

Acne

Studios

Recap of the year

This Sustainability Report covers the financial year (FY) 17/18, which runs from 1 September 2017 to 31 August 2018. In short, the year can be summarised as follows:

- More than **800** employees of which over **200** is based at our HQ in Stockholm
- **7** offices in **Scandinavia, Italy, Paris, New York and Shanghai**
- Roughly **2.1 billion SEK** turnover
- **56** Acne Studios stores in **14** countries on **4** continents
- Flag ship stores in **Stockholm, Paris, London, New York City, Los Angeles** and **Tokyo**
- E-commerce in **64** markets
- Wholesale distribution via around **800** stores and online shops in **49** countries
- **76** suppliers with more than **150** production locations in **15** countries

Our sustainability ambition

Acne Studios was founded in 1996 in Stockholm, Sweden, as part of the creative collective ACNE that focused on graphic design, film, production and advertising. 10 years later in 2006, Acne Studios became a standalone fashion company and separated from the collective ACNE. We continue to honour our multidisciplinary heritage and merge the worlds of art and fashion, by incorporating various elements of architecture, photography and Swedish culture into our designs.

Our collection includes men's and women's ready-to-wear, footwear, accessories and denim. Over the years, Acne Studios has grown into a global fashion company that annually produces over 1.5 million products in 14 countries that are sold worldwide. Our social and environmental impact, and the responsibilities that come with this, have grown along with us.

We believe that one of our main responsibilities is to create items that are unique and continue to be desirable and of high quality. We want our consumers to value our designs and to be able to enjoy them for as long as possible. This forward-thinking approach is not limited to the look of our products but also refers to their wider impact.

Challenges

Our environmental concerns are in line with worldwide challenges we are all facing; climate change, loss of biodiversity, increased pollution and scarcity of natural resources such as clean water and land for food cultivation. There is a clear connection between fashion and these problems. The production of a simple cotton T-shirt alone requires excessive amounts of water, chemicals and agricultural land. How this T-shirt is transported from factory to customer, how often the user washes this T-shirt and what happens with it after it becomes waste also influence its total environmental impact.

Our biggest social challenges lie in our supply chain. The fashion supply chain is long, complex, and labour-intensive. Many workers worldwide, most of them beyond our direct business and control, depend on their job in the fashion industry. There is a risk of workers having long working hours, low wages and unsafe working conditions, especially in countries where workers are not protected by solid labour legislation or where enforcement of such laws is weak.

Key areas

The starting point of our sustainability ambition is that we want to be proud of our products; how they look, their quality and how they are made and used. The ambition is shaped further by our main social, environmental and ethical challenges and how we choose to take our responsibility for these. Because our main challenges arise during the production of our collections, two key areas of our sustainability ambition are structured around 'Our Products' and 'Our Suppliers'. However, we also want to take responsibility for our own employees and the direct environmental impact of our business operations. These challenges are included in the third key area 'Our Operations'. Together, these three key areas form our sustainability ambition;



Our Products

Design high quality products made for long term usage with carefully considered materials and techniques

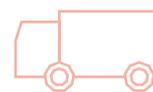
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Our Suppliers

Cooperate with transparent and responsible sourcing partners to promote fair working conditions in our supply chain

+



Our Operations

Be a responsible employer that considers the ethical and environmental impact of our operational activities

Sustainability context

In this Sustainability Report, we explain how we have implemented our sustainability ambition within the company, what steps we have taken and which results we have reached in the past financial year. The below chart lists, per key area, the topics that we focus on as part of our sustainability ambition and where in the report more information can be found on each topic.

It also shows how our work relates to the Sustainable Development Goals (SDGs); 17 goals created by the United Nations Development Programme for governments to integrate into their national development plans and policies. As a company, we can show our support by trying to align our activities with the goals. The chart depicts which goals are relevant for us.

When developing our sustainability ambition, we always have our stakeholders in mind. Many people are affected by, or can influence, the choices we make as a company. An open dialogue with stakeholders is important to prioritise social and environmental actions and to continuously develop and improve our sustainability efforts. The chart shows our most important stakeholders per focus topic. Our stakeholders are not limited to those listed; we also maintain contact with other stakeholders such as educational bodies, students, trade associations, unions and media.

