

Acne

Studios

Contents

Summary: Goals and achievements 2013–14 4

1. Sourcing strategy 5
 - 1.1. Sourcing strategy and pricing
 - 1.2. Organisation of the sourcing department
 - 1.3. Production cycle
 - 1.4. Supplier relations
 - 1.5. Integration monitoring activities and sourcing decisions
2. Coherent system for monitoring and remediation 6
 - 2.1. High risk countries
 - China
 - Turkey
 - Albania
 - Other high risk countries
 - 2.2. Low risk countries
 - Italy
 - Portugal
 - Other low risk countries
3. Complaints handling 9
4. Training and capacity building 9
 - 4.1. Activities to inform staff members
 - 4.2. Activities to inform agents
 - 4.3. Activities to inform manufacturers and workers
5. Transparency and communication 9
6. Stakeholder engagement 9
7. Corporate social responsibility 9

Summary: goals & achievements 2013–14

A new sourcing strategy has started to get implemented during the last financial year which includes increased production in countries within the EU such as Italy and Portugal and less in Turkey and China. Currently Italy is our biggest production country in terms of order value, second is China followed by Turkey and Albania. Portugal has increased and is now on fifth place. Looking at the total numbers; around 40% of orders are placed in countries classified as low risk countries in terms of labour rights violations and around 60% are placed in high risk countries.

We made 16 audits during the last financial year, six audits in China, three audits in Turkey, three audits in Albania and one audit in Morocco. Almost 90% of the production made in high risk countries is with factories that have been audited. In addition we made three audits with our main shoe suppliers in Italy. Low risk countries such as Italy, Portugal and Lithuania are normally not audited but as we know there can be a risk of Chinese subcontracting in Italy we want to learn more on the production set-up for our shoes. Mapping and eventual audits of subcontractors in this sector are to be made in the next financial year.

Notable improvements are seen in China in terms of higher wages. If housing and meal benefits are included, most of the suppliers in China are paying workers in-line or almost in-line with the living wage estimated by Asia Floor Wage. However, a common finding in China is still excessive working hours. Last year we received a complaint on this matter with one factory. This factory has now stated that they have decreased overtime by around 20%. Another factory in China has stated in our audit follow up communication that they now comply with our requirements of maximum 60 hrs per week. Both of these improvements need to be confirmed in a new follow-up audit.

Follow-up audits were made in late 2014 with two Turkish factories audited in 2013. The initial audits had critical findings on for example unapproved use of subcontractors, health and safety issues and use of unregistered workers. One factory showed acceptable improvements and are now for example transparent on their subcontractors. With the second factory we didn't think their improvements were enough and we are therefore looking to replace them as soon as possible.

To improve the knowledge on our Code of Labour Practices we arranged a supplier seminar for the main Chinese suppliers in Shenzhen together with FWF in late 2013. In addition, two suppliers in China have participated in the FWF Workplace Education Programme (WEP) in 2014. We are hoping that four additional suppliers in China will participate in this training during next financial year. In Portugal, FWF arranged training where our Portuguese agent and our most important supplier attended.

As our plan is that factories situated in low risk countries and within the EU will increase for coming seasons we have the possibility to strengthen and deepen our cooperation with the remaining suppliers in high-risk countries. We believe this will make it easier for us to have a positive impact on the working conditions during production of our products.

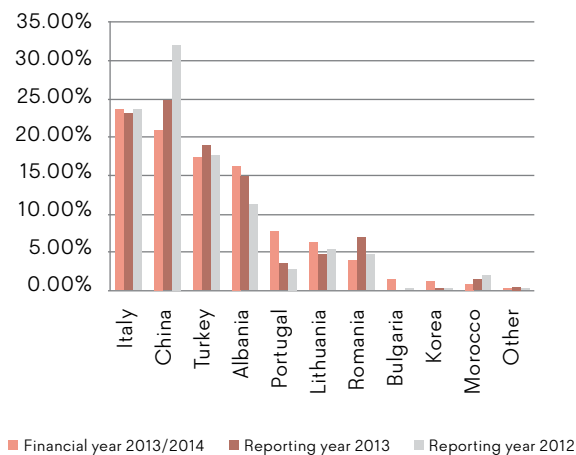
1. Sourcing strategy

1.1. Sourcing strategy and pricing

Acne Studios designs, markets and distributes high-end fashion. Our product range includes men's and women's clothing, shoes, bags and accessories.

