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# Introduction

We believe being proud of our products includes being proud of the conditions in which they are made. Since 2008, we have been a member of Fair Wear Foundation (FWF) who helps us to monitor and improve labour conditions at the factories that manufacture our products.

Fair Wear Foundation is a multi-stakeholder initiative directed by trade unions, business associations and NGO's. Having a membership with them provides us with input from various stakeholders who work on social issues within the fashion industry. FWF has developed our Code of Labour Practices which all our suppliers need to agree to work towards. As a member, we are also obligated to follow several requirements. These include providing FWF with a list of all factories we use; monitoring these factories labour standards, and annually report our progress and results. Every year FWF prepares a 'Brand Performance Check' on each member where performance is evaluated and graded. In last two years, Acne Studios has received their highest grade, 'Leader' for our achievements. This social report covers our work for the financial year starting from September 2014 to end of August 2015

## Acne Studios code of labour practices

1. Employment is freely chosen
2. No discrimination in employment
3. No exploitation of child labour
4. Freedom of association and the right to collective bargaining
5. Payment of a living wage
6. No excessive working hours
7. Safe and healthy working conditions
8. Legally binding employment relationship

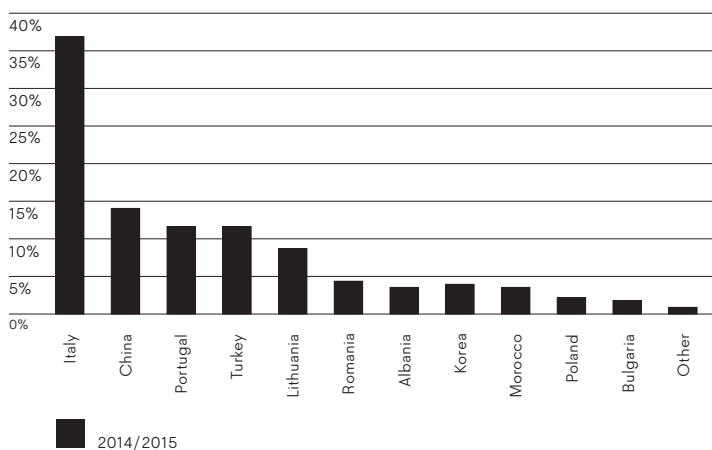
## Sourcing strategy

Acne Studios product range includes high end men's and women's clothing, shoes, bags and accessories which are produced by suppliers in Europe, China, Turkey, South Korea and Morocco. Below is the distribution of production countries based on order value according to the financial year of 2014/2015. Compared with last year's order values we have seen the results of our new sourcing strategy which includes increased production in European countries, mainly Italy and Portugal, and decreased production in mainly China and Turkey.

### Production department

Our production department is organized in five main departments; menswear, womenswear, denim, shoes and one department for accessories and other projects. Our shoe department is based in Italy but the other departments are located at our head office in Stockholm. Every department consists of product managers and product developers and is led by a head of department. The head of departments reports directly to our Collection/Production Director. It is their responsibilities to ensure our sourcing strategy is implemented correctly and to evaluate current suppliers and source new ones when needed. Our CSR & Quality Manager is responsible for our monitoring program and work in close cooperation with the head of each department. In addition, we also have quality controllers who perform quality inspections at our suppliers during production. Currently we have four quality controllers who are visiting our suppliers continuously.

### Order value per production country



### Production cycle

Each year we produce two 'main collections' for menswear and womenswear respectively, as well as two 'pre-collections' for women's wear. In addition to these seasonal collections, we also have other smaller projects and collaborations. The production orders are based on external wholesale orders, internal retail and e-tail orders (our own stores) and only includes a small element of stock ordering. 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 orders for certain styles. For the large seasonal orders, factories are normally informed about orders around five months before delivery. All lead-times are dependent on internal planning, the capacity of our suppliers and material lead-times.

### Supplier relations

Our goal is to have a stable supplier base that can meet the different requirements for our various product groups. Currently almost half of the order value is with factories that we have been working with in more than five years. In general we have a direct business relationship with our suppliers and in some cases we work through agents. Our orders are placed mostly on full price terms and sometimes CMT or CM-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 and product quality and we always strive for prices to be reasonable in both parties' perspective.