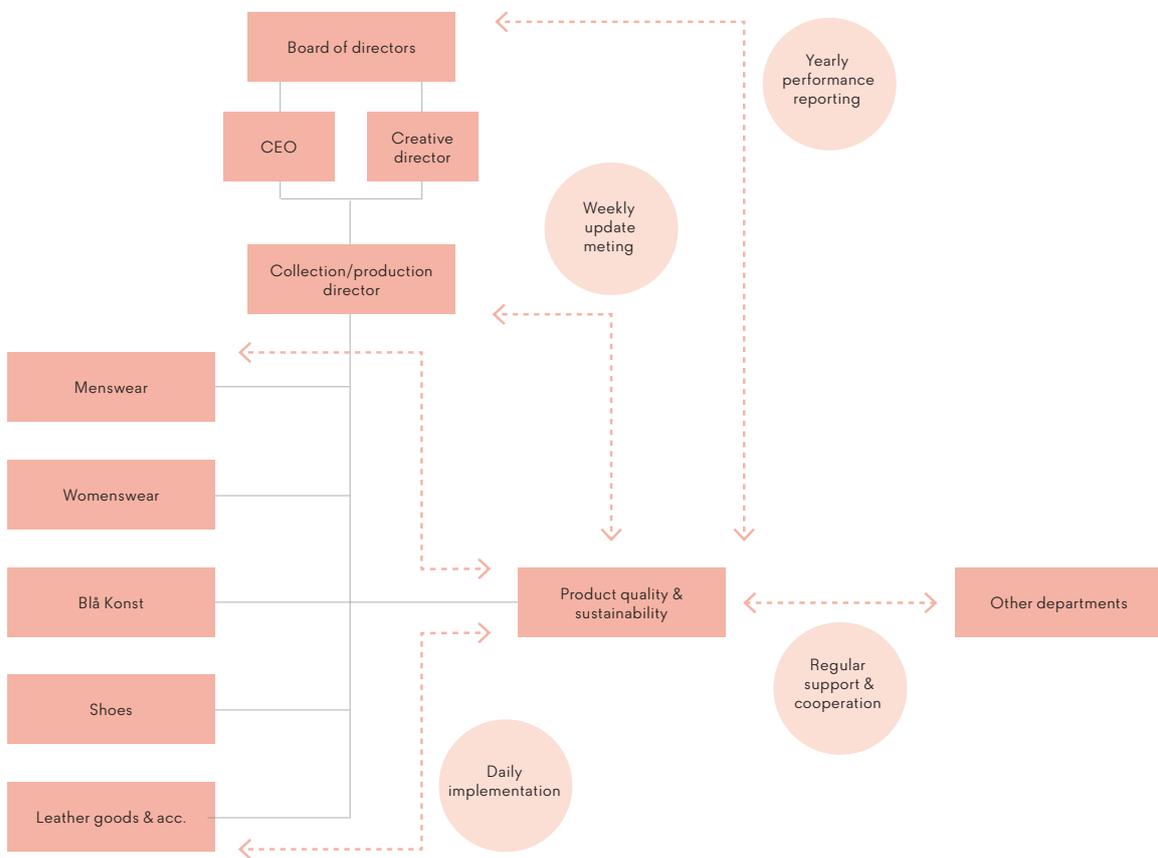
Key area	Focus topic	Page	SDGS	Stakeholders
Our products	Quality	9	    	Customers, sourcing partners, NGOs & interest groups, other brands
	Raw materials	10		
	Animal welfare	12		
	Chemical management	14		
	Production processes	14		
Our suppliers	Labour standards	17	     	Sourcing partners, NGOs & interest groups, other brands
	Purchasing practices	20		
	Training	21		
	Transparency	21		
Our operations	Environmental impact	30	  	Employees, sales staff, public authorities, logistics partners
	Our workplace	35		

Our cooperation with other brands, civil society and policy makers is often part of our involvement in multi-stakeholder industry initiatives, which links back to SDG 17. Cooperation and dialogue in such industry initiatives is an effective way to stay up-to-date on developments, share knowledge and exchange points of views, and ultimately to change the industry we work in for the better. Below overview lists all industry initiatives we take part in and which topics are addressed:

Key area	Focus topic	Page
Our products	Chemical management	Kemikaliegruppen at Swerea IVF
	Production processes	Sweden textile water initiative (STWI)
	Animal welfare, production processes	Leather working group
	Raw materials, animal welfare	Textile exchange
Our suppliers	Labour standards, training, transparency	Fair wear foundation
	Labour standards, training	Italy working group

Integration of sustainability

To implement our sustainability ambition, responsibilities are embedded in our organisation. The Product Quality & Sustainability department consist of a team of five, including two specialists in sustainability. This department reports to the Collection/Production Director and is responsible for strategy and target setting, supporting and monitoring of the implementation and researching new sustainability opportunities. The Product Quality & Sustainability department has weekly update meetings with the Collection/Production Director and works together on a daily basis with the development and production teams that are divided in womenswear, menswear, Blå Konst (denim), leather goods & accessories and shoes. There is also regular contact with departments such as PR & Marketing, Supply Chain and HR, depending on running projects and priorities. Even though the Product Quality & Sustainability department acts as an initiator and supervisor, it is each manager's responsibility as well to assure that the sustainability standards and targets relevant for their department are achieved. Our CEO has the overall responsibility for our sustainability ambition and keeps the Board of Directors informed on developments. Once a year a detailed sustainability update is provided to the Board of Directors.



