

Acne

www.acnestudios.com

Social Report 2010

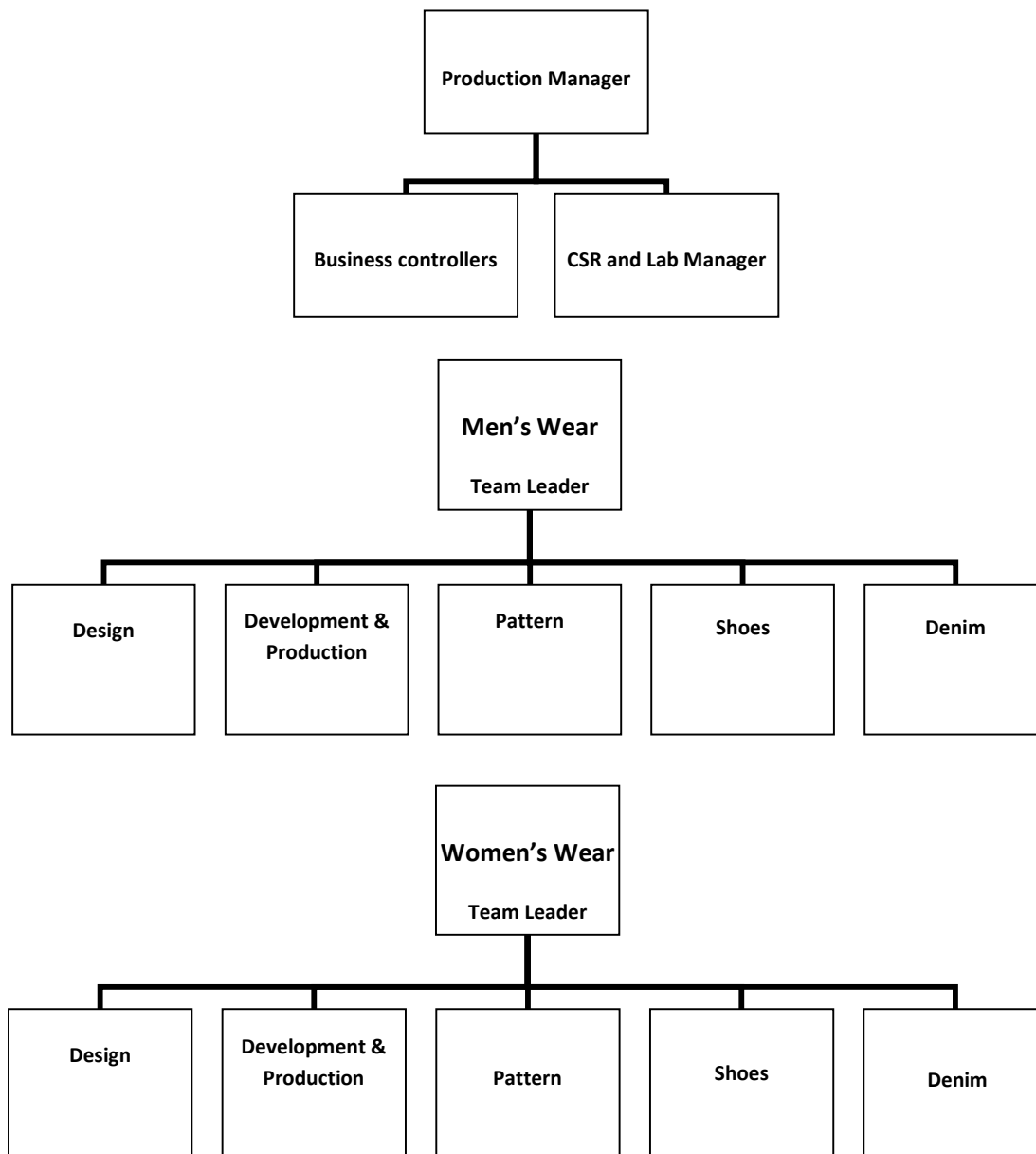
Member of FWF: 2008

Organizational chart Acne Studios

The Production and Design, Logistic, Economy, Sales and PR & Marketing Departments are located at the Head Office in Stockholm, Sweden, where about 70 people work. In addition to the headquarters in Stockholm we have country offices in France, Germany, Denmark, Norway and USA, as well as concept stores in Amsterdam, Antwerp, Bergen, Berlin, Copenhagen, Gothenburg, Hamburg, London, Melbourne, New York, Oslo, Paris, Stavanger, Stockholm and Sydney. The Design and Production Department are working under the CEO and the Creative Director.

Design and Production Department

General Functions



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1. Summary: Goals and achievements

In 2010 we followed up and made re-audits at our suppliers in China with favourable results. In 2010 we also made our first audits at our Italian shoe and denim suppliers and at four of our Turkish suppliers.