Below is the distribution of production countries based on order value according to the financial year of 2013–14. Since FWF changed reporting period from Jan to Dec annually to in-line with our financial year (Sep–Aug), the data from 2013's is somewhat overlapping.

Order value per production country



In line with our sourcing strategy the graph shows decreasing order value for foremost China and Turkey, and increased order value for Albania, Lithuania, Korea and Portugal. The column "Other" shows order value for production made in England, France and Poland.

Coming financial year (2014–15) will probably again show increased order value from production placed in Portugal and Italy and a decrease of orders placed in China, Turkey and Albania due to a new company sourcing strategy where we want to produce more within the EU-countries.

Our production is made on CMT, CM or full price terms. Price negotiations are undertaken both at an early development stage but also with the order figures in hand. We are always looking for value for money; that said, we are never willing to compromise on our design or product quality and we always strive for prices to be reasonable in both parties' perspective.

Our goal is to have a stable supplier base that can meet the different requirements for our various product groups. Currently around 50% of the order value is with factories that we have been working with in more than five years.

1.2. Organisation of the sourcing department

Our production department is organized in three main departments; a men's wear and women's wear department and one department for denim and other projects. Each department consists of product managers, product developers and pattern makers and is led by the head of each department. The head of each department is reporting to the Production Director. The CSR & Quality Manager is reporting to the Production Director and is working closely with everyone involved in sourcing and production.

In general, we have direct business relationships with our suppliers, but in case of working through agents, we always strive to have direct contact with the factories. The reasoning behind this is to keep control of everything from development and production to CSR conditions in our factories.

1.3. Production cycle

Each year we produce two main collections for men's and women's wear respectively, as well as two pre-collections for women's wear. In addition to these seasonal collections, we also make other smaller projects and collaborations.

The production orders are based on external and internal (our own stores) orders of the collections and only include a small element of stock ordering for in-season orders. In addition to the large seasonal orders that are placed at the end of each selling period, we have reorders within the store seasons and a never out of stock programme with continuous reorders. The production lead-times vary between just a few weeks up to six months and are dependent on internal planning, the capacity of our suppliers and material lead-times. For the large seasonal orders, factories are informed about orders around five months before delivery.

1.4. Supplier relations

Every season usually brings some new suppliers. This process starts with a meeting where our product idea is presented. Following this meeting, the supplier is asked to produce prototype samples. If we approve these samples, the next step is the production of sales samples. Parallel to this product sampling, the supplier is informed about our FWF membership and given a questionnaire on accepting our Code of Labour Practices, our Restricted Chemical List and a business contract.

The outcome of audits, together with other aspects such as prices, lead-times and quality are always considered when deciding which suppliers we want to continue with and to what extent. If we for some reason would like to quit working with a supplier, we always explain the reason to the supplier in a professional ending meeting, normally when visiting the supplier.

1.5. Integration monitoring activities and sourcing decisions

All employees at the production department have great interest in making our products in factories with working conditions that are in line with our Code of Labour Practices. The Production Director and the product managers responsible for different suppliers are always informed of the results after a FWF audit and are often included in the email-communication with the supplier on follow-up of findings. Most suppliers are visiting our office in Stockholm continuously and when they are here, the outcomes of audit results are discussed together with the CSR Manager, the suppliers and the responsible Product Manager.

We do not immediately terminate a business relationship based on audit findings that are in conflict with our Code of Labour practices. We always give our suppliers a chance to improve in order to meet our standards. However, if we realize that they, after repeated requests, still are not willing to make improvements, we will terminate the business relationship. Findings on issues such as transparency or usage of unapproved subcontractors, failure to pay minimum wages and critical health and safety findings are example of issues that we need to see immediate improvements on. If not, the processes of finding a replacement for the supplier will start by the responsible product manager or the head of the concerned department.