Our products

Being proud of our products is the core of our business practices. At the same time, the creation of our products leaves behind a substantial environmental footprint. For this reason, a major part of our sustainability ambition is geared towards the design and construction of our products. Our efforts are divided into five focus topics; Quality, Raw Materials, Animal Welfare, Chemical Management and Production Processes.

Design high quality products made for long term usage with carefully considered materials and techniques

Focus	Commitment	Highlights FY 17/18
Quality	We design desirable, high quality products and enable long term usage	Reduced the number of customer claims by 25% compared with last financial year ¹
Raw materials	We make active choices to increase the use of sustainable materials in our collections	Produced 20% of our 5-pocket denims in organic cotton
Animal welfare	We demand an ethical treatment of animals and push for traceability to the origin of our materials	Implemented a Leather Traceability Questionnaire for all our leather garment tanneries
Chemical management	We offer safe products that are free of hazardous substances and in line with industry standards	Implemented improved testing routines on non-textile materials
Production processes	We work with our suppliers to decrease the environmental impact of wet-processes	Continued working with Sweden Textile Water Initiative to increase knowledge on water management

¹ Based on sales in our own stores.

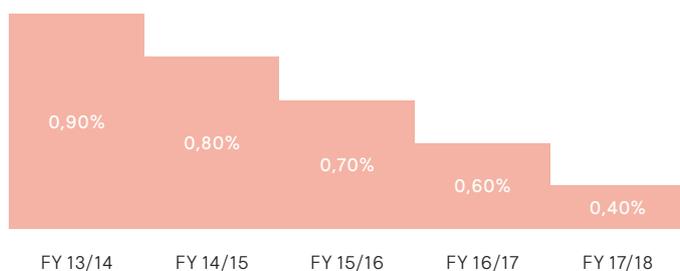
Quality

Our biggest impact lies in the construction of our products; from the raw materials to the finishing stage. Making a garment that sustains - fashion-wise, from a quality perspective and as a desirable item - reduces our environmental impact considerably. Design, quality and sustainability are therefore closely connected. We want our customers to value our products and to be able to use them for a long time. This is reflected in everything we do; from our design constructions, material choices to internal quality routines.

Quality control

A lot of effort is put into assuring that our products live up to our high-quality standards and can stand the test of time. We have an in-house quality lab where we test materials and garments according to international standards and work with external testing laboratories where necessary. In addition, our own quality auditors are present at our suppliers' factories during production to do quality inspections. Wear testing is an important part of our quality assurance process as well. Only by using a product you will understand what can be done better. Customer claims are always evaluated to learn where we can improve to prevent issues in the future. Because of this strategy, our customer claims rate has steadily decreased in the past years across all our markets.

Customer claims
Shares of sales in our own stores



Consumer use

We want to enable our customers to take care of their garments to maintain the quality. From a lifecycle perspective, the energy and water used for washing and tumble drying represents a big share of the environmental impact of garments. We consider this when we decide on care instructions and want to inspire our customers to be aware of the impact of their choices. For example, thanks to the self-cleaning capacities of wool, we advise our customers via the care label to air wool garments to decrease washing. We also always recommend washing garments at low temperatures and to avoid tumble drying.

In our stores, customers receive information necessary to take care of their products. In case of quality claims, we cooperate with local tailors and shoemakers to repair simple production faults. In the unfortunate event that one of our items gets damaged during wear, we have a storage of spare parts such as zippers and buttons. This archive goes back several seasons and is used to assist customers when repairing their Acne Studios products.

Waste

We design our products with great care and believe that a product that is not sold or used is a waste of the natural resources and passion put into it. For this reason, we carefully plan our orders and sales to prevent overproduction. Fabrics and materials that are left from sample developments are donated to various design schools in Sweden. We also work together with our suppliers to make sure left-over fabrics are used, for example when repeat orders are placed, for special retail orders or to make prototype samples from.

In case unsold garments remain after the seasonal sales, we sell them in our outlet stores and in external outlets in the UK and the US. Samples produced during development are sold in our Archive stores and in our online pop-up stores. We also have an internal store at our warehouse for our employees where we sell returned or unsold items that we can't sell anymore via our other channels.

