group's future sourcing approach, where the total supply base shall be 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 the 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 full total cost including raw material, production and inbound freight and duties. Total factories sourced from in Asia are more or less 100 % aligned with sourcing via KFE.

2.2. Organisation of the sourcing department

We have a global sourcing team working in close coordination with the business entities, with teams in Europe and Asia working together to ensure that we reach the annually set key performance indicators.

We work predominantly directly with manufacturers; only a limited portion of our sourcing goes 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 via a production unit register which must be filled out 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 CSR Department and sourcing department with monitoring of 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 for raw material is 8-12 weeks, while for ready made garments it is around 4-6 weeks.

At Nedanco we plan on a weekly base an amount of minutes we agreed with them.

2.4. Selection of new factories

An initial technical inspection is performed at KFE suppliers by our quality team or by the regional sourcing manager. Although the factory number turnover is low in general, 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.

In the past, we have often used external social compliance audits such as Intertek and Bureau Veritas to inspect the factory. Nowadays the pre-assessment questionnaire includes a compliance section, which all potential new suppliers have to fill out. Quality Manager or merchandising team at KFE also checks the status of basic social compliance level (core ILO conventions and no hazardous work environment) and reports it to the Regional Compliance Manager at KFE. 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, an initial social compliance audit is booked with contracted agency (Omega Compliance) and the supplier gets to sign the Kwintet Code of Conduct. The supplier also receives a Compliance Manual, which describes how the production units can work proactively to be compliant with the Code. No orders may be placed with a potential new supplier unless 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.

2.5. Integration monitoring activities and sourcing decisions

One of the basic requirements in the Preferred supplier criteria is that the supplier must sign the Code of Conduct alongside Kwintet's Restricted Substances List. As Preferred suppliers are audited, the compliance related criteria for them to remain Preferred is that they meet the minimum compliance level stipulated in the Code of Conduct and move towards the best audit grading score.

As Kwintet Group has such a large supply chain to onboard to its compliance program, the Group became a member of Sedex – Supplier Ethical Data Exchange – in the beginning of 2009. One of the initial steps in Kwintet's compliance program is to require all Kwintet Complementary suppliers to conduct the Sedex online Compliance Self-Assessment for each production unit used for Kwintet production. Together with sourcing importance, risk level of product category and risk level of geographical location, the Sedex self-assessment results form the base for audit planning.

When a factory is audited, the results and findings lead to an overall compliance grading of the audited production unit. The grading consists of a colour scale where Red labels all non-compliance findings that are below minimum requirements in the Code (such as forced labour, discrimination, missing fire exits etc.), Green equals to full compliance, and Orange and Yellow are grading of the non-compliance findings in between. During 2009 we have developed a routine of business consequences based on the audit grading, but it has not yet been systematically implemented. A significant part of the explanation is that the new sourcing organisation has been under construction and we are still in the final stages of establishing a standard communication channel between CSR Department and Category Management teams. KFE has developed a supplier compliance database within its Navision system, and the aim is that category managers shall have viewer's access to the latest compliance status of individual suppliers with the help of the database. The principles of the business consequences are:

- a) a more flexible approach towards existing suppliers in order to give them time to correct compliance violations. Existing Preferred suppliers are shown more flexibility than existing Complementary suppliers.
- b) a more stringent approach to any potential new suppliers which will not be considered for order placement if the audit prior to production shows a compliance level below our minimum requirements
- c) to remain in business with a supplier to the greatest extent rather than phase them out whenever compliance violations are identified. Phase-out of a KFE supplier for compliance reasons has not happened yet, but such a process is set in motion if a supplier shows lack of cooperation or no progress on Corrective Action Plan. We are yet to set the phase-out criteria and communicate it to the Group's sourcing teams.

3. Coherent system for monitoring and remediation

3.1. Nedanco

A brief summary of the audit findings:

- Leave register and grievance files are not kept
- Documentation of elections of workers representatives are not kept
- Accidents register, Sickness register, Apprentices register and Maternity leave register are not kept.
- Code awareness with the workers should be increased
- Overtime should be reduced
- Some OHS matters which will be improved after moving to another location
- Monitoring and follow-up is integrated into the compliance database of Kwintet Group together with the Preferred supplier results.

3.2. External production

N.A.

4. Training and capacity building

4.1. Activities to inform staff members

Kwintet Group has published information about FWF membership on the company intranet (KWintranet). Regular informal communication has been held with the Group's business entities' selected CSR contact persons whom are in charge of getting the suppliers to sign the Code of Conduct (except for KFE suppliers which have been taken care of by KFE staff). During 2010 CSR workshops will be held at KFE's offices, at individual business entities and for the CSR contact network which will serve as a kind of ambassadors for spreading awareness of CSR and the FWF program to the employees.

4.2. Activities to inform agents

N.A.

4.3. Activities to inform manufacturers and workers

N.A.

5. Transparency & communication

Information about membership in FWF and how it serves as a foundation for Kwintet Group's total social compliance program, is published on the company web site. The business entities market and sales representatives are regularly encouraged to read about the FWF membership and forward the information to clients and customers in time for tenders. The Global Head of Environmental & Social Affairs has participated in client tenders on four occasions to inform about the compliance program and FWF. As we are yet in the stage of mapping out the compliance level at KFE suppliers as well as the rest of the Group's supply chain we have concentrated the information focus to our overall compliance approach rather than to report on progress, which is yet to be made more visible first