# Monitoring Program

We are following the FWF guidelines on monitoring of suppliers to confirm our products are made in-line with our code of labour practices. We also continuously evaluate how we, on our side, can enable our suppliers to follow our requirements through our sourcing practices.

## Self-assessment questionnaire

The first step in our monitoring program is that a new supplier signs our 'self-assessment questionnaire' which includes questions and confirmation of our Code of Labour Practices. We put a lot of effort into understanding the supplier's production set-up, specifically to find out whether they will use more than one production location for our orders. We always stress that un-approved subcontracting not is allowed. At this time we also ask for and evaluate, eventual social audit reports done by other customers. Most new suppliers have also been visited by someone from our production department before we place any orders to have a good understanding of their performance and capacity. When a new supplier has signed our self-assessment questionnaire the supplier data is uploaded in FWF supplier data base.

## Social audits

The next step in our monitoring program is to perform a 'social audit', foremost done by FWF auditors. In countries where FWF do not have any audit teams we hire local external auditors. The purpose of the social audit is to investigate compliance of our code of labour practices and local labour law and includes both interviews with workers and factory managers, inspection of health and safety conditions as well as review of relevant labour documentation. Our CSR Manager accompanies most audits and if an agent is used their representative is also present. After the audit, a 'Corrective Action Plan' (CAP) on what needs to be improved is established and discussed with the supplier. Follow-up on the improvements is conducted via e-mail or through monitoring on site. In case we are working through an agent they normally also help to follow-up on improvements as they are visiting the factories frequently. Every year FWF conducts at least two so called 'verification audits' at different suppliers to verify our follow-up results. The outcome of these verification audits are then one part of FWF's annual performance check on us.

## Complaints mechanism

The next step in our monitoring program is to perform a 'social audit', foremost done by FWF auditors. In countries where FWF do not have any audit teams we hire local external auditors. The purpose of the social audit is to investigate compliance of our code of labour practices and local labour law and includes both interviews with workers and factory managers, inspection of health and safety conditions as well as

review of relevant labour documentation. Our CSR Manager accompanies most audits and if an agent is used their representative is also present. After the audit, a 'Corrective Action Plan' (CAP) on what needs to be improved is established and discussed with the supplier. Follow-up on the improvements is conducted via e-mail or through monitoring on site. When we are working through an agent they normally also help to follow-up on improvements as they are visiting the factories frequently. Every year FWF conducts at least two so called 'verification audits' at different suppliers to verify our follow-up results. The outcome of these verification audits are then one part of FWF's annual performance check on us.

## Training and capacity building

In addition to the self-assessment questionnaire, social audits, CAPs follow-up and the complaints mechanism, we encourage suppliers and agents to attend training offered by FWF. This could be either FWF seminars in certain countries focusing on different topics or the new FWF Workplace Education Program (WEP) which is held at individual factories. The purpose of FWF's training is to improve communication within factories on labour issues, aimed at both management and workers. Sometimes we also arrange our own seminars. For example, in 2013 we organized a seminar in Shenzhen with all our Chinese suppliers.

## Integration of monitoring and sourcing

Our CSR manager is working together with the head of each department to ensure that the results of monitoring our suppliers are factored in our sourcing decisions. They, together with the responsible product manager are informed of the results after a FWF audit and are often included in the email-communication on follow-up of findings. Our Collection/Production Director is also regularly updated on monitoring results, especially for key suppliers or if we have a critical audit outcome. When new employees are on-boarding the production department they have an introduction meeting with the CSR manager where they get information on our monitoring program and how it is related to their new position.

We do not immediately terminate a business relationship with a supplier based on audit findings that are in conflict with our code. We always give our suppliers a chance to improve. However, if we realize that a supplier after repeated requests still is not willing to make improvements, we will terminate the business relationship. Issues such as transparency or usage of unapproved subcontractors, failure to pay minimum wages and critical health and safety findings are example of findings that we need to see immediate improvements on. If not, the process of finding a replacement to that supplier will start by the head of the concerned department.