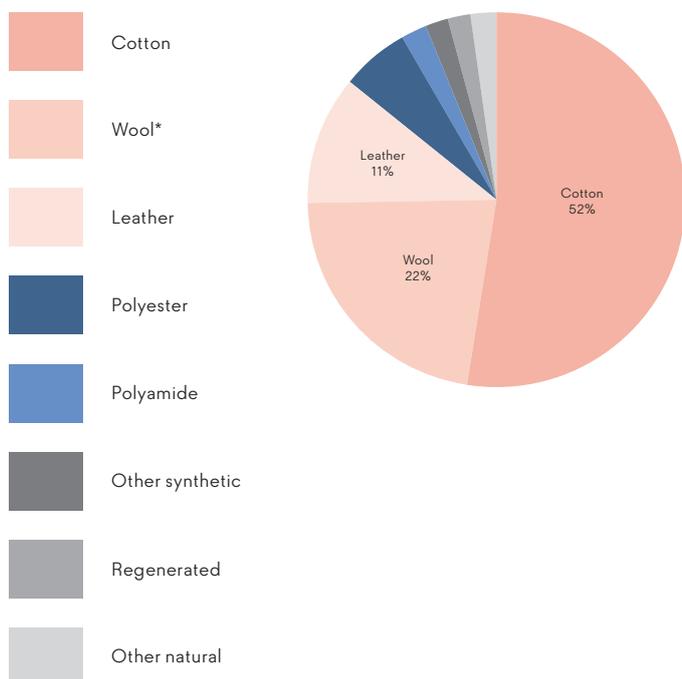
Even though we have several measures in place to manage unsold and claimed items, we are currently not structurally measuring this. That is why we will map our waste streams as of next year to receive more clear data. After such mapping is in place, we will look for ways to further optimize our waste strategy.

Raw materials

We carefully select the raw materials we use for our products. Each material in our collection has specific characteristics and is chosen based on the desired look and performance. Since we aim to make items that last, a precondition is to choose durable materials. Nearly 90% of the materials we use are from natural origin, primarily cotton, wool and leather. The often high quality look and feel make these materials a first choice for us. However, growing natural fibres and raising animals for meat and hides has a large impact on the environment. One of our most important environmental goals is to replace conventional materials with sustainable alternatives that also meet our quality requirements wherever possible.

Below graphs shows the material mix of leather and textiles delivered to our warehouses, per weight, during FY 17/18. Hardware, such as eyewear and jewellery, is excluded.

Material use FY 17/18
per fibre type



*Incl. mohair, cashmere, alpaca

Environmental impact

We have developed an Acne Studios Materials Sustainability Benchmark to assess the environmental impact of the materials we work with. To do this, we took existing benchmarks such as the MADE-BY Environmental Benchmark for Fibres and the Higg Materials Sustainability Index of the Sustainable Apparel Coalition as a starting point. The benchmark will be continuously updated based on newly developed materials, scientific research or industry best practices. We consider materials ranked as 'recommended' and 'good' as sustainable.

Acne Studios materials sustainability benchmark

Recommended	Good	Discouraged	Banned
Organic linen	Conventional linen	Conventional cotton	Angora
Crailar® linen	Conventional hemp	Modal® (lenzing viscose)	Non-RDS down
Organic hemp	Jute	Bamboo viscose	Mulesed wool
Organic cotton	Ramie	Viscose	Fur
Recycled cotton	Natural bamboo	Rayon	
Organic silk	Silk	Cupro	
Peace silk	Traceable wool*	Non-traceable wool	
Monocel® (bamboo lyocell)	Traceable leather	Non-traceable leather	
Tencel® (lenzing lyocell)	Polyactic acid (PLA)	Virgin polyamide	
Organic wool		Virgin polyester	
Recycled wool*	*Incl. traceable mohair,	Acrylic	
Responsible wool (RWS)	cashmere, alpaca, yak	Polyurethane	
Recycled down		Elastomultiester	
Responsible down (RDS)		Elastane	
Recycled polyamide		Acetate	
Recycled polyester		Triacetate	
*Incl. recycled mohair, cashmere, alpaca, yak			

The benchmark is to be used as a guide for our designers, fabric sourcers and product developers. We want to encourage them to pick the best options available, with preference for the 'recommended' materials. Materials in the category 'discouraged', we want to replace or find more sustainable options for. The reasoning behind the 'banned materials' and traceable wool and leather will be further explained in the animal welfare section of this report.

Sustainable material use

Replacing conventional materials with sustainable alternatives is not just a matter of making the switch. Since sustainable materials are often offered as a niche product it increases costs, lead times and the minimum order quantities. That is why our focus is on our core styles that are repeated over several seasons, which allows us to have a longer development perspective.

