

Acne

Studios

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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 help 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 NGOs. 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 reporting our progress and results.

Every year FWF prepares a 'Brand Performance Check' on each member where performance is evaluated and graded. In the 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 2015 to the end of August 2016.

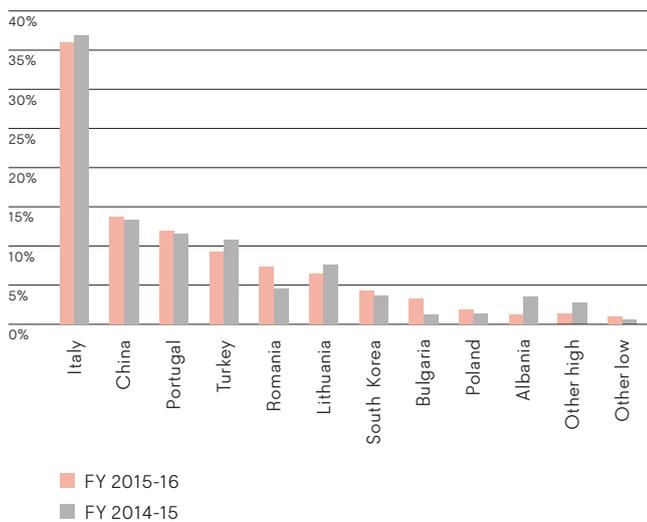
Acne Studios code of labour practices

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 that 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 2015–16. The most significant changes since previous year are increased order value for Romania and Bulgaria and a reduction of order value in Albania. New production countries for this year are India and Latvia.

Order value per production country



Production department

Our production department is organized in five main departments: menswear, womenswear, denim, shoes and accessories & leather goods. The production departments for shoes and leather goods are 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 each department 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 programme and works 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. For coming financial year, we will expand our CSR department with a CSR Coordinator who will work mainly on our social responsibility.

Production cycle

Each year we produce two 'main collections' for menswear and womenswear respectively, as well as two 'pre-collections' for womenswear. 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 include 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' perspectives.

Monitoring programme

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 programme 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 unapproved subcontracting is not 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 database.

Social audits

The next step in our monitoring programme is to perform a 'social audit', foremost done by FWF auditors. In countries where FWF does 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 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 email or through monitoring onsite. When we are working through an agent they normally also help to follow up on improvements as they are visiting the factories more frequently. Every year FWF conducts 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

An important support in our monitoring system is the 'complaints mechanism'. All suppliers need to post our code visibly in the factories and this document includes a phone number and email address to a local FWF complaints handler. Through this channel, workers can anonymously inform us of work-related problems in the factory that they have not been able to solve with their managers or local authorities.

We ensure that the code and contact details are posted through email communication with all suppliers where a photo of the posted code is presented; 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 of the complaints procedure is also communicated to workers during FWF audits where they receive an information card with the FWF contact details and a description of our code. We take all complaints that we receive seriously and evaluate if they are valid and how they can be solved. However, receiving a complaint is not only negative for us as it also means that workers are aware of their rights and the content of our code.

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 trainings.

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 after repeated requests a supplier is still 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 examples of findings on which we need to see immediate improvements. 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 2015–16 we placed orders with 65 suppliers, using in total 142 factories in 15 countries. However, if you look at the top ten factories, these stand for over 40% of the order value as many factories are small or are only used for making a special order or are in the process of being phased out from us. An important reason for the high number of factories is due to our efforts to map in detail all subcontractors our suppliers are using. In Italy especially, production tends to be spread out at several production locations responsible for different production steps, rather than having one large factory with all production made in-house.

Over 70% of the total order value is with suppliers where Acne Studios has leveraged above 10%, meaning our orders stand for more than 10% 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 at least every third year 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 we use that are classified as high risk are Albania, Bulgaria, China, India, South Korea, Morocco, Romania, Serbia and Turkey. Countries used that are classified as low risks Italy, Lithuania, Latvia, Portugal, United Kingdom, France and Poland. In our internal risk evaluation, we also see Italian suppliers using migrant labour (Chinese etc.) as a risk even though Italy is normally classified as a low risk country.

- Production value in low risk countries: ~60%
- Production value in high risk countries: ~40%

High-risk countries

The number in brackets in below country overviews is data from the last financial year of 2014/2015.

China

- Percentage of order value: ~15% (14%)
- Number of factories: 3 (8)
- Number of audits: 0 (2)
- Number of trainings: 1 (1)

The share of total production value in China is more or less the same as last year, even though total number of suppliers has decreased. As decided in our sourcing strategy, we are now only producing with three stable suppliers that we have been working with for several years. One of these suppliers is sometimes using a second factory depending on order quantities, but this factory has not had any production with us this year.

All three factories in China have been audited by FWF more than twice during our business relationship, some of them even more. They are also audited continuously by other brands that they produce for. Acne Studios staff visit them several times per year and due to our long term relationship we can talk about their difficulties quite openly. Therefore, we decided not to make any audits in China this year, rather to focus on encouraging them to participate in the FWF Workplace Education Program (WEP). One supplier already participated in the beginning of 2015 and our biggest supplier in China participated in 2016. We are currently in dialogue with the remaining supplier to set a date for their FWF training, which we hope will take place in end of 2016 or beginning of 2017.