## Supplier overview

During the financial year of 2015-2016 we placed orders with around 130 suppliers (subcontractors included) in 14 countries. However, if you look at the top ten suppliers, these stand for around half of the order value as some suppliers are small or are only used for making a special order, are a subcontractor, or are in the process of being phased out.

Over 70% of the total order value is with suppliers where Acne has leveraged above 10%, meaning our orders stand for more than ten percent of their total capacity. For us this is a good result because the more important we are as a customer the easier it is for us to request improvements in terms of working conditions.

Fair Wear Foundation makes country studies on labour right violations and consequently classifies countries as 'high-risk' or 'low-risk' countries. According to their monitoring requirements suppliers in high-risk should be audited by external auditors and suppliers in low-risk countries need to at least be evaluated by a self-assessment questionnaire and confirm posting of our code. The countries classified as high risk we use are Albania, Bulgaria, China, Korea, Morocco, Romania, Serbia and Turkey. Countries classified as low-risks used are Italy, Lithuania, Portugal, United Kingdom, France and Poland. In our internal system we also include Italian suppliers who have confirmed using Chinese labour in their production (or where we suspect it) with monitoring in the form of external audits even though Italy normally is classified as low risk.

- Production value in low risk countries: ~60%
- Production value in high risk countries: ~40%
- Production value in high risk countries that have been audited: ~92%

## High-risk countries

### China

- Percentage of order value: ~14%
- Number of factories: 8
- Number of audits in 2014–2015: 2

The share of total production value in China has decreased since last year. This is due to a reduction of orders as we have been in the process of phasing out of four of the eight factories that we have previously worked with. Next year the plan is that only four factories will be used. With these, we feel we have a strong and stable relationship and with one of them, we would like to increase, as they are very good in terms of quality level and CSR.

As many of our suppliers in China have been audited by us or by other brands several times, there are few findings on

health and safety issues. However, the main problem for us in China has for a long time been excessive working hours of more than 60 hours a week. We also had a complaint in 2014 on excessive working hours through the complaints mechanism with one supplier. This supplier was audited last year and it was confirmed they have continuously reduced working hours. Two years ago their production planning was based on 66 working hours per week, one year ago it was 60h per week and for this year it has been 57h per week (except for minor exceptions) which is within the FWF requirements. The reduction of working hours has been made through an improved production planning system that has led to greater efficiency. The wages in this factory are also relatively high with some workers earning higher than the living wage. If housing and meal benefits are included, then all workers are receiving higher salaries than the living wages as estimated by Asia Floor Wage. The plan is that management and workers at this supplier will participate in the FWF workplace training during 2016.

At the other key Chinese supplier we made an audit in the spring and then a follow-up audit in the autumn as we wanted to see improvements as soon as possible. Almost half of the findings were improved after half a year; for example, working hours were confirmed reduced to be below 60 hours per week. However, they still have some aspects to improve in terms of wages, which we plan to do more research on next year, as well as encouraging participation in the FWF workplace training.

The two remaining suppliers that we will keep in China were audited in last financial year. Follow up of findings has been made through email-correspondence. Results will be confirmed in next FWF audit. One of these suppliers also participated in the FWF training this year with a positive result. The four suppliers we will quit working with have been phased out mainly due to moving their products to be made in Portugal and Italy. One will be phased-out because of CSR-reasons as we feel it is difficult for us to make them improve issues as our leverage in the factory is so small.

### Turkey

- Percentage of order value: ~11%
- Number of factories: 9
- Number of audits in 2014–2015: 0

Similar to China, the total order value in Turkey has decreased due to the process of phasing out some suppliers. By next year we think there will be around four factories remaining, of which two are now our key suppliers in Turkey. We will continue to build a strong relationship with them as they currently stand for the majority of our orders in Turkey. These suppliers and one of their subcontractors were audited by FWF in 2014 and one by another luxury brand that we

cooperate with on monitoring. There has been follow-up email correspondence on improvements made, such as photos of elections for worker representatives and other similar documentation to confirm progress. We believe the most important issues we need to see improvement on is the grievance system for workers, health and safety findings, and with one particular supplier, excessive working hours. All results will be verified in FWF audits during next financial year. There are suppliers in Turkey who have been phased out mainly due to lack of improvements and transparency during audits. These products will be now made in Italy, Portugal and Romania instead.