2. Coherent system for monitoring and remediation

The first step in our monitoring program is that a new supplier signs our self-assessment questionnaire on our Code of Labour Practices. At this time, we also ask for previous audit reports done from other customers. For suppliers that will receive important or big orders normally either the CSR manager or someone from the production department visits the factory as well to get a better knowledge of the facilities and the conditions.

The next step in our monitoring program includes an audit conducted by FWF. The CSR Manager always accompanies audits with new suppliers. After the audit, a Corrective Action Plan (CAP) on what needs to be improved is established. Follow-up on the CAP improvements is conducted mainly via e-mail or in follow-up audits on site made by the CSR manager. In case we are working through an agent they can also help to follow-up on improvements.

An important part of our monitoring system is ensuring that our Code of Labour Practices, including the contact details to the FWF complaints handler, is posted visibly at our suppliers' facilities. When other employees from the production department are visiting a supplier, they are advised to check if this is posted.

In addition to the self-assessment questionnaire, FWF audits, CAPs follow-up and the complaints procedure, we encourage suppliers to attend trainings offered by FWF.

During the financial year of 2013–14 we placed orders with around 90 factories in 13 countries. Below shows the estimated percentage based on order value of suppliers in countries classified as low risk and high risk in terms of labour rights violations.

- Production in low risk countries: 40%
- Production in high risk countries: 60%
- Production in high risk countries that have been audited: 90%

High-risk countries are Albania, Bulgaria, China, Korea, Morocco, Romania and Turkey. Low-risk countries are Italy, Lithuania, Portugal, United Kingdom, France and Poland. The low-risk countries have increased with around 6% since last social report.

2.1. High risk countries

China

- Percentage of order value: 20%
- Number of factories: 9
- Number of FWF audits 2013–14: 6

The four most important factories in China stand for 75% of our orders in China and these are suppliers we want to continue to work with. At least four of the other factories with smaller quantities will be phased out during next financial year in line with our sourcing strategy.

All factories in China have been audited by FWF and six of them were audited during the last financial year. The majority of these audits were follow-up audits. In addition to the FWF audits our quality inspector has visited the most important factories continuously in the last year for quality control.

As many of the factories in China have been audited by us or by other brands several times, there are few findings on critical health and safety issues. The most common finding is excessive working hours. In China it is a "normal practice" with a working week of around 60 hrs a week. We also received a complaint last year through the FWF complaints mechanism on excessive working hours. We have therefore put focus on this matter in the follow-up on the corrective action plans with the factories. Our goal is that our suppliers should have below 60 working hours per week, also in peak seasons. The factory that we received the complaint from has stated that they have improved their production planning system and that they have reduced the overtime since last audit with 15–25%. This will be confirmed in detail in the next FWF audit.

Two critical findings in last year's audits was that one factory had taken down our Code of Labour Practices that always should be posted visible at all factories. Another critical finding was that one supplier showed us fake documents on wages and working hours. These two factories are included in the ones we will phase out in the next financial year.

Our suppliers in China are situated in the Guangdong province which has seen an increase of the wage level in the last years due to labour shortages. This is also shown in the "FWF wage ladder" in last year's audit reports. If housing and meal benefits are included in the total wage, several factories are paying workers in line, or almost in line with the estimated living wage by Asia Floor Wage.

In November 2013, we arranged a one-day seminar in Shenzhen in which seven of our suppliers attended to. Our CSR Manager held training on Acne Studios environmental requirements and FWF auditors were presenting the Workplace Education Training (WEP) that FWF are offering for factories in China. In the last financial year two factories have participated in this training and in the spring next year we will hopefully arrange this training with four additional factories.

Turkey

- Percentage of order value: 20%
- Number of factories: 10 + 4 subcontractors
- Number of FWF audits 2013–14: 3

As with production in China the plan is to reduce the number of factories in Turkey due to our new sourcing strategy. However some of our factories are long term and stable suppliers that we want to phase out more slowly and some are important suppliers that we want to keep for the future.

During last financial year we made FWF audits with three factories in Turkey. These stand together for around 75% of the orders placed in Turkey. In total, looking at the order value, around 90% of the Turkish production has been audited by FWF. However, as subcontracting is common in Turkey, some factories with small orders have not been audited. One of these has instead been audited by another brand and then we are cooperating on their corrective action plan on improvement of findings. In addition to the audits, our quality inspector has visited the most important factories several times in the last year for quality control. In Turkey, our quality inspections are a good way to learn if our supplier is using unapproved subcontractors.