During next financial year we will perform at least one full FWF audit, followed by two shorter monitoring audits to verify status of improvements of the last audits CAP: s at our three Chinese suppliers. The most critical issues for us are wages and working hours. In China, 'standard' working hours tend to be up to 60h per week and in peak season sometimes even more. This is something that we have been discussing a lot with the suppliers after earlier audits and that we have seen improvements on step by step. Due to the labour shortage in China we have also realised that wages in China have increased in the areas where we produce. The audits we make in next year will show if the suppliers are still making progress on these topics and will also show if the WEP training has given any positive results in terms of worker involvement.

Turkey

- Percentage of order value: ~9.5% (11%)
- Number of factories: 5 (9)
- Number of audits: 3 (0)

In line with our sourcing strategy we only had production with two suppliers in Turkey last financial year. These two suppliers and one of their subcontractors were audited this summer. These suppliers have previously been audited by FWF and the one we have had the longest relationship with has been audited several times. We have earlier seen improvements after each audit but unfortunately this year's audits clearly show that the situation in Turkey has changed lately, and that

instead of seeing improvements we find out more issues. The most critical findings were related to transparency; one supplier had used two subcontractors without our knowledge, and another one was not transparent in terms of working hours and also disagreed to hand out information cards about the FWF complaints mechanism to its workers during the audit. Both suppliers have financially been affected by the Russian trade embargo with Turkey and it is also likely they have been affected by the unstable political situation. However, none of the audits showed usage of Syrian refugees in the production, who currently risk being exploited in Turkish factories.

Both suppliers have taken immediate action after the audits. They have been continuously giving us updates on improvements and the supplier found to be using subcontractors has, after a meeting with us in Stockholm, cancelled one subcontractor and arranged internal trainings with the other ones on how to comply with our requirements. We are nevertheless actively searching for alternative suppliers for these products, in case we do not get sufficient improvements in the follow up audits that we are planning to do. Most likely one of these Turkish suppliers will be cancelled for next season's production orders, as their usage of various subcontractors has affected the quality of results.

Romania

- Percentage of order value: ~7.5% (4.5%)
- Number of factories: 10 (8)
- Number of audits: 4 (2)

Romania is steadily becoming a more important production country for us. We audited four suppliers there this year. One audit was a verification audit at a supplier with whom we have worked for many years, and the other three were at new suppliers. A fifth audit was planned but had to be cancelled due to the factory having internal financial issues, which means we are not going to be able to continue production with them. The findings in the audits were mainly minor health and safety issues and workers' lack of awareness of the Fair Wear Foundation complaints procedure. Half of the suppliers had elected worker representatives and one had collective bargaining on factory level. None of the suppliers had excessive working hours, which is otherwise common in other high-risk countries such as Turkey and China, and there were no issues in terms of transparency during the audits. At the supplier where we made a verification audit, several findings from the first audit had been improved.

We have started an internal study on the wages in Romania in order for us to learn the difference in wage levels between our suppliers and to understand what the estimated living wage is for different regions. In the audits we made this year,

for example, we saw that one supplier had significantly higher wages than the other suppliers. During next financial year we will make follow up audits to verify improvements with a local auditor who can hopefully help us to map these differences, so we can learn even more what is most important for us to focus on in Romania.

South Korea

- Percentage of order value: ~4% (3.5%)
- Number of factories: 1 (1)
- Number of audits: 1 (1)
- Number of trainings: 1 (0)

We only work with one supplier in South Korea, with whom we made a first audit in last financial year. The supplier is making a product for us that requires special handwork and they therefore use homeworkers in addition to the main factory. The follow up audit that we made this year showed some small improvements in terms of documentation and health and safety, even though many things are still to be rectified. As we still also had issues in terms of transparency of the home workers, we decided to arrange training on our requirements with the factory and the so-called 'lead home workers' who are responsible for coordinating the hand work. They are highly skilled housewives sewing from home and many of them have been doing this work for many years, often for private customers. The home workers are very independent in the sense that they decide when and how much they want to work and there is a high demand for their special skills. Even though their work is irregular we don't see any risks of critical labour rights violations or abuse of workers' rights. Our main concerns are that we haven't been able to clearly verify payments (as home workers are paid by piece) and what type of contracts the home workers have. The next step is to make another audit in end of 2016, following a new meeting with the lead home workers where we will implement a home worker self-assessment questionnaire, which we have translated into Korean. We hope that by investing in training and building up a good relationship with the factory and the home workers we will be able to see step-by-step improvements during next year.

Bulgaria

- Percentage of order value: ~3% (1%)
- Number of factories: 3 (2)
- Number of audits: 1 (1)

In Bulgaria we used three suppliers last year; two new ones and one with whom we made a second audit during the summer. This factory is a subcontractor for two of our Italian shoe suppliers and has been nominated by us. The result of the audit was good, in general. Workers stated they were very

pleased working there and wages were actually higher than the estimated living wages. The most important findings were related to excessive overtime during peak periods and that their system for overtime payment was not entirely in line with legal requirements. The other two Bulgarian suppliers only had small trial orders for us and we have already decided to not continue with one of them due to quality problems. The other one might be audited in next financial year depending on order values for this specific product group.

