



BEIRHOLM & CRÉADORE

Procurement Policy



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Procurement Policy for Beirholm & Créadore

Vision

Our sourcing team plays an essential role in our everyday operational model and contributes to the further development of our strategic business model.

In doing so, the sourcing team must work to enable the activation of the full potential of the value creation network in order to develop and sell the most profitable and sustainable textile solutions on the market.

Adding to this, the sourcing team must also ensure that we and our partners live up to the highest social- and environmental standards and comply with international legislation.

We want to go beyond conventional transactional relationships. Instead, we want to build long-term partnerships beneficial to all participants in our supply chain.

Mission

It is our mission to develop, improve, and maintain the producer portfolio and related services while making sure that we always comply with market demands. Demands ranging from legislative, ethical and environmental to technological.

Positioning

We must act professionally and proactively throughout the whole value creation network to continuously develop our sourcing platform.

Producer Qualification Process

When determining whether a new producer fits into our portfolio, we conduct 3 phases of producer qualification:

Phase 1 Country Risk Assessment

We conduct a risk assessment on the country level. In addition to the risk assessment, we also look into the following areas to determine the resilience, opportunities and ability to visit of the country:

- » How safe is it to visit the country (if it is too unsafe to visit the country we cannot proceed. It is a must that we can visit a potential producer)?
- » What kind of raw material can be sourced locally?
- » How is the general impression of the textile industry?
- » How is the environmental situation in the country?

If we identify issues which are considered of high risk, we will not proceed any further with the qualification.

Producer Risk Assessment

We use the findings from the Country Risk Assessment as a basis for further discussion and investigation with the producer should a first visit take place. In addition, we require a presentation including a “roadmap” of the producer for initial screening before the first visit.

The presentation and “roadmap” introduce the producer’s setup, development plans, and informs about subcontractors. Based on this information, we will draft a preliminary Producer Risk Assessment. The assessment includes an evaluation of

whether the producer lives up to our demands and standards. We will also identify potential risks and opportunities.

If the producer passes the risk assessment, we will make a first visit (see phase 2 below). After this visit, we will amend and finalize the Producer Risk Assessment (see appendix for more details).

Phase 2

This phase includes a first visit to the producer’s production sites. The visit is conducted by our Sourcing Team. During this visit, the team will investigate and evaluate the producer based on the preliminary risk assessment.

Should the risk assessment turn out favorable, we will proceed with a next visit. The 2nd visit is conducted by both our Sourcing- and Quality Assurance teams. Here, the objective is to ensure that the products manufactured are compliant with our level of quality.

Should the producer’s level of quality comply, we will involve other teams such as Management, Sales, Logistics, and IT. The involvement can be virtually or with physical presence.

This due diligence process takes approximately 2 years for a new producer to be accepted as part of our supply chain.

Phase 3

In this phase, we ensure that we have been through the following steps. If any steps have been missed, these will be taken:

- » Visit to the production sites and sometimes subcontractor production sites
- » Audits by Beirholm/Créadore and/or an independent, external company
- » Producer must make a visit to Beirholm/Créadore in Kolding, Denmark
- » Mapping of the company with full information about the set up
- » Several trial orders to secure and set the standard
- » Management meetings
- » System set up
- » Signing of our Code of Conduct
- » Signing of our Supplier Agreement
- » Risk assessment of the producer which is shared with the producer
- » Grievance and remediation policies
- » Sustainability mapping – what is possible now? What should be made in the future?
- » Setting up competence groups

Introducing a new supplier demands a large amount of resources and rigorous work. But it is necessary. As a result, we can transparently show off our producers and our supply chain. Producers which we intend to partner with for the long-term.

Appendix to Producer Qualification

When looking at a factory our focus is:

- » Country
- » Ownership
- » Production infrastructure including buildings and machines as well as employees

- » Social compliance
- » Environmental responsibility and opportunities
- » The degree of vertical integration (high degree is important in order to ensure the necessary quality-, environmental-, and social standards)

Minimum requirements to qualify:

- » Oeko-Tex® 100 and the potential to obtain more and stricter certification
- » Compliance with Beirholm/Créadore Code of Conduct
- » BSCI compliance or SA8000
- » A strong focus on social responsibility including working conditions along with compliance for local minimum and living wage
- » A strong focus on environmental responsibility when required data to be provided
- » Grievance and Remediation policy is in place and actively promoted

To assist in the social- and environmental development of a producer – and our partnership - Beirholm/Créadore connects with external consultants and other companies to help bear the costs of the certification process.

We believe in setting a good example to show that we are partners and that we work together. We don’t just put more pressure on a producer. It is a joint journey on the basis of our partnership strategy and philosophy. It requires great investments, efforts, and commitment from both parties involved.