#### **Romania**

- Percentage of order value: ~4.5%
- Number of factories: 8
- Number of audits in 2014–2015: 2

In Romania we have started to use four new suppliers and now we have in total eight suppliers. Yet we have not seen a high increase in terms of order value since last year, however this is mainly because the suppliers are new and some planned orders will be included in next financial year's data. Three of the suppliers have been audited by FWF whereof two were audited last year. The audit results did not show any urgent issues in terms of transparency; minimum wages; or excessive working hours. Findings were mainly minor health and safety issues and other problems related to internal procedures. One factory had a collective bargaining agreement in place and trade union representatives active within the factory. Both suppliers had wages higher than comparable factories in the industry. However, wages were still below estimated living wage. During the coming year we plan to make three or four audits in Romania whereof one is a verification audit of a long-term supplier. We believe that after these audits we will get an even better understanding of the working conditions in Romania and how we can improve them. As new suppliers always are evaluated after their first seasons we are not sure if all suppliers in Romania will be used during next year. We are also planning to introduce some new Romanian factories. Our goal is that in coming seasons the supplier base in Romania will become stable, then it is also easier for us to work on improvements and introduce suppliers to FWF trainings.

#### **South Korea**

- Percentage of order value ~3.5%
- Number of factories: 1
- Number of audits in 2014–2015: 1

We work with one supplier in South Korea, who has seen their order increased significantly since last year; therefore, we have performed our first audit with them. Both our CSR manager and our production manager attended the audit.

As FWF do not have any audit, teams in South Korea we used an external auditing company that provided a local auditor. The supplier is making a product for us that require special handwork and therefore they use homeworkers in addition to the main factory. The factory had not been audited by either us or by any other client before and there was a lot of documentation that needs to be improved in terms of wages, working hours, and health and safety procedures. During the audit some home workers were visited and interviewed. They are highly skilled house wife's sewing from home and many of them have been doing this work for several years, often for private customers. One part of the corrective action plan is to make sure we are following the FWF guidelines on usage of home workers. We are working closely with the supplier to follow up his plan for improvements both regarding routines for home workers and the main factory. During next financial year we will confirm results by a follow up audit.

#### **Albania**

- Percentage of order value: ~4%
- Number of factories: 3
- Number of audits in 2014–2015: 3

Production in Albania is managed by three factories through an Italian agent. They were audited for the first time in 2013 with follow-up audits in spring 2015 at all of these sites. At the main factory, which gets the majority of our orders, we saw significant improvements. The factory had moved to a completely new building and had taken use from external specialists on health and safety as well as business administration. It had also become a member of the global trade union IndustriAll and was helping workers with payment of their union fee. All workers were aware of our code of labour practices and union representatives had been elected freely. The other two factories mainly had findings on minor health and safety procedures. One of them also had findings on their payment system where workers were not correct compensated during periods where the factory did not have enough orders to be fully operated. As our plan is to move the Albanian production to be made completely in Italy we have spent a lot of efforts to make sure our agent is preparing these factories for the phase out and that they replace our orders as much as possible with orders from other clients, especially at the main factory where we have the highest leverage. Some of our orders have already been moved to Italy during last financial year.

## Other high-risk countries

- Percentage of order value: ~4%
- Number of factories : 4
- Number of audits in 2014–2015: 2

In Bulgaria, we have used two factories during last year of which one now has been phased out and one was audited for the first time. This factory is a subcontractor for two of our Italian shoe suppliers and has been nominated by us. The factory was receptive to improve the findings and responded immediately with proof of progress of almost half of the findings. There are still issues to be taken care of in terms of overtime payment practices and health and safety which we will continue to follow up during the next year. Our plan is that the next audit will be made by a Bulgarian FWF team, as this first audit was made by external auditors who better could explain the audit process in Italian to the Italian factory owner.

