

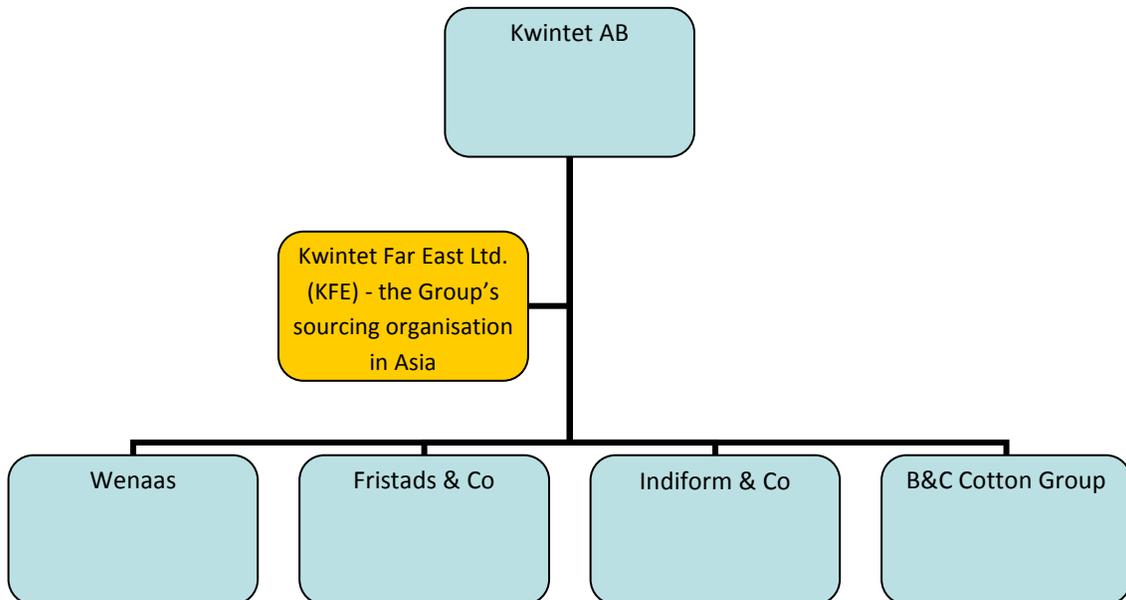


www.kwintet.com

Start date membership:

January 2009

Organisation chart:



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1. Summary: goals & achievements 2009

This Social Report applies to Kwintet Far East Ltd. (hereby referred to as KFE), Kwintet Group's sourcing hub in Asia, with its offices located in Hong Kong and Ningbo, China. The Kwintet Group is a group of companies that supply high-quality professional wear for all purposes and industries. The products of Kwintet business entities range from heavy work wear (such as used at oil-rigs, uniforms for heat protection etc.) to light garments such as t-shirts, professional suits and uniforms, protective equipment, shoes and gloves.

Historically, each business entity of the Kwintet group has operated as an independent entity with its own supply base and its own set of policies related to environmental and social performance. However, in 2006 the Kwintet group initiated a process to carefully consolidate, and integrate, the supply base of the independent Kwintet entities under a common umbrella organisation for strategic sourcing.

The process of developing the sourcing organisation and consolidating group procurement is still ongoing. Since Kwintet's central sourcing organisation in Asia, 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 (see more below in section 2). 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.

Kwintet's business entity KLM Kleding, part of the Wenaas division, is a FWF member since 2003, 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 Work Plan for 2009. A separate Work Plan has been submitted for KLM Kleding's supplier Nedanco in Tunisia.

Kwintet Far East Ltd. (KFE) signed its membership contract with FWF in December 2008. This was an active step forward in the outlined framework for Kwintet Group's social compliance program, embracing KFE, its sourcing hub in Asia. Kwintet's Code of Conduct is based on the Code of Labour Practice, and the group's social compliance program is developed in line with FWF guidelines for affiliate members. Although Kwintet started by enrolling only KFE as members of FWF, the Code of Conduct and the social compliance program applies to all of Kwintet Group and its total supply base. In the wake of signing the membership contract for KFE, the year of 2009 followed with implementation of the outlined activities in practice. In summary, we reached the following achievements during 2009:

- We developed a 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 the 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 KFE suppliers have received the Kwintet Code of Conduct and been requested to sign it as a minimum requirement for being a business partner of Kwintet. Regular follow-up via phone and e-mail has been carried out during the year to ensure that the Code is signed. By end February 2010, 95 % of the KFE suppliers have signed the document. Furthermore, in November 2009 the Preferred suppliers were gathered in a workshop in Shanghai to get an introduction to Kwintet's new strategic sourcing organisation, including a session on the social compliance program and background to KFE's membership in FWF.

- All KFE suppliers have received a Kwintet Compliance Manual which serves as a handbook that offers guidance on how the supplier can be proactive and ensure compliance with our Code of Conduct.
- Target of 40 % of KFE suppliers audited has been reached, in the sense that the percentage covers the spend/turnover per supplier. However, during 2009 it has not been possible to track the spend/turnover down to factory level, which is why the 40 % indicates the supplier's total spend/turnover. In other words, not necessarily all of a supplier's production units have been audited during 2009; audits have been booked at the factories most important to KFE sourcing regarding product development, quality etc. During 2010 our internal financial system will gradually be able to track turnover to factory level. In total, 37 factories out of 172 were audited in 2009. Our contracted audit agency partner Omega Compliance conducted the audits with focus on suppliers located in China, India, Bangladesh, Pakistan, South Korea and Vietnam.
- Information about Kwintet Group's compliance program and KFE's membership in FWF is published on the company intranet (KWintranet) under a separate CSR section, which is visible in the first page and continuously updated with material and information concerning the social compliance program. Information is also available on Kwintet's web site, under a particular CSR section from where the Code of Conduct can be downloaded.
- The Chinese poster versions of the Code of Labour Practice, i.e. pages 6-7 of Kwintet's Code of Conduct plus the local complaints procedure, has been printed and distributed to the suppliers in China for display on the factory floors. The Vietnamese and Hindi versions are yet to be distributed to the suppliers in Vietnam and India. During 2010 we will continue to distribute the poster with complaints procedure to the remaining markets where KFE is operating.
- We have initiated the recruitment of an in-house auditor at KFE office in Hong Kong who, parallel to the contracted external compliance audit agency, will conduct factory audits and eventually place particular focus on the monitoring