Producer Cooperation

To keep track of the current and potential performance of producers, Beirholm/Créadore relies on our segmentation model. The model includes 4 distinct segments and is updated once a year.

Innovative

An innovative producer is considered as optimal in our supply chain. To be segmented as such, the producer must be vertically integrated. It must operate on a high level of textile infrastructure e.g., new machines, good buildings, latest technology, and have skilled workforce.

In addition, the producer must have a strong and continuous focus on sustainability – environmental- and social responsibility - in all parts of the production – from raw material to finished product.

Finally, the producer displays an understanding of the market challenges and demands from Beirholm/ Créadore's customers and their customers. The producer also displays willingness and ability to adjust its setup accordingly. It has a strong R&D capability and understands the reasons and need for continuous reengineering to improve the products, performance, production setup, environmental impact as well as finding new and better solutions which can replace existing ones.

Integrated

An integrated producer is very typical for our supply chain. This segment includes producers who operate on a full or partly vertically integrated setup. They know and can control/audit their subcontractors. The production setup is considered good with fairly new to new machines, buildings and technology. The workforce is considered skilled.

The producer has a focus on sustainability and a willingness to invest in means to improve over time. The producer is compliant with social- and environmental areas of responsibility.

Finally, the producer is capable of innovation through their R&D setup. However, we expect Beirholm/ Créadore to be the initiator of new innovations for our industry.

Match

A producer is considered a match if the product range, lead time and/or the setup matches Beirholm/ Créadore's market demands.

The producer's setup is fairly-to-very good. It has focus on sustainability and is compliant with social- and environmental areas of responsibility. Furthermore, the producer is to sign our Code of Conduct and comply with our minimum requirements.

The producer is not used for R&D projects. We solely rely on the producer's existing product range and qualities.

X-Ray

An X-Ray producer is either on its way in or out of our supply chain portfolio.

This segment is short-lived. Beirholm/ Créadore will take action to either proceed or cancel a relationship with a producer within this segment.

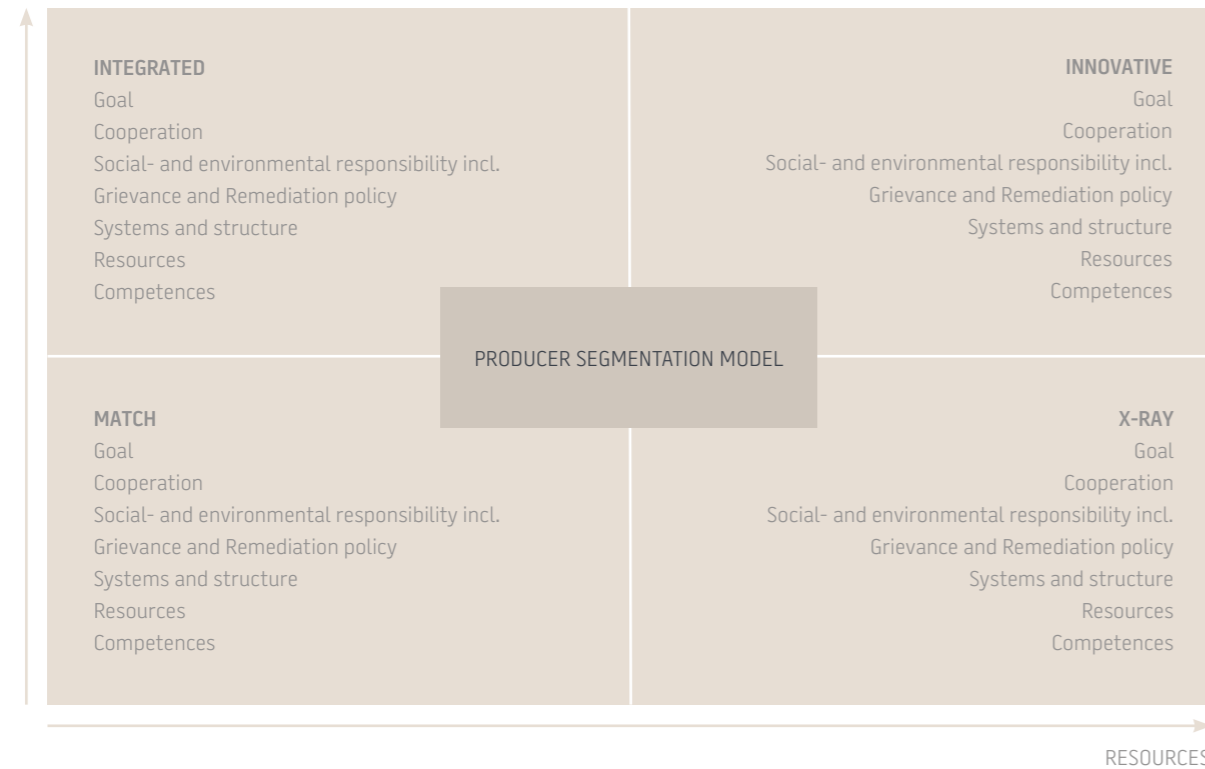
An X-Ray producer will have to comply with the same minimum requirements as our other producers, but it may take more time before we are able to move the producer into another segment. On the other hand, a producer's inability to keep up with market- and sustainability demands can lead to a phasing out of the relationship.