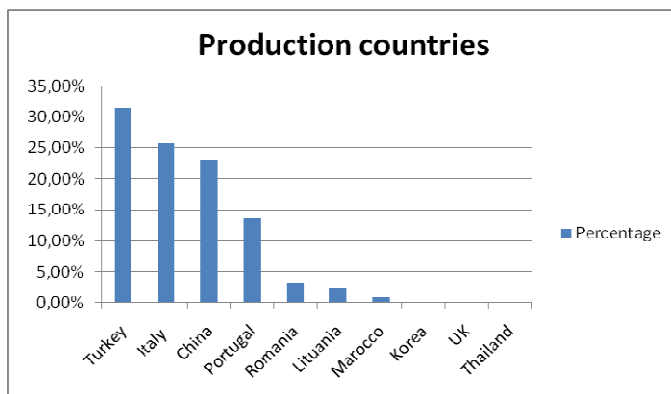
In this third year as a FWF member Acne Studios will continue to work thoroughly to implement the Code of Labour Practices in our daily work and at our suppliers' factories. In 2011 we will make re-audits and make initial audits at suppliers we have not yet visited in Turkey. The reason for focusing on Turkey is due to it being our main production country now and that we initially have had a focus on China. We will also continually evaluate new suppliers and follow up complaints that may appear on the existing ones.

Another goal for this year is to continue to make awareness of CSR issues and integrate the FWF programme within our company. We have had some changes in our organization with new strategies in our seasonal plan and further we have new personnel in the organization. One example of what we will do is to develop a more clear procedure in evaluating labour conditions when we start working with new suppliers. We will also make an internal social audit at our own office to see how good we, ourselves, live up to the demands that we have on our suppliers. This will hopefully be a good way to make awareness of what our CSR work means in practice. In addition to the above, we will also continue to develop our external communication of our CSR work, e.g. by setting up a FAQ on our website.

2. Sourcing strategy

2.1. Sourcing strategy and pricing

Acne Studios designs, markets and distributes high-end fashion and denim. Our product range includes men's and women's clothing, shoes and accessories. Below you can see the distribution of our production per country for 2010 and 2011 (until April).



The above graph shows the percentage of production per country based on purchase costs. If the graph instead was based per produced quantity in each country, China would have a bigger share of the total production given that the garments produced there in general are less expensive. Another thing worth mentioning in relation to the above graph is that part of what is shown as Italian production is production in Albania through our Italian denim supplier.

Our production is made on either CMT, CM or full price terms. Price negotiations are undertaken both at an early development state but also with the order figures in hand. We are always looking for good value for money but are never willing to compromise on our designs or product quality.

In general, we have our own business relation with the suppliers and 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.

Our goal is to have a supplier base that can meet our different requirements. We are always open for finding new suppliers to work with but we never do so before we feel secure that it is a supplier we can trust and strive for long-term relationship with. Every year we evaluate our suppliers through a scorecard with different parameters such as communication, prices, deliveries, CSR etc.

2.2. Organisation of the sourcing department

The design and production department can simplified be divided into a men's and a women's team which are both headed by a team leader. One responsibility of the team leaders is the sourcing of fabric and garment suppliers. Our sourcing is usually carried out together with the concerned buyer within the respective team.

2.3. Production cycle

We are having respectively two main collections for men's and women's wear each year and then two pre-collections each year for women's wear. In addition, we have a smaller boost collection each autumn and spring.

The production orders are placed based on external and internal sales (our own stores) of the collections and only have a small element of stock ordering for in season sales. In addition to these big seasonal orders that are placed at the end of each selling period we are also working a lot with reorders within the store seasons. The production lead-times vary between just a few weeks to up to half a year and are highly dependent on internal planning, the capacity of our suppliers and fabric lead times.

2.4. Selection of new factories

For every new season we usually have some new suppliers. The process starts with a meeting where our product idea is presented to the supplier. Following this meeting, the supplier is usually asked to produce proto samples which are sent to us. If these samples are approved from our side, the next step is the production of sales samples. Parallel to this product sampling the supplier is informed of our FWF membership and given a questionnaire, our Code of Labour Practices, our Restricted Chemical List and a business contract. All contracts and forms are to be signed where both parties have one original copy. Our goal is that no orders can be placed unless these agreements are settled.

What we want to improve going forward is to be even clearer regarding our demands on working conditions when we start working with a new supplier. Our goal is that we in the future always should do an on-site visit before placing an order of sales samples. Even if it is not a proper social audit, we still get a better idea of the factory's status, than only having the answers of the questionnaire. We also always ask the supplier about reports from former audits made at the factory.