The supplier in Serbia is also a subcontractor to one of our shoe suppliers in Italy and they were also audited for the first time last year. With this factory we have very little leverage and the factory manager was not directly receptive to improve findings discussed after the audit. For example they had some critical findings in terms of overtime payment and health and safety which we require immediate improvements on. We have started to cooperate on the audit follow-up with another luxury brand also sourcing there. We are hoping that together we will get some positive impact; nevertheless if the supplier will not improve we are planning to ask our shoe supplier to replace this subcontractor.

## Low-risk countries

### Italy

- Percentage of order value: ~38%
- Number of factories: 55
- Number of audits in 2014–2015: 5

Italy is our most important production country and next year we will open a production office there. Except from shoes that initially have been the main product done in Italy we now have production of more or less all our different type of product groups. Some of the key suppliers there are ones that we have been working with for several years and they stand for a significant part of our order value. However, every season usually brings some new suppliers whilst others are dropped. One reason for this is that we often place special orders in Italy with suppliers that are experts on niche techniques or product types that are only needed for one specific season. Another reason for the increase of suppliers in Italy is that we have put a lot of effort into including subcontractors in our monitoring program, especially for shoes, which has a long supply chain, and also for other product groups such as denim.

As Italy is classified as a low-risk country the main monitoring activities includes making sure all suppliers have filled in our self-assessment questionnaire and have posted our code in the factories. The majority of our suppliers are very professional and well organized and we have a couple of factories that are certified according to SA8000. However, we also know there can be a risk of labour rights violations in Italy, especially if Chinese labour is used further down the supply chain. Therefore, we last year started to map and audit our shoe subcontractors. In total we made five audits together with the help of an external Italian auditor. Two of these suppliers were Chinese owned and they were the ones with critical findings. Both of them had health and safety problems and were lacking required documentation on working hours and wages. We will increase our focus on Italy next year, especially on the product groups where we know or suspect Chinese labour is used. Our plan is to expand our nomination of subcontractors for different processes to assure they will comply with our code of labour practices.

The start-up of a production office in Italy will be beneficial as we will be able to increase our presence at our suppliers, in addition to the three quality controllers active in Italy who visit our factories continuously. Our plan is to train employees in the production department working with Italy on risks of labour rights violations. We will also increase our cooperation with other brands on monitoring. For example we will make joint audits together with another FWF member brand where we share some suppliers.

### Portugal

- Percentage of order value: ~12%
- Number of factories: 23

Both the share of total order value and number of suppliers in Portugal has increased since last year. Total order value increased with around five percent. As with Italy and other low risk countries, the main monitoring activity is to arrange signature of our self-assessment questionnaire and posting of our code of labour practices. We have also received audit reports made by other brands from some factories. The reason why the number of factories is quite high in Portugal is due to the increase of orders and that we have moved some product groups from China and Turkey, but also because our suppliers are using several subcontractors. We have asked our suppliers to increase nomination of subcontractors for our orders to avoid changing factory from season to season and we hope the number of suppliers will be more stable in the future. Our strict ban of using subcontractors without our approval is something that we stress with all new factories and follow up continuously, for example through factory visits by our quality controller and by product developers



### **Lithuania**

- Percentage of order value: ~8%
- Number of factories: 10

Another low-risk country that has seen an increase in terms of order value is Lithuania. In Lithuania, we are working with an agent who places our production with a number of factories that they cooperate with. These are chosen depending of the type of products to be made, order sizes as well as the capacity of the factories. Most of them have been working for us for many years already. As Lithuania is classified as a low-risk country, monitoring activities are mainly in the form of the self-assessment questionnaire and posting of our code of labour practices. However, our agent has informed us that they will, on their own behalf, arrange audits at their main factories by an external audit company during next year and share the reports with us.

### **Other low-risk countries**

- Percentage of order value: ~2%
- Number of factories: 6

A quite new production country for us is Poland where we are working through an agent who manages production in both Poland and Italy. They are using four factories for us in Poland. As they are producing for another luxury brand that makes social audits we are hoping to take part in these, in addition to the normal monitoring procedures for low-risk countries such as the self-assessment questionnaire. The last two low-risk production countries are United Kingdom and France, where we have two accessories suppliers.