and follow-up of suppliers' remediation and corrective actions. The recruitment is to be completed within the first quarter of 2010.

2. Sourcing strategy

2.1. Sourcing strategy & pricing

As stated earlier, 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.

Organization 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.

2.2. 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.

2.3. 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.

2.4. Integration monitoring activities and sourcing decisions

KFE is using a supplier rating system which, in the trails of the new Group strategic sourcing organization, evolved into the rating system described above in section 2.1. 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. Unless KFE suppliers are of Complementary status they have not been pushed to complete the self-assessment as they have been prioritized for audit booking anyways, booking based on the remaining planning criteria.

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. Countries from where KFE sources

The outcome of our monitoring activities is described per 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)*

18 out of 123 factories in China were audited during 2009, equal to 37 % of total spend/FOB. Three factories, i.e. 17 % of total audited factories in the country, were graded Yellow and thus audit outcomes are not listed here. The most common audit findings were:

- Fire services equipment inadequacy
- Payroll record inadequacy
- Time record inadequacy
- Inadequate personal protective equipment/machine safety measures
- Certificate inadequacy (health and safety related)
- Excessive deduction / workers' benefit inadequacy
- Age documentation / working permit of young workers inadequacy
- Chemical labeling/documentation inadequacy
- First aid inadequacy
- Minimum / overtime wage 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.

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

None

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)*
5 out of 13 factories in India were audited, equal to 12 % of total spend/FOB. The most common audit findings were:
- Fire services equipment inadequacy
 - Payroll record inadequacy
 - Social insurance inadequacy
 - Minimum / overtime wage 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

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)*

4 out of 13 factories in Bangladesh were audited, equal to less than 1 % of total spend/FOB. The most common audit findings were:

- Age documentation / working permit of young workers inadequacy
- Payroll record inadequacy
- Time record inadequacy
- First aid inadequacy
- Substandard sanitary condition
- Inadequate personal protective equipment / machine safety measures
- Escape route inadequacy
- Fire services equipment inadequacy
- Chemical labeling / 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

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)*
An ex-employee of a Vietnamese supplier filed a complaint on one occasion, and an audit followed to verify this complaint. Part of the allegation was proved valid during the audit. The supplier was requested to establish remediation, which Kwintet CSR department followed up. Then a re-audit was scheduled to verify the correction progress. The audit results have been communicated to the person who filed the complaint.
- d) *(Cooperation with other clients, for example on complaints or corrective actions)*
None
- e) *(If the factory has been audited)*
7 out of 10 factories in Vietnam were audited, equal to 10 % of total spend/FOB.
The most common audit findings were:
- Payroll record inadequacy
 - Age documentation / working permit of young workers inadequacy
 - Time record inadequacy

- First aid inadequacy
- Escape route inadequacy
- Fire services equipment 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

Other countries

- a) Other countries that KFE sources from are Korea, Laos, Malaysia, Pakistan, Thailand and UAE, where the total numbers of factories are 11. Out of these, 4 factories were audited.
- 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)*
4 out of 11 factories in the above mentioned countries were audited – 3 in Pakistan and 1 in Laos – equal to 13 % of total spend/FOB. The most common audit findings were:

- Fire services equipment inadequacy
 - First aid inadequacy
 - Inadequate personal protective equipment / machine safety measures
- 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

3.2. External production

During 2009 KFE has not been handling any suppliers of "external production". Although a significant number of the Preferred suppliers happen to be of external production, they are handled primarily by the Category Managers located in Europe. Kwintet's CSR Department requires that Preferred suppliers with external production signs the an appendix which stipulates that the supplier must endorse the Code of Labour Practice, and that instead of having its production sites audited the supplier shall declare to us its own compliance program. During 2010 the CSR Department will start requiring the data from Preferred suppliers of external production in line with the guidelines provided in FWF Manual for Affiliate Members section 3.2.2.

4. Training and capacity building

4.1. Activities to inform staff members

Regional Compliance Manager at KFE has held a CSR seminar for the QC staff in Ningbo where the FWF membership has been explained. Kwintet Group has published information about KFE's 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

See above in section 2.1.

4.3. Activities to inform manufacturers and workers

All KFE suppliers have received the Kwintet Code of Conduct and been requested to sign it as a minimum requirement for being a business partner of Kwintet. Regular follow-up via phone and e-mail is constantly carried out to ensure that the Code is signed. Furthermore, in November 2009 the Preferred suppliers were gathered in a workshop in Shanghai to get an introduction to Kwintet's new strategic sourcing organisation, including a session on the social compliance program and background to KFE's membership in FWF. All KFE suppliers have also received the Kwintet Compliance Manual, which serves as a handbook that offers guidance on how the supplier can be proactive and ensure compliance with our Code of Conduct.

5. Transparency & communication

Information about KFE's 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.