

Factory Audits Methodology Report

August 2021

WHY CONDUCT AUDITS?

Audits are a common manufacturing practice to ensure adherence and compliance to an ever-changing list of operating conditions and expectations. Like many apparel, fashion and accessories brands, we do not own the factories where our pieces are made, but we want everyone involved in the manufacturing process to meet our social and environmental set of standards. Relying on a qualified third-party to perform objective, unbiased and measurable audits is for us a powerful tool for continuous improvement.

AUDITING PROCEDURE AND SCORING SYSTEM

Our auditing procedures include confidential employee interviews, record evaluation, observations, and management feedback. With a multi-pronged approach, auditors are able to consider various sources of information and utilize proven investigative techniques to corroborate evidence.

The scoring system we use is a data-driven methodology enabling bench-marking between suppliers in order to make logical and quantifiable sourcing decisions. The scoring system enables more effective monitoring and evaluation of improvement at the facility and supply chain level.

Based on our findings, we then allocate different weight factors to individual requirements that contribute to our “vendor scorecard”. The overall result from the weighted variables will be shown as a percentage figure for each ethical standard category. Depending on the severity of the non-conformity, corrective actions are put in place to satisfy the issue.

RAISING THE BAR ON AUDITING CRITERIA

At Ana Luisa, we design jewelry with people and the planet in mind. It's non-negotiable for factories to follow our Vendor Code of Conduct (**see appendix below**). Partnering with a third-party certified auditing team allows the Ana Luisa QCS (Quality, Compliance & Sustainability) and Product Development teams to gather tangible data and be able to challenge our manufacturing partners into going above and beyond on social and environmental responsibility. Our social audit focuses on ethical manufacturing fundamentals like health and safety, women's rights, child labor and forced labor. We ensure all employees have the ability to voice workplace concerns and monitor factory behavior in regards to staff-related issues. In comparison the environmental audit targets a number of different environmental factors including air, water, waste and energy consumption. Ana Luisa partners with our factories to pursue environmental innovation and push for standards beyond the legal and local requirements.

SOCIAL & ENVIRONMENTAL COMPLIANCE AUDIT

The purpose of Ana Luisa's social audit program is to assess factory conditions, worker treatment and compensation, hiring processes, environmental practices and more generally, compliance with applicable laws and the Ana Luisa Vendor Code of Conduct. Through the use of our Third Party Auditing Team (TPAT), the following categories are weighted based on level of risk and compliance.

(SOCIAL COMPLIANCE AUDIT)

1. CHILD LABOR

We do not tolerate the use of underage labor and will not knowingly work with suppliers that utilize underage workers. We access personnel files to ensure employees are of legal age for employment. This in addition to facility observations and staff interviews, provides us a holistic snapshot of the current staff roster. It is of the utmost importance for our auditing team to be as thorough as possible.

A. Example of a Child Labor Non-Compliance:

i. Use of workers below the legal age of employment.

See more details in the appendix (Sec. 4)

2. HOURS OF WORK & FORCED LABOR

Excessive working hours is a widespread practice in many parts of the world. Workers often comply in order to earn higher wages but are not always paid the appropriate legal overtime. Regular work hours shall not exceed 48 hours in a 7 day period or 12 hours in a 1 day period for each employee. Overtime hours may not exceed 12 hours unless noted by local laws. Workers have the right to engage in work willingly, without surrendering identification and without the payment of fees. To ensure compliance, we review time cards and payroll for accuracy and are in accordance with local law and Ana Luisa standards. In addition, we interview staff and note any discernible attempts to coerce staff into working under unscrupulous conditions. It is critical factory employees are properly informed of their working hours, time off and rest period entitlements. Ana Luisa's expectation is that staff utilize their legally mandated rest period during each 7 day period. Suppliers must also procure their raw materials and/or components for products solely from sources that do not utilize forced labor or engage in human trafficking.

A. Example of an Hours of Work Non-Compliance:

i. Excessive overtime. **See more details in the appendix (Sec. 8)**

B. Example of a Forced Labor Non-Compliance:

i. Excessive overtime. **See more details in the appendix (Sec. 8)**

3. HARASSMENT & NON-DISCRIMINATION

We respect cultural and individual differences and discrimination is not tolerated. Vendors and factories are expected to maintain a discrimination-free workplace and to employ workers based upon on their abilities, rather than their race, color, sex, pregnancy status, gender identity, marital status, political opinions, religion, age, disability, sexual orientation, social origin, national origin or any other characteristics unrelated to an individual's ability to perform the work required by the job. Through staff interviews, we ensure staff voices are heard and their treatment is in accordance with our standard and state and local laws. The review of relevant documentation such as factory work rules also help us certify compliance.

A. Example of a Harassment Non-Compliance:

i. Sexual Harassment, physical punishment or abuse.

See more details in the appendix (section 9)

B. Example of a Nondiscrimination Non-Compliance:

i. Disciplinary procedures taken against workers based on personal characteristics. **See more details in the appendix (Sec. 10)**

4. WAGES AND BENEFITS

Suppliers must provide wages and benefits that meet or exceed local law requirements and are paid/provided in a timely manner. To verify this, we obtain employee pay records and benefit outlines to ensure maximum compliance with state and local requirements. We encourage suppliers to commit to the betterment of wages and benefits to improve the lives of workers and their families in the communities where they live.

