

COMMUNICATION ON PROGRESS (COP)

2016





Managerial Commitment

To our Stakeholders:

We believe the success of our company is best reached by respecting the sum of interests of our customers, employees, owners and the surrounding society. This focus, which is not only driven by a desire to reach financial goals but also to strive for “higher goals” in terms of the well-being of our employees and leaving a minimum impact on the external environment, is an integral part of Spectre’s overall strategy. Our CSR strategy forms the basis for the responsible governance we perform every day. We see sustainability as an obligation to do our business in a responsible and sustainable way creating long term value.

In today’s complex global society, it is even more important than ever to have high social business standards for responsible business behavior. This is our motivation to support the Global Compact as a community of practice. The SDGs have set a new agenda which offers opportunities for fresh ways of thinking about how governments, civil societies and businesses can work together towards common goals. Therefore, I am pleased to confirm that Spectre A/S reaffirms its support of the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labor, Environment and Anti-Corruption.

In this Spectre annual Communication on Progress, we describe our actions to continually improve the integration of the Global Compact and its principles into our business strategy, culture and daily operations. The Spectre management has also been emphasizing some of the issues in the Global Compact which has resulted in notable impact at our factories compared to other factories in the garment industry. We also commit to sharing this information with our stakeholders using our primary channels of communication. As a UN Global Compact member, Spectre is required to report on its progress in relation to the UN Global Compact principles on an annual basis.

Sincerely yours,

Jesper Klausen
Director Production and Supply Chain

01.10.2017.



General Introduction of SPECTRE A/S

Spectre is a Scandinavian private label garment manufacturer within the outdoor sports wear industry. We produce in our own factories in Latvia and Vietnam with a small part subcontracted to external sewing factories.

Our Vision

Spectre wants to be the preferred production and product development partner for international outdoor brands with a high level of social responsibility.

The 4 corner stones of our CSR strategy



Our Strategic Focus Areas are:

- *Environment*
- *People*
- *Anti-Corruption*
- *Reporting*

Being part of a production chain with factories in Asia and Eastern Europe we are aware of the importance of a strong emphasis on the Global Compact principles. This necessity is stressed by our customers, who are European brand owners, and also by the end users of our products; outdoor/sports enthusiasts, who seem particularly concerned about sustainability since they consider the outdoors as their “playground”.

We are aware of the footprints left by our industry on the external environment and we are conscious about the role we and other parties’ in the value chain play in our workers’ lives.

- *We take responsibility for the entire value chain and strive to conduct business in an ethical, inclusive, resource-efficient and resilient way*
- *We believe that people are to be treated with dignity irrespective of nationality, age, gender and race*
- *We want to create an attractive working place because skilled and satisfied employees create better results for the benefit of the working place, the employees, suppliers and the customers*

Spectre's strong focus on CSR related issues has initiated a more structured and systematic approach to CSR through policies and strategic initiatives aimed at achieving the aspirations expressed in the Global Compact. Spectre has been a member of the UN Global Compact since 2010. We are also members in local networks, notably the Nordic Network, where we take additional ideas for our potential commitment and level of engagement.

DESCRIPTION OF ACTIONS

1. Human Rights

UN GLOBAL COMPACT PRINCIPLES BUSINESSES SHOULD:

- support and respect the protection of internationally proclaimed human rights
- make sure they are not complicit in human rights abuses;

SPECTRE IS:

- Has obtained a SA8000 certificate from 2013. SA8000 was created in 1997 by Social Accountability International (SAI) and it is an international standard for managing and improving working conditions around the world. It is an auditable standard for a third-party verification system, setting out the voluntary requirements to be met by employers in the workplace, including workers' rights, workplace conditions, and management systems. The normative elements of this standard are based on national law, international human rights norms and the conventions of the ILO.