2.5. Integrating monitoring activities and sourcing decisions

Integrating our monitoring activities with our sourcing decisions is elementary to be able to make improvements in our CSR work. Therefore, we will in the future be even clearer on our requirements on working conditions when we start working with new suppliers. If a manufacturer does not accept our Code of Labour Practices, we will not start working with the factory.

We emphasize to all our suppliers that we require honesty and transparency. It is important for them to know that we will not automatically terminate a business relationship based on audit findings that are in conflict with our Code of Labour practices. Suppliers are always given chances to correct in order to meet our standards and we want to keep an open and ongoing communication with them. However, if we realize that they after repeated requests are not willing to make improvements, we will consequently stop the relationship. On the other hand, suppliers that show willingness to make improvements and also live up to our other requirements are likely to stay as suppliers to us for a long time.

All employees at the production and design department have great interest in producing our garments in decent factories with good working conditions. We present our audit findings after each audit on our weekly meetings with the production and design department. Going forward, audit results are also going to be made easily accessible for all involved employees when needed, e.g. when internally discussing the relationship with the supplier.

3. Coherent system for monitoring and remediation

Questionnaires

As described above the suppliers need to sign our Code of Labour Practices, fill out our questionnaire and sign our Chemical Restriction List before we place any production orders. Our goal is that all of this should be done before ordering sales samples. All new suppliers are offered a certain time to read through and get back to us with any questions. When all of their questions have been addressed from us,, we ask them to sign all documents and send them back to us as soon as possible. We are using the questionnaire from the FWF manual but have added a few additional questions regarding environmental issues:

- Does your facility have all necessary permits, administrative and legal authorizations relating to the environment to exercise its activities?
- Has your facility implemented measures in environmental and pollution controls for non-hazardous waste, and in that case, which?
- Does your facility adopt practices that encourage environmental protections?

Social audits

Initially we have focused on making social audits in China. Last year we also made some audits in Turkey, Italy and Albania. This year we continue to focus on Turkey and during the year, we expect to learn more about specific problems related to Turkey. During the year, we will audit all our suppliers in Turkey, with some of them being audited for the first time while others are being re-audited.

Before an audit we inform the supplier about all documents required on the time of visit and prepare the audit by collecting necessary information on the supplier as well as on country-specific laws and standards. We also prepare interview material, a questionnaire and review potential problem areas requiring special attention during the visit. Before leaving for the supplier, the auditor has a meeting with the respective buyer to get an update of our current relationship with the supplier.

Depending on the size of the factory, our experience is that an audit takes approximately one whole day including all steps as listed below.

- **Introduction**

A presentation of Acne as a company and brand is given to our contact person and the company management. Explanations are made regarding Acne's goals and concerns, the meaning of our CSR work and the purpose of the audit. At this point the transparency of the supplier is very important. Therefore, we strongly recommend that the supplier is completely open with everything regarding their company. It is emphasized to the supplier that findings that are in conflict with Acne's Code of Labour Practices will not automatically lead to termination of the business relationship. In the event of negative findings, Acne will provide the supplier with an improvement plan including a timeframe. A follow up on the matter will be done to check that the action plan has been executed. If the supplier has, for whatever reason, not implemented the improvement plan a warning will be given with a second opportunity to immediately make the necessary changes. However, if the supplier does not follow through with this, the business relationship will be ended.

- **Management interview**

The introduction is followed by a meeting with the management. Topics from the previously sent questionnaire are raised and discussed again, followed by supplementary questions aiming to give a more detailed picture. Required documents are inspected and discussed with management to resolve any current problems. Documents which were requested to be available for the audits are listed below:

- Filled and signed "Acne questionnaire"
- Time-in & time-out report
- Overtime reports
- Wage records
- Personnel files, employment contract and Is
- Social security records (sick leave and maternity)
- Recruitment & termination policy
- Government Approval for working on Saturdays as a normal day
- Signed RCL document (Restricted Chemical List)
- Documents and photographs for water treatment plant (system and maintenance)
- Records for fire drill system
- Documents and photographs for handling hard and soft waste
- Documents for first aid training program
- List of sub-contractors, addresses and contact persons
- Filled and signed "Acne questionnaires" from all sub-contractors

- **Factory inspection**

A visit at the factory is done to make a visual inspection where every point that has been attended is cross checked to ensure that proper and honest information has been given by the supplier. Also the working and living facilities are looked over in matters such as safety and health. The inspection is documented with photographs to make it easier to explain necessary improvement to the management.

- **Workers interview**

The language barrier does to some degree obstruct the depth of the interviews that can be made with factory workers. Nevertheless we always try to involve local staff to help us perform some interviews with the workers. One goal for 2011 is to look into how we can develop our procedures for worker interviews.