Cotton is the material we use most for our products, representing over half of our total material mix. It is used in almost all our product groups but mainly for our 5-pocket denim. The majority of our 5-pocket denim are core styles. We started to replace conventional cotton with organic cotton in our core 5-pocket denim in the SS18 season. The amount of organic cotton used this year stands for around 20% of all our 5-pocket denim orders. Next year, we will start communicating the organic content on our products.

In addition to the organic cotton use in our core 5-pockets denim, we also use 30% recycled cashmere in one of our

core scarves and lyocell (Tencel®) in some of our jersey styles. For the FW18 season, we have had a cooperation with the outdoor brand Fjällräven and have launched a collection that is jointly designed and produced. This collection contained several products made in an authentic Fjällräven fabric consisting of organic cotton and recycled polyester, such as for example the reinterpreted Kånken bags.

In total, the usage of 'recommended' fibres this year accounts for 5%². Together with the materials classified as 'Good' we used in total 6% of more sustainable fibres this year. The goal going forward is to increase the usage of 'recommended' and 'good' fibres step by step every season, mainly by focusing on core styles.

Zoom in: Cotton

Cotton is a natural fibre, but it needs a lot of water and pesticides to grow, which is why it is ranked in category 'discouraged'.

We are in the process of changing our conventional cotton to sustainable materials that match the quality and look of cotton, with a focus on organic cotton. We have chosen to focus on organic cotton since this is the highest standard for sustainably grown cotton. Organic cotton requires less water, less energy and no genetically modified crops or toxic pesticides and fertilizers are used in the cultivation of the cotton. This also improves the health of the cotton farmers and their families. All organic cotton purchased by Acne Studios is certified according to the Organic Content Standard (OCS) or Global Organic Textile Standard (GOTS).

The production of recycled cotton is even more sustainable since no new cotton needs to be grown. However, the quality and durability of recycled cotton fabrics are still inferior to organic cotton.

Since our ultimate aim is to make long lasting items, we are not using recycled cotton currently but will keep on investigating possibilities.

Animal welfare

Animal materials are often durable and of high quality which is why they are an important part of our collection. Wool is the second biggest fibre in our collection and stands for around 20% of all our materials. This includes mohair, cashmere, alpaca and merino wool but regular sheep wool represents the biggest part. Leather occupies the third place with 11%. The majority of the leather we use is calf leather, followed by lamb leather. Apart from these animal materials, we also use down in our winter jackets.

Animals are entitled to good treatment and this must be respected through the adoption of good animal husbandry and the fulfillment of our animal welfare requirements. We have the following restriction on the use of animal materials:

- We have a complete ban on angora since 2013.
- We do not accept mulesing of merino sheep.
- We only use down that is certified according to the Responsible Down Standard (RDS).
- We never use hides from animals that are only raised for their fur.
- We only use hides that are a by-product from the meat industry.

² Based on quantities delivered to the warehouse. Per item, the amount of sustainable fibres is calculated based on the fabric composition and standard weight classifications per product group.

Zoom in: Wool

Wool is often classified as non-sustainable, mainly because of the big environmental impact it has in the raw material stage. Wool production requires large land areas for grazing, and sheep and other wool producing animals discharge the green-house gas methane. However, wool is highly durable and maintains its quality for a long time. Wool products also don't need to be washed so often and can be aired, requiring significantly less water and energy in the consumer use phase than, for example, garments made from cotton or polyester.

Traceability

Animal welfare is a concern at the very start of the supply chain; the farm. Fashion supply chains are generally long and complex, making it a challenge to ensure that our animal welfare requirements are followed. Each season, we ask our suppliers of leather and wool to state the country of origin of the material and the animal. This way, we can assess risks and animal welfare standards in the region and take additional measures where needed. For example, we request a non-mulesing declaration for all merino wool originating from Australia, where the risk for this animal-unfriendly practice is present.

Zoom in: Leather

Similar to sheep and goat farming, cattle farming has a significant environmental impact in terms of emissions of greenhouse gases and land use. There are also animal welfare risks related to the treatment of animals at the farm. As opposed to animal raised for wool production, the animal welfare risks for animals raised for leather production extend to the transportation of animals from the farm to the slaughterhouse and the period before and during slaughter.

We are a member of the Leather Working Group and part of their Animal Welfare Group. The main objective of this subgroup is education and sharing of best practices of the leather value chain on animal welfare. For example, country profiles have been developed for major leather producing countries that explain the characteristics of the national industry, the farming system, regulations and risks related to the leather industry in that country. We use these profiles for internal evaluations of our leather sourcing. We are also participating in Textile Exchanges Responsible Leather Round Table.

The goal of this initiative is to develop a common framework in the form of an assessment tool for the leather industry. It will identify and give visibility to existing standards, programmes and tools that brands can use for their sourcing.