The SA8000 certificate demonstrates Spectre's dedication to the fair treatment of workers across industries and in any country we are present (currently Latvia, Vietnam and Denmark);

- In the garment industry there is a potential risk of not respecting a number of Human Rights. Spectre initially identified 7 Human Rights headings covering 12 individual Human Rights with subheadings remaining as a basis to us, which we continuously monitor and maintain in the best possible way. These are:
 - 2. Right to non-discrimination,
 - 4. Right to enjoy just and favorable conditions of work, including:
 - a. Right to equal pay for equal work
 - b. Right to a living wage
 - c. Right to safe and healthy working conditions
 - d. Right to equal opportunities for everyone to be promoted
 - e. Right to rest, leisure and paid holidays
 - 5. Right to form and join trade unions and the right to strike
 - 7. Right to family life, including
 - a. Right to protection of mothers before and after childbirth
 - b. Right to children's and young people's protection from exploitation
 - 10. Right to education
 - 14. Right not to be subjected to slavery, servitude or forced labor
 - 24. Right to freedom of thought, conscience and religion
- Having the Code of Conduct which describes and sets out the 12 ethical principles of the business carried out and conducted with Spectre A/S including UN Global Compact principles of Human Rights;
- Committed to meeting our corporate responsibility to respect universally-accepted human rights throughout our operations, value chain and business relationships, as set out in the UN Guiding Principles on Business and Human Rights;

- Throughout 2016, Spectre made progress improving our due diligence process. We pursued a deeper understanding of the company's potential human rights impacts and risks: we reviewed the risks (SA8000 risk assessment) already identified through impact assessments carried out as of 2016;
- In 2016 we started to bring stronger focus on Evaluation of Suppliers and sub-contractors by visiting and engaging our suppliers and their supply chains across the globe and by putting in place internal and external compliance measures to best mitigate adverse human rights impacts throughout our supply chains;
- Having implemented the social standard SA8000 our practical work with preventing Human Rights violations is already in progress and continuous on a daily basis.



2. Labour

UN GLOBAL COMPACT PRINCIPLES BUSINESSES SHOULD:

- uphold the freedom of association and the effective recognition of the right to collective bargaining;
- the elimination of all forms of forced and compulsory labour;
- the effective abolition of child labour;
- the elimination of discrimination in respect of employment and occupation.

SPECTRE IS:

- Recognizing our responsibility to respect labour rights and uphold the UN Global Compact Labour Principles not only for our employees but also for people who we might potentially impact in our value chain, for example workers in our supply chain encouraging our suppliers and partners to adopt responsible labour practices;
- Expecting our suppliers to respect internationally recognized human rights including labour rights, as described in the UN Guiding Principles on Business and Human Rights and encourage them to observe all the UN Global Compact Principles. This includes child labour. Pre-audits and subcontractor, and supplier audits with a focus on social, ethical and environmental issues include requests for documentation of workers' age, salary, working hours etc.;
- Being re-certified according to SA8000:2014 means also being compliant according to ISEAL Code of Good Practice for Setting Social and Environmental Standards. We are continuously working on standard set rules compliance in 9 elements of SA8000:
 1. Child Labor
 2. Forced or Compulsory Labor
 3. Health and Safety
 4. Freedom of Association and Right to Collective Bargaining
 5. Discrimination
 6. Disciplinary Practices
 7. Working Hours
 8. Remuneration
 9. Management System