A. *Example of a Wage and Benefits Non-Compliance:*

*i. Minimum wage violation. **See more details in the appendix (Sec. 6)***

5. HEALTH AND SAFETY

Health and safety violations are a major focus of Ana Luisa's responsible sourcing audit process. We conduct an in-depth review of a facility's health and safety practices across all buildings, reviewing fire safety equipment and preparedness to worker safety, such as clean facilities, the availability of personal protective equipment, chemical safety and employee training. We also conduct staff interviews to accurately assess employee well-being and review employee literature to ensure safety protocols and procedures are communicated to staff in their native language.

A. *Example of a Health & Safety Non-Compliance:*

*Structurally unsafe building. **See more details in the appendix (Sec. 15)***

6. WOMEN'S RIGHTS

Suppliers shall ensure employees who identify as women are treated equally and are in accordance with our standard and state and local laws. We intently review documentation to confirm protocols are in place to protect women, their bodies and their rights surrounding reproduction.

A. *Example of a Women's Rights Non-Compliance:*

Forced pregnancy testing as a condition of employment.

See more details in the appendix (Sec. 17)

7. FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

Suppliers are to effectively communicate employee rights to organize, unionize and resolve workplace disputes. They should also be provided a safe space to voice concerns to management. Through staff interviews, reviewing employee New Hire literature and facility signage, we can confirm workplace rules are in place and in accordance with state and local laws.

A. *Example of a Freedom of Association and Collective Bargaining Non-Compliance:*

Termination of workers who have attempted to organize or collectively bargain.

See more details in the appendix (Sec. 16)

ENVIRONMENTAL COMPLIANCE

Outside traditional social compliance auditing, we actively look into key environmental factors with our suppliers to ensure active measures are in place to encourage supplier innovation.

Environmental Management:

Environmental management is key to ensuring suppliers are up to date with local laws and state regulations. Suppliers are required to provide us with their procedures and methodology for keeping track of their environmental impacts. Understanding these processes allow us to benchmark their progress in achieving our environmental initiatives. In this effort, we are not only able to capture our footprint, but work to improve it. By concentrating on the following environmental factors, we are able to decrease our environmental footprint while implementing industry leading standards.

1. *Energy Use*
2. *Water usage*
3. *Wastewater*
4. *Air emission*
5. *Waste Management*
6. *Chemicals*

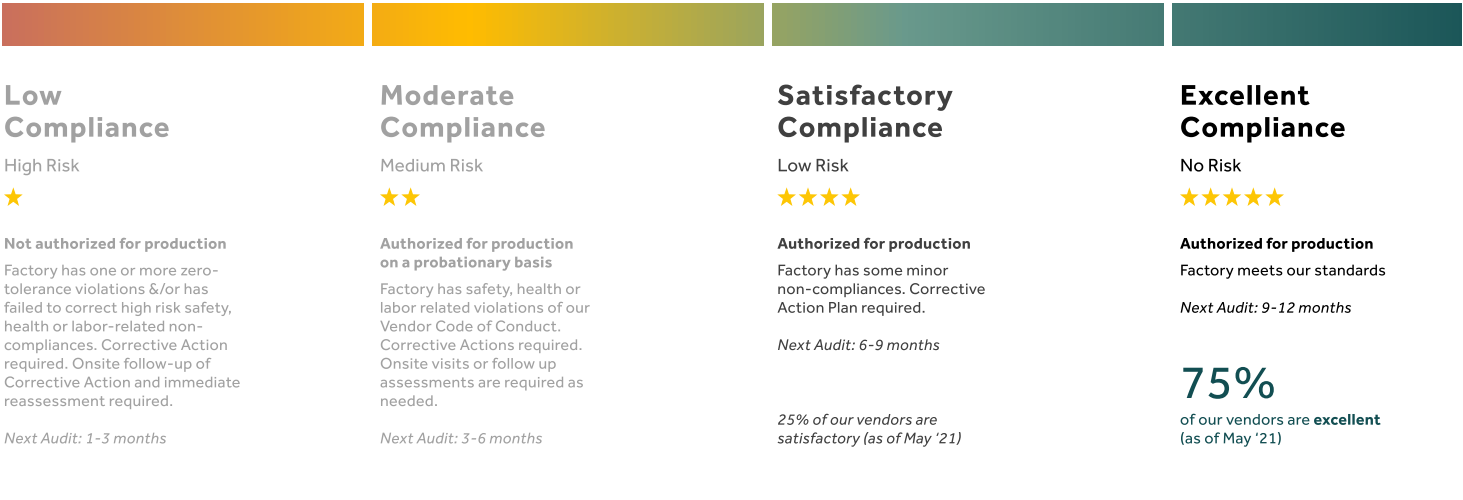
RESULTS & NEXT STEPS

In May 2021, 4 suppliers were audited by a third-party certified auditing team. This represents 90% of our Tier 1 partners. The remaining 10% will be audited before December 2021.

Auditing Process Breakdown, for each new manufacturing partner:

1. *Ana Luisa reviews vendor profile, organizes a call to access transparency and issues our Vendor Code of Conduct*
2. *Ana Luisa speaks with our third-party auditing team who goes in and conduct a Social & Environmental audit*
3. *The third-party audit team sends a copy of the results to Ana Luisa & respective factory. The factory receives a classified score of Green, Yellow, Orange or Red to demonstrate the overall compliance status of the vendor*
4. *Ana Luisa QCS & PD / Production team and third-party auditing team review all written reports, documentation and images*
5. *If non-conformances are present, the Ana Luisa team, in partnership with the third-party auditors, issue a CAP (Corrective Action Plan) to ensure improvements are made and protocols are put in place to ensure continued compliance*
6. *If necessary, a 2nd audit is conducted to ensure all non-compliances are satisfied to Ana Luisa standards.*

OUR SCORING SYSTEM:



*Environmental Audit results & details coming soon