To get a more detailed insight into our supply chain, we have developed a traceability questionnaire for our leather garment tanneries. We sent the questionnaire for the first time to our leather garment tanneries for the SS18 season and repeat this for every new season from now on. Next year, we plan to expand it to all our leather goods including shoes and bags. The questionnaire provides us with a better insight in the traceability systems that are used in our supply chain and how far we can trace leather back to its source. Based on the answers we have received, we will do further research and look into possibilities to improve the transparency together with our suppliers. Since we also want to know more about how wool is traced throughout our supply chain, we are currently developing a traceability questionnaire for wool that we will begin sending out next year, starting with our suppliers for knitwear.

To have full traceability of our supply chain and ensure good animal husbandry, our ultimate goal is to have a documented overview of all steps in the supply chain of our animal derived materials, including a verified assurance that the farms and (if applicable) slaughterhouses and transportation are in compliance with animal welfare standards. This is a big challenge that is currently very hard to reach due to the complex and non-transparent set-up of the fashion industry. That is why we aim to achieve this goal step by step together with our suppliers and in collaboration with other brands and within industry initiatives.

Chemical management

Chemicals are needed in the production of textiles and garments, but we do not want these chemicals to be harmful to people or the environment. Products sold by Acne Studios should always be safe to use for our customers and should comply with all applicable rules and regulations. The basis for monitoring the use of chemicals in our products is the Acne Studios Restricted Substances List (RSL). This list is in line with legislation in our sales countries and industry best practices. All our suppliers need to sign the RSL and confirm compliance with it. We perform risk assessments and laboratory tests of our products to monitor compliance and work together with our suppliers on proper use of chemicals.

During social audits at our production facilities, it is always checked whether chemicals are stored and handled correctly. Suppliers should always provide Material Safety Data Sheets for the chemicals they use, store chemicals in a separate space and with secondary containment to prevent leakage. In addition, workers should receive the right personal protective equipment (PPE) and training to increase awareness and knowledge on how to handle chemicals and use the PPE correctly.

Because we want to be proactive regarding harmful chemicals and stay up-to-date on developments in the chemical field, we are a member of an industry initiative called 'Kemikaliegruppen'. This network is run by the research institute Swerea IVF and consists of over 100 member companies. The membership includes participation in seminars on chemical matters and updates on industry best practices and new regulations.

Production processes

Processes such as tanning, dyeing, printing, washing and finishing also leave their mark in terms of greenhouse gas emissions, water pollution, water consumption and energy use. There are various actions that can be taken to reduce these impacts depending on the processed material and wanted design.

We are a member of two industry initiatives aiming to improve sustainability in production processes; Sweden Textile Water Initiative (STWI) and the Leather Working Group (LWG). Both offer knowledge and education on sustainable processing. Most of our materials are processed in the EU where it is more likely that the best available technology is used and where environmental legislation is more strictly enforced. Our focus is on making improvements in the most environmentally challenging processes in our supply chain; denim and leather.

Since our SS17 collection, we made the decision to have all our 5-pocket denims produced entirely in Italy, including sewing and washing. We are also consolidating the number of denim fabric suppliers and wash houses we use. For next year, we want to map the washing and dyeing methods used for our core denim styles, to learn if and where there are possibilities to change to more sustainable techniques.

Leather tanning is a process that requires significant amounts of energy, chemicals, water and creates toxic waste. Well over half of our leather is processed in Italy. Our leather is chromium tanned, vegetable tanned or a combination of both. Vegetable tanning means that the hide is converted to leather using bark or plant tannins instead of chromium sulphate. The method used is determined by the desired design and quality but, if possible, a preference is given to chromium-free tanning.

Our suppliers

We want to develop and produce our collections together with suppliers that not only share our passion to make strong products but are also committed to doing this in an ethical manner. Our suppliers are located all over the world and labour laws and legislations differ a lot from region to region. It is crucial for us that all our garments worldwide are produced in a way that matches our norms and values. To achieve this, we work on four focus topics; Labour Standards, Purchasing Practices, Training and Transparency.