As some of the supplies in Turkey will be phased out in the near future, the focus on follow-up of improvements have mainly been with the suppliers we want to continue with in the long run, which are around 4–5 factories.

In general, audit results in Turkey show more variety of problems compared with China. One factory had issues with unapproved subcontracting, excessive overtime and a bonus system that was not transparent and equal. This was considered critical in the audit in 2013 and in the follow-up audit in 2014; we saw some improvements going in the right direction even if not all issues were solved. The factory has implemented a new production planning system to reduce overtime, hired a new HR manager and is now transparent with which subcontractors they are using. This factory also works with another brand that we have been in dialogue with. Hopefully we will see even more improvements in the next audit when the factory's new management system is more implemented.

Another factory had issues on health and safety and had temporary workers without legal contracts. We have also received a complaint from this factory through the complaints mechanism. In the follow-up audit in 2014, many of the critical findings were not solved. We are now planning to replace this factory as the improvement process has been too slow.

Albania

- Percentage of order value: 15%
- Number of factories: 3
- Number of FWF audits 2013–14: 3

Production in Albania is made in three factories through an Italian agent. The majority of these factories' production capacity is for Acne Studios only.

As FWF does not have an audit team in Albania, we instead made audits with the Balkan Institute of Labour who has FLA certified auditors from Bulgaria. As this was the first audit done by an external audit team and as the Bulgarian auditors had to use Albanian translators during the audits, it was a learning experience for all involved. One factory had health and safety issues that needed to be improved and two of the factories were not fully transparent on the wage records. A positive finding was that we didn't see any excessive working hours which is common in other high-risk countries.

Follow-up of the audits have been made through our Italian agent who are in the factories continuously during production. However we want to arrange new follow-up audits early next year to confirm improvements by an external auditor.

Our long term sourcing plan is to slowly phase out production in Albania in the coming years and to move these products to be made in Italy. This will most likely be finalized in 2015–16.

Other high risk countries

Other high risk countries where we have production are Romania, Bulgaria, Morocco, and South Korea. They stand for a smaller part of our total order value, only around seven percent.

In Romania we were producing with five factories in last financial year. Two are factories that we have been working with for many years and the biggest one in terms of production volume was audited in November 2012 with few critical findings. Follow-up on these have been made through email. In addition we have production with three new factories in Romania through an Italian agent. These have been visited by our product developers and by our quality inspector. Those factories that will be used in coming season will be audited by FWF next year.

In Morocco we have one factory that we also have been working with for many years. It was audited in 2013 with few critical findings. Follow-up of these have been made in email and the factory has also been visited by people from our production department.

In Bulgaria there is only one factory which will be phased out during next season as these products will be moved to be made in Italy. Therefore it has not been audited. In South Korea we use a small factory that has not been audited yet but it has been visited by our quality inspector during the last year.

2.2. Low risk countries

Italy

- Percentage of order value: 25%
- Number of factories: 21
- Number of audits 2013–14: 3

Italy is getting more and more important for us as production country. All shoes have always been made there but now more garments are produced in Italy. The four main shoe suppliers stand for around 60% of the order value. Some of the Italian suppliers are long-term suppliers but we also have a couple of new suppliers that has only been used one season. It is likely that orders for Italy will increase even more in coming years.

As Italy is classified as a low-risk country, the main monitoring activity is to arrange that all suppliers fill in our self-assessment questionnaire and post our code of labour practices. In addition, we made our first audits this spring with three of the biggest shoe suppliers. As FWF does not have audit teams in Italy, these were made with a local Italian auditor recommended by FWF.

The three audit reports showed very few findings; it was mainly minor health and safety issues. However, as shoe production includes many different production steps, we also started to investigate on subcontracting practices to learn if there is a risk of usage of Chinese subcontractors with low labour standards. Together with the Italian auditor and our Production Controller for shoes, who is based in Italy, we have started to map subcontractors and production processes. Our Italian auditor also had training with our Production Controller on the FWF Code of Labour Practices. Next year we will probably make audits with some of these subcontractors.