- **Meeting with factory management**

After the visit at the location of production, a meeting is scheduled so that the auditor can give feedback, both positive and negative, to the supplier. Information is given that an "improvement and action plan" will be sent to them within a short period of time and once the audit report is completed, a copy will be sent to them as well. Acne furthermore informs that the second, or so called follow up audit, will be decided by Acne.

- **Corrective Action Plan**

Back at the Acne head office it is highly prioritized to develop a "Corrective Action Plan (CAP) as soon as possible to send to each supplier. The supplier is required to give an estimated timeframe for implementing the plan which has to be agreed by both parties.

- **Audit reports**

An audit report is made as soon as possible after the audit. A copy of the completed version is sent to each supplier. The audit report is also saved on our server for Acne employees to read. The result is also presented at our weekly meetings and discussed with respectively team leader and buyer.

- **Follow-up**

The time after the audit is very important to Acne and our suppliers. This is the time when the actual work has to be done and here good communication is crucial to avoid misunderstandings and unnecessary delays.. As mentioned earlier, as a part of the follow up, Acne executes another, unannounced, audit at the suppliers factory to ensure that actions has been taken to meet the requirements set by Acne. The second audit is also another step to develop and continue a long-term relationship between Acne and our suppliers.

3.1. China

We have since we started our membership in 2008 had a focus on China as it is a big production country for us and also a high-risk country regarding labour rights violations.

In 2010, we made several re-audits and some initial audits at our suppliers there. In general, we have seen improvements in the awareness of labour issues over time and feel that the suppliers are more positive and willing to change than they were a few years back. But still we see problems and things to improve and we will continue to follow up current corrective action plans during 2011, as well as audit new suppliers.

3.1. Turkey

In 2010, we made our first initial audits at our suppliers in Turkey. On the first audits, you normally identify some areas that need to be improved and in 2011 we will continue to follow up the initial audits and the corrective action plans that was set up. In 2011 we will also make initial audits at the suppliers that we still haven't audit so far.

In the end of the year, we got our first complaints at one Turkish supplier regarding harsh treatment and harassment from the factory management. We see this as totally unacceptable and in 2011 we will follow up the factory's improvement plan regarding this matter closely.

3.2. Italy

In 2010 we made one initial audit at one denim supplier in Italy. As this supplier is having the manufacturing of the jeans in Albania and the washing in Italy we also audited the supplier in Albania. The factories were in general ok but we had some finding in for example health and safety issues that we are going to follow up during 2011.

4. Training and capacity building

4.1. Activities to inform staff members

It is important for Acne that the CSR policies and our activities are known and understood by our employees. After the annual work plan and social report are compiled, all employees at the production and design

department are going to be informed on results and future goals within CSR. Our CEO is also involved in the writing of these two reports. In 2011 we will also inform our sales personnel working in our stores on our CSR and quality work so that they will be able to answer questions from customers. All CSR related documents, for example audit reports, CAP etc. will be saved on our common server so that employees easily can find information when needed.

4.2. Activities to inform agents

As stated above we are most of the time working direct with our suppliers and in case of working with agents we still try to have direct contact with the suppliers as much as possible. We always discuss and communicate our FWF membership with our agents.

4.3. Activities to inform manufacturers and workers

As stated earlier, the initial step in starting a business agreement with a supplier is that they need to sign our Code of Labour practices, fill out our questionnaire and sign our Restricted Chemicals List.

Beyond the written documents we also take time during our audits to explain our company policy face to face, what we stand for and the role and importance of CSR in our company. The audits and the feedback that is given to the suppliers are meant to show how our requirements should be implemented. Furthermore, we have an ongoing communication with our suppliers, which simplifies the process as they can always ask us directly and vice versa.

Another goal is that all Acne personnel that visit suppliers talk about the importance of labour issues and discuss the FWF membership and report back to the CSR manager of what the situation was like on site after they have visited a supplier.

5. Transparency and communication

Acne Studios aim to be as transparent as possible regarding our CSR activities. Our annual social report are given to FWF and uploaded on their webpage for everyone to read. We also have information on our webpage regarding our membership in FWF together with our Code of Labour Practices. In 2011 we will discuss how our external communication can develop further. For example we will probably develop a FAQ pages regarding CSR to have on our webpage. Time to time we get emails from customers or students with questions on our CSR work and we always reply as best as we can.

In 2010 the organization Fair Trade Center made a survey on fashion brands responsibility regarding working conditions and chemical issues. We welcome these kinds of surveys as it gives us an opportunity to get feedback on our strategies and practices. In the report, we were presented as a good example of a small company that in a relatively short time has started the implementation of social responsibility. We also received positive feedback for our membership in FWF and for requiring living wages rather than minimum wages in our Code of Labour Practices. Our answers and the feedback can be found in the report 'Har modet modet?' at www.fairtradecenter.org