Cooperate with transparent and responsible sourcing partners to promote fair working conditions in our supply chain

Focus	Commitment	Highlights FY 17/18
Labour standards	We look after fair jobs for those who contribute towards the creation of our product	Over 90% of our production facilities are under monitoring and this year we commissioned 14 social audits
Purchasing practices	We facilitate our suppliers' compliance with labour standards through our sourcing decisions	An internal rating system for supplier performance was set up and will be implemented in our new PLM system
Training	We contribute to knowledge and communication within factories on labour rights	More than 90% ³ of our suppliers in China have completed a FWF training for management and workers
Transparency	We share supplier information with Fair Wear Foundation and consumers	In the last four years we have received FWF's highest grade, 'Leader' in their annual Brand Performance Check

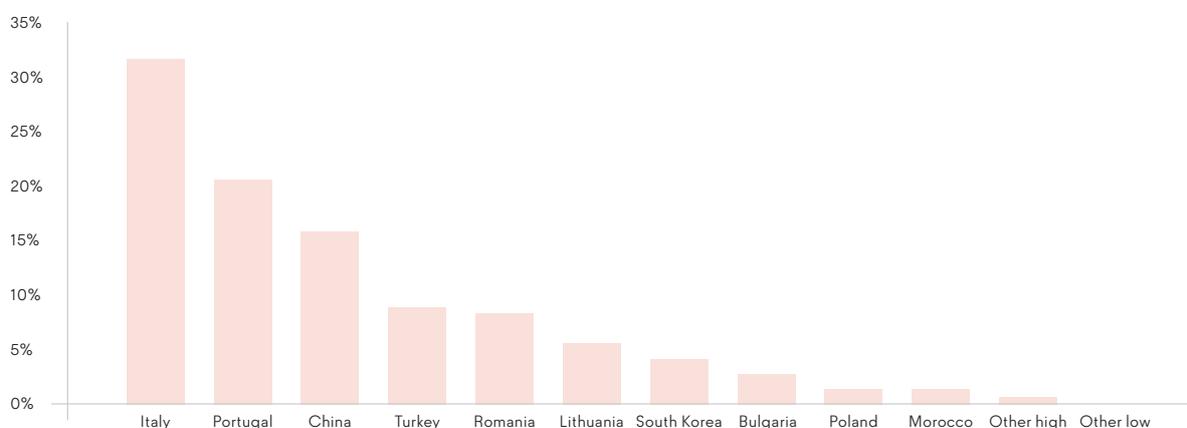
³ Based on order value

Labour standards

Acne Studios' collections are mainly produced by suppliers in Europe, China and Turkey. Looking at order value, around 70% of our production is done in Europe. We have chosen to work with production facilities in this region because of quality reasons and their experience with high end products. Another important reason is the considerably shorter lead time for transporting goods from the production facilities to our main warehouse in Sweden. Suppliers that are closer to our headquarters also make it easier to have better control over our production and to visit our suppliers regularly.

During the financial year 2017/2018 we placed orders with 76 suppliers⁴, using over 150 production locations (including subcontractors) located in 15 countries. Our top ten suppliers stand for almost 70% of the order value. An important reason for the high number of production locations is our efforts to map all subcontractors that our suppliers are using. In Italy and Portugal especially, production tends to be spread out over several production locations that are responsible for different production steps, rather than having one large factory that do all production in-house.

Production countries
Based on order value

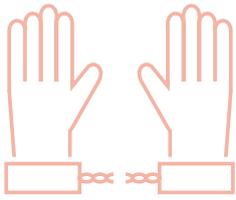


We want to have a stable supplier base that can meet the different requirements for our various product groups. This year, we could maintain the stability of our supply chain and currently around 50% of the order value is with factories we have been working with for more than five years. Long working relations like these help us to ensure the quality, look and delivery of our collections and enable us to support and invest in our suppliers as they integrate better social and environmental practices into their companies. The majority of the total order value is placed with suppliers where Acne Studios has a leverage of at least 10%, meaning that our orders stand for 10% or more of their total capacity. This is positive because the more important we are as a customer the easier it is for us to request improvements in terms of working conditions.

Monitoring process

Since 2008 we have been a member of Fair Wear Foundation (FWF), who provides us with knowledge and advice on social issues within the fashion industry. It is a multi-stakeholder initiative directed by trade unions, business associations and NGOs and with a broad network of relevant stakeholders. Fair Wear Foundation also helps us to monitor and improve labour conditions at the factories that manufacture our products. We focus on the stages in the manufacturing process that are both labour intensive and where we have direct leverage. This includes all production locations involved in the steps of manufacturing after fabric production; cutting, sewing, embroidery, printing, washing, ironing, knitting, finishing and any other related processes.

⁴ This includes the factories for the Acne Studios Fjällräven collaboration that is jointly designed with Fjällräven. Fjällräven has a long-term relationship with these factories that are monitored as part of Fjällräven's membership of the Fair Labor Association.