General assessment areas for all 4 segments:

- » Common goal
- » Cooperation form
- » Social- and environmental- responsibility and compliance including an active grievance and remediation policy
- » Systems and structure
- » Resources
- » Competences

Producer Segmentation Model

IMPORTANCE FOR
BEIRHOLM/CRÉADORE



Risk Management

Grievance and Remediation process

Beirholm/Créadore understands and acknowledges the responsibility for our supply chain. This includes areas which are not controlled by us but still play a vital part to our business. Hence, our social- and environmental responsibility goes beyond our company borders.

Grievance and remediation process

If we receive information about a grievance which has not been handled properly we will immediately take up the matter with the management of the factory as well as the HR function.

At Beirholm, the person(s) responsible for ensuring that an issue gets solved/handled is/are the key account of the producer or the Head of Strategic Sourcing.

The time frame from receiving information about an issue till it has been addressed and possibly solved is maximum 3 days (unless the case demands further investigation). The dialogue will be initiated immediately with the relevant persons to secure high priority of the case.

Beirholm/Créadore will make sure that the case is investigated properly. If we find that the case has not been handled correctly, we will step in and ensure that the person with the grievance receives appropriate compensation. This is of utmost importance to us. The grievance mechanism only functions if cases are taken seriously and treated in a way that respects the person involved.

The follow-up on the case will either be conducted by Beirholm/Créadore or a third-party who can speak the relevant language in order to ensure appropriate handling of the case.





Producer Risk Assessment Process

The Strategic Sourcing team will update the Producer Risk Assessment for each producer in our portfolio. Every 6 months. In that way, we ensure that findings are continuously prioritized, handled and/or mitigated.

The Producer Risk Assessment will be based on the audits and dialogues conducted by:

- » BSCI and/or SA8000
- » Our own audits made by a third-party auditor
- » Our own visits to the production sites
- » Talks with stakeholders outside the factory

The Producer Risk Assessment will be shared with the producer. An action plan will be developed based on the findings of the assessment. We have integrated this continuous improvement process into our Sourcing Process for producer visits. In that way, we make sure to look into social- and environmental areas and – if possible – have talks with workers to reinforce the importance and ensure improvement.

Product Risk Assessment regarding procurement

Beirholm works with a limited number of producers – fully in line with our partnership philosophy. This means that we are not always able to source the same product from more producers.

This poses a potential risk related to the following factors:

- » Availability in the market
- » Price/competitiveness
- » Production
- » Investments
- » Innovation
- » Political instability
- » Local hazards

Despite these factors, we believe that the benefits of our partnership philosophy outweigh the potential risks.

The obvious way to manage these risks is to pursue a dual-sourcing and substitution strategy. To some extent, we pursue this strategy as well. However, we are also pursuing a more innovative, unconventional approach to managing the risks. For instance, we are looking into joint setups with our partner producers. The idea is to develop a setup outside of the current country of production. The advantage is, that we will be able to transfer and leverage the know-how (related to our technical textiles) while cancelling out the country-specific and producer-specific risks related to initiating new partnerships.

Technical Textiles (e.g. BeirTex®) – substitution is not possible

The producers of technical textiles are obliged to secure that spinning, weaving and processing facilities related to the manufacturing of BeirTex® are identified outside the country of production. The producers must secure strategic alliances with subcontractors and producers.

Dual Sourcing

Beirholm is pursuing dual-sourcing on some products to maintain and secure the supply to the customers.

We work with three structures:

1. One producer manufactures 100% of the volume but a list of approved producers are available
2. One main producer manufactures up to 80% of the total volume
3. Two producers share the total volume in 50/50 fashion

Substitution of articles

We consider the following options for substitution:

- » 100% substitution where product and quality can be replaced by identical product/quality with no influence on the product performance by the customer
- » 70-90% substitution where the product/quality fulfills all essential quality parameters but deviates on secondary parameters. The customer must approve/be informed about the changes before they can be made
- » Less than 70% substitution (functional substitution) where the substituted product/quality replaces the performance of the product. Here it is often another product/quality and the customer has to approve the change as price, quality and other parameters have been changed





Beirholm

Context Engineered Textiles

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