- We are ensuring that the salaries of our employees meet workers' basic needs to maintain a safe, decent standard of living. Ensuring living wages has been a core part of the SA8000® Standard and in corporation with our customers, international organizations e.g. we are carefully monitoring our employee compensation level at all levels of the organization;
- Striving to ensure that all employees' working conditions are considered in the local governance structure and that employees have the opportunity to discuss working conditions with their local management team or via several other channels to raise questions or address grievances;
- Giving employees freedom to join a union. If there are no unions, Spectre ensures a workplace with an employee elected employee representative through which employees can raise their voices and discuss employment related issues.
- Stakeholder engagement: We conduct ongoing awareness raising and training activities among broad stakeholder groups to address ethical and human rights issues, already on new employee onboarding stage, including trainings, department meetings, newsletters, employee satisfaction surveys and information on our intranet.
- External stakeholders: We partner in projects or explore best-practices and benchmarks for the outdoor industry. We are engaged in close cooperation with our customers and a number of organizations and initiatives, including:
 -  *FWF (Fair Wear Foundation):* we support and participate in several activities as disclosure of subcontractors, posting informative fact sheets about employee human rights, social audits, providing trainings to our employees and other;
 -  *FLA (Fair Labor Association):* we support and participate in several activities as social audits, posting informative fact sheets about employee human rights and other;
- Managing Health, Safety and Environment (HSE): the main target is to promote a working culture where every employee and manager take responsibility to ensure safe and healthy working conditions via preventive measures and carrying out systematic risk assessments.
- Committed to a safe and healthy working environment for all personnel and the prevention of work related injuries and illness by providing and maintaining safe workplaces which are inspected by OHS responsible persons, internal and external audits on a regular basis.
- Despite the fact that textile industry is known as female gender lead industry we are committed to providing equal employment opportunities regardless of race, age, gender, religious beliefs, national origin, sexual orientation or disability in accordance to our recruitment policies and other guidelines that provide equal opportunities and benefits for anybody. We believe that diversity among our employees is beneficial for our creativity, innovation, progress and mutual enrichment;
- Has had a successful start with the employment of 200+ new colleagues during 2016 in our new subsidiary, Spectre Garment Technologies (SGT), in Vietnam.



As of 2016 all measures have been monitored, equally as in all our factories. SGT has already been certified according to ISO9001 and ISO14001 and beginning of 2017 also according to SA8000 standard.

3. Environment

UN GLOBAL COMPACT PRINCIPLES BUSINESSES SHOULD:

- Support a precautionary approach to environmental challenges
- Undertake initiatives to promote greater environmental responsibility
- Encourage the development and diffusion of environmentally friendly technologies

SPECTRE IS:

- Successfully certified according to the ISO14001 standard in all factory locations in 2016.
We are proud having professional and certified management systems in place for key areas such as quality, social compliance and now external environment. The new management system enables us gradually and systematically to learn about environmental aspects and how to handle them. Additionally, it is our goal realizing future cost savings via efficient energy management and optimum waste management;
- Set targets and carry out focused activities towards energy saving such as shifting to LED bulbs, awareness campaign to switch off the light, solar station on the roof in of the production locations;
- Managing Procurement policy in an environment friendly way of purchasing goods, we give priority to energy-efficient and environmentally friendly products and equipment, that will help reducing the impact on the environment on a daily basis;
- Investment in a new and more efficient heating system at Latvian factory EK Auce in 2015 has helped improving our energy profile in a greener direction since it has enabled us replacing coal with pellets from 2016. Our Latvian factories have fully stopped consuming coal for heating purposes.
- Increased substantially pellets consumption in 2016 due to our full switch from coal to pellets, achieving more environmental friendly resource consumption in Latvian factories;
- We realize smaller and larger goals that reduce the impact on the environment in our daily work e.g. instead of small bottles Spectre Latvia uses large plastic bottles, which is reducing the number of plastic waste;
- Recycling is a key component of modern waste reduction and it is the third component of the “reduce – reuse – recycle” waste hierarchy. It is evident that our industry needs to recycle our waste to a larger degree in the future in order to function as a raw material for a variety of products.

4. Anti Corruption

UN GLOBAL COMPACT PRINCIPLES BUSINESSES SHOULD:

- work against corruption in all its forms, including extortion and bribery

SPECTRE IS:

- Having a policy to conduct all our business in an honest and ethical manner. We have a zero-tolerance approach to bribery and corruption and we remain bound to the UK Bribery Act and the national legislations of the countries in which we operate.
- Bribery and corruption are punishable for individuals and if Spectre is found to have taken part in corruption we could face an unlimited fine and face damage to our reputation. We therefore take our legal responsibilities very seriously;
- In relation to business ethics, we constantly learn and seek knowledge from different stakeholders, such as Transparency International – which tracks practices country-by-country through its Corruption Perception Index;
- Our Code of Conduct and anti-corruption guidelines are applied within Spectre through our compliance management process, to address the risks we have taken the following steps:
 - Formulated and implemented an anti-corruption and bribery policy
 - Conducted a risk assessment
 - Trained all managers and relevant staff in our anti-corruption policy
- We have identified that certain activities create particular risks for our company:
 - Import/export of goods including contact to customs authorities
 - Supplier contacts
 - Price negotiations
 - Quality audits
 - Social audits
 - Financial audits
 - Payments of invoices
 - Payments and contacts with tax authorities
 - Salary payments (only bank transfer)
- Employees are encouraged to report any breaches via internal channels: line manager, Employee representatives, or email directly to any of management team.

MEASUREMENT OF OUTCOMES

Through our reporting process, we seek to inform our stakeholders in a transparent manner as well as presenting our activities, successes and challenges. Spectre seek the best mechanisms to ensure that the principles are reflected in our corporate social responsibility performance.

- 1) During the whole year Spectre factories have been inspected 17 times in different social audits. Efforts are made to satisfy our customer demands within CSR to conduct internal and third-party CSR audits, cooperating during follow up processes and ensuring CSR compliance in all chain of processes.
- 2) Being SA8000 certified means all our factories are audited every 6 months by external auditors to ensure our procedures are continually adequate. The audit report with its observations and/or non-conformances assists us in identifying areas with need for improvement and any non-conformance must be dealt with within a given time period.

Our goal is to have zero non-conformances overall across the group.

- 3) In 2016 Spectre enrolled in SAI's Social Fingerprint® management systems program. The program helps us measuring and even more improving processes such as risk assessment, corrective and preventive actions, worker and stakeholder engagement, grievance mechanisms, and capacity building. It is a code-agnostic program that can be used to measure our maturity and performance within CSR compliance. According to external assessment of SAI's Social Fingerprint® we have identified focus areas that need to be improved, the need for training and capacity building and management of contractors and suppliers. Furthermore, we were able to assess areas that need to be maintained according to implemented CSR processes.

According to independent assessment we received the Social Fingerprint Score of 32,2 in 2016 in our Latvian factories.

- 4) Spectre created 27 % more working places in 2016 than in 2015;
- 5) In terms of best practice we can already share that health and safety has been a top priority of our new factory construction project for Spectre Garment Technologies (SGT) in Vietnam and we are proud to announce that far more than 100.000 working hours have been realized on the construction site without accidents.
- 6) As a recognition of our effort to work professionally with CSR management, we were awarded with the "CSR performance award in 2016" by one of our customers, German company Schöffel Sportbekleidung GmbH. Also amongst other customers we were ranked highly in vendor performance evaluations on the CSR parameter.

We responsibly and continuously pursue improvements to our business and production processes around the world in the areas of Human Rights, Labor, Environmental Protection and Anti-corruption.



UN COP 2016 summary and what makes us proud!

The well-being of our employees in a good working environment with focus on both physical and psychological elements is one of Spectre's core values. The owners and the management team set the framework and are committed to act accordingly. Our employees play an important role acting constructively and professionally at work and each staff member has his/her own share in ensuring a good, positive and safe working environment where team work is a virtue.

Additionally, responsibility for Environmental Protection, Health and Safety are corporate goals of Spectre and form part of its strategy. This responsibility is an integral component of our Mission and of our values, and it determines our business processes, strategic plans and operational actions. We are certain that our company can only continue its entrepreneurial success in the future on the basis of sustainability and responsible behavior!

We responsibly and continuously pursue improvements to our business and production processes around the world in the areas of Environmental Protection, Health and Safety and Social Accountability. In doing so, we make our lasting contribution to the solution of global challenges.

We will continue our reporting to the United Nations' "Global Compact" and we have expressly committed ourselves to its ten principles of responsible behavior with the aim of making our activities more sustainable. In doing so, we make our lasting contribution to the solution of global challenges.

Yours sincerely,

Jesper Klausen

Director, owner

Jacob Klausen

Director, owner