Albania

- Percentage of order value: ~1% (4%)
- Number of factories: 2 (3)
- Number of audits: 0 (3)

We have had production in Albania through an Italian agent for many years. However, due to a company strategy to move this production to Italy, orders have been steadily decreasing during the last two years. For next financial year we expect that all production with this agent will be made with factories in Italy. The factories that we have used in Albania have earlier been audited several times and generally had good results, especially the factory producing the majority of our orders. Our decision to move production from Albania to Italy is therefore not related to any issues on working conditions but based on other sourcing strategies.

Other high risk countries

- Percentage of order value: ~1.5%
- Number of factories: 5
- Number of audits: 1

Other high-risk countries where we have production are Serbia, Morocco and India. In Morocco there is one factory that we have been working with for many years, where we made a verification audit during the spring. This factory also uses a washhouse for simple washes on some styles. Some of the findings from our earlier audit were improved; some were still unsolved and some new findings were added. Examples of issues were lacking routines for worker's committees and on health and safety.

In Serbia we used two factories. One of them is a subcontractor to one of our shoe suppliers in Italy and they were audited last year. With this factory we have very little leverage and the factory manager was unfortunately not receptive to improving some of the critical findings discussed after the audit. Therefore, we will phase out production with them. The second Serbian factory was only used for a temporary order as they had special technical skills. It was visited by Acne Studios staff before production started, however as it was a special order it is not likely that we need their services later on. A similar

situation was with a new Indian supplier, where a special order on embroidered fabric was placed. This factory was also visited before production by Acne Studios staff, who made a general assessment of the facilities; they seemed very organised, and also confirmed that all handwork was going to be made in-house.

Low risk countries

Italy

- Percentage of order value: ~37% (38%)
- Number of factories: 69 (55)
- Number of audits: 9 (5)

Italy is our most important production country and this year we have officially opened an Acne Studios office for our shoe and leather goods production. We have production of more or less all other product groups in various parts of Italy as well, but this production is mainly handled from our head office in Stockholm.

Some of our Italian suppliers 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 high number of suppliers in Italy is that we have put a lot of effort into including subcontractors in our monitoring programme, especially for shoes, leather goods and denim, which often have a longer supply chain.

As Italy is classified as a low risk country the main monitoring activities include 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 organised 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 migrant, mainly Chinese, labour is used further down the supply chain.

Last financial year we made our first audits at factories where we know or believe migrant or Chinese labour is used and this year we have done in total nine additional monitoring audits. As FWF don't have any audit teams in Italy we are using an external consultant with extensive knowledge on labour issues in the Italian industry. Our consultant is also working for other brands, whereof one FWF member has production in Italy, where we then can share audit reports and follow up together

with shared suppliers. Common issues in Chinese-run factories are weak health and safety standards and lack of complete documentation on working hours and wages.

Next year we will continue our plan of increasing nomination of subcontractors for different processes to ensure they comply with our code of labour practices. As we have started to produce leather goods in Italy only this recent year the goal is that the more stable our Italian supplier base becomes, the easier it is to follow up and ask for improvements or to nominate subcontractors ourselves. We will also arrange training with our Italian suppliers on our requirements in terms of transparency on their supply chain and our requirements in terms of labour standards.

Portugal

- Percentage of order value: ~12% (12%)
- Number of factories: 16 (23)

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. Compared to last year the percentage of order value is more or less the same but number of factories has decreased. This is due to the fact that our sourcing in Portugal has become more stable and that our suppliers don't use as many different subcontractors as last year.

Lithuania

- Percentage of order value: ~7% (8%)
- Number of factories: 16 (10)
- Number of audits: 5 (0)

In Lithuania, we are working with an agent who places production with several factories with whom they cooperate. Factories are chosen depending on 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, our monitoring activities are mainly the self-assessment questionnaire and posting of our code of labour practices. However, this year our agent has arranged external audits according to the ETI labour code on their own behalf at some of the factories. So far, around one third of our production is with audited factories. Findings were mainly on health and safety and improvements and will be verified with follow up audits arranged by our agent.

Poland

- Percentage of order value: ~2% (1.5%)
- Number of factories: 9 (6)

Poland was a new production country last year and for this year has increased with slightly higher order value and more factories. Production in Poland is arranged through an Italian agent with production in mainly Italy and Poland. So far we have not made any additional monitoring activities except the standard monitoring procedures for low risk countries such as the self-assessment questionnaire and posting of the code. Our quality auditor has also visited several of the factories during last year for his quality inspections.

Other low risk countries

- Percentage of order value: ~1%
- Number of factories: 4

The last three low risk production countries are Latvia, United Kingdom and France, whereof the supplier in Latvia is the only new supplier. However, we are not to continue producing with them for the coming seasons due to various delivery issues.