Portugal

- Percentage of order value: 8%
- Number of factories: 15
- Number of audits 2013–14: 0

Portugal is also a production country that has increased over the last year and will likely increase more in coming seasons. As with Italy and other low risk countries the main monitoring activity is to arrange signature of our questionnaire and postage of our code of labour practices. We have also received audit reports made by other brands from some factories. As subcontracting is quite common in Portugal we have prioritized to do extensive mapping of these with all factories used. In addition, our CSR Manager, our Portuguese agent and the most important supplier were participating in a training offered by FWF on labour issues in Portugal in September 2014.

Other low risk countries

Other production countries classified as low risk are Lithuania, England, France and Poland. The 16 factories in these countries stand for around seven percent of our order value. 11 out of these factories are situated in Lithuania where we are producing through a Lithuanian agent. Poland is a new production country since this year. The main monitoring activities in these countries are the questionnaire and the photo of postage of the code in the factory. The main factories have also been visited by our quality inspector.

3. Complaints handling

Acne Studios Code of Labour practices, together with the phone number to the complaints handler, must be posted visible in all factories. We ensure that this requirement is met through e-mail conversations where a photo is attached; through audits where this is inspected; and through visits by employees from the production department where they check this on behalf of the CSR Manager. Information on the function of the complaints procedure is also communicated during FWF audits by the auditor responsible for worker interviews.

In the last financial year we received complaints from workers at two factories. With one supplier in China it was a complaint on excessive overtime, as described earlier in this report. With one supplier in Turkey it was a complaint from six workers claiming that they were dismissed because they had been union members at a former factory. They were daily workers with and did not have any contract and also didn't want to have a contract because they still wanted to have unemployment benefits from the government. Our response was that it of course is not acceptable to have workers without contracts in the first place, and then that it never may be a risk of dismissal due to membership in a trade union. The follow-up audit in 2014 showed there were still daily workers in this factory. Due to this suppliers unwillingness to make improvements we will phase them out and find a replacement as soon as possible.

4. Training and capacity building

4.1. Activities to inform staff members

Employees at the production department are informed about the membership of FWF during an introduction meeting with the CSR Manager in the beginning of their employment. FWF audit results are then communicated continuously in both emails and meetings. In Italy, we had a short training with our shoe Production Controller who is situated in Italy on our FWF membership and our Code of Labour Practices. This training was made by an Italian auditor advised by FWF.

Employees working in our stores are informed about the FWF membership in the written Retail manual. The result of last Performance Check was added in our CEO's monthly newsletter which was communicated to all employees at Acne Studios.

4.2. Activities to inform agents

All the agents that we are collaborating with are well informed of Acne Studios membership in FWF in emails and in meetings with the CSR Manager and other employees at the production department. They are also present when FWF audits are conducted. Normally they also help us to follow-up corrective action plans after an audit has been conducted. In addition they also attend trainings that are offered by FWF, for example in Portugal in 2014 and in Italy in 2013.

4.3. Activities to inform manufacturers and workers

As a part of the FWF audit procedures workers are being informed on our Code of Labour practices by the auditor responsible for worker interviews. As described earlier, we had a supplier meeting in Shenzhen last year together with two auditors from FWF. In addition, two Chinese factories participated in the WEP training with FWF last financial year.

5. Transparency and communication

Our aim is to be as transparent as possible regarding our CSR activities. This annual Social report is available on both their website and our own. We also have information on our website regarding our membership in FWF, together with our Code of Labour Practices. From time to time we receive emails from customers or students with questions on our CSR activities, and we always reply to these as quickly and accurately as we can.

Our CSR Manager is receiving information from various newsletters from stakeholders on current labour conditions in our production countries. The country studies that FWF is offering are sometimes used before and after audits.

6. Stakeholder engagement

Our CSR Manager is receiving information from various newsletters from stakeholders on current labour conditions in our production countries. The country studies that FWF is offering are sometimes used before and after audits.

7. Corporate social responsibility

Please see acnestudios.com for more information on our Environmental Strategy and other CSR related activities.