1 Employment is freely chosen



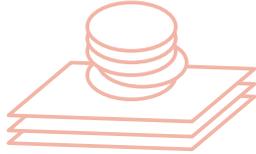
2 Freedom of association and the right to collective bargaining



3 No discrimination in employment



4 No exploitation of child labour



5 Payment of a living wage



6 Reasonable hours of work



7 Safe and healthy working conditions



8 A legally binding employment relationship

The starting point of our framework to monitor our production and ensure that our products are made under fair and safe working conditions, is the Code of Labour Practices. The Code of Labour Practices is based on the conventions of the International Labour Organisation (ILO) and the Universal Declaration on Human Rights. This code lists all social standards that our suppliers need to endorse and agree to work towards. We are committed to implementing these eight standards in our supply chain and to improve working conditions for those making our products. Via our monitoring programme we assess if our products are made in line with the Code of Labour Practices

Risk evaluation

Before we decide to start a business relationship in a new production country that we have not been sourcing from before, the sustainability department will analyse the human rights and health and safety risks associated with sourcing from this specific country. This is done based on sources such as the FWF country studies, reports from NGOs, country laws and regulations, etc. The FWF division of high and low risk countries is the primary guideline to determine the risk level in a new sourcing country.

Zoom in: Country risk level

Based on regularly updated country studies, FWF divides countries in high risk and low risk countries. Countries are considered high risk when there is, for example, evidence of poor legal enforcement and/or limited legislation on labour conditions. Our high risk production countries are Bulgaria, China, India, Morocco, South Korea, Tunisia and Turkey. Factories in Italy that employ Chinese or other migrant workers are considered high risk as well, even though they are located in a low risk country. This is because migrant workers are more vulnerable to labour rights violations.

Self-assessment

When we are in contact with a potential new supplier, we require them to fill in and sign our self-assessment questionnaire with questions about the standards in our Code of Labour Practices. This way, the supplier is aware of the requirements of Acne Studios from the very beginning and we get a first impression of the supplier's situation. At this stage, we also put a lot of effort into understanding the supplier's production set up and evaluate social audit reports done by other customers. We visit most new suppliers before we place any orders as well.

Worker feedback

One important aspect of our monitoring programme is the grievance mechanism that should be implemented in each production facility that produces for us. All suppliers need to post a Worker Information Sheet on a visible spot in the factory. This document shows our Code of Labour Practices and includes a phone number and email address to a local FWF complaints handler. Through this channel, workers have access to the complaints handler and can anonymously inform us in case there are work-related issues in the factory that they have not been able to solve with their managers or the local authorities. We take all complaints that we receive via our complaints procedure seriously and always evaluate together with FWF and the supplier 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.

This year, we have not received a complaint, but we continued to make improvements related to the last complaint we received in March 2017 on excessive overtime at our supplier for leather garments in Turkey. In follow up to this complaint, we have audited the factory and had intensive discussions with the supplier to define root causes and solutions. These discussions included improving their planning so it better factors in and anticipates on predictable causes of overtime. In addition, we looked at external factors that cannot be influenced by the supplier (i.e. delays in the shipment of raw materials). We also started working with a new leather garments supplier in Turkey to divide production and take away the pressure caused by increased order volumes.

Auditing

The next step in our monitoring programme is to perform social audits that are, in most cases, executed by FWF auditors. We always audit factories in high risk countries and evaluate on a case-by-case basis if auditing in low risk countries is necessary. To have a clear picture of the situation at the factory from the start, we aim to audit new suppliers in the first production year, especially suppliers with a relatively high order value.

In the financial year 17/18, over 90% of our production facilities is under monitoring. This means that over 90% of our suppliers in high risk countries are audited at least once in the past three years. The remaining facilities also comply to our minimum requirements - which means that the self-assessment questionnaire is completed, and the Worker Information Sheet has been posted in the factory - but have not (yet) been audited. Often this concerns factories that are used for only one season because they produce special, seasonal products for us, or factories that we have not yet audited in the first period of production because we decided to evaluate first if we continue working with them and an audit is needed.

This year, we audited 14 production locations. A representative from our sustainability team was present at 5 of the 14 audits. We consider it important to join audits as this gives us the opportunity to discuss challenges with suppliers directly and make clear appointments on follow up.

Zoom in: Audit process

During an audit, the social conditions at the factory are checked based on:

- 1) A review of documents such as wage records, time-records, health and safety documentation, etc.
- 2) A visual inspection of health and safety conditions at the production area, and interviews with the management and workers.
- 3) Interviews with workers are done in a separate and private space at the factory and off-site so workers can speak freely.

After the audit and based on the issues found, a Corrective Action Plan (CAP) is established together with the supplier. The CAP gives an overview of all non-compliances found during the audit, explains what should be improved and specifies a reasonable time frame to resolve the issues, prioritizing findings that require urgent remediation. Follow up on improvements is conducted via email or via follow up audits to verify progress.

Purchasing practices

We continuously evaluate how we, on our part, can adapt our purchasing practices in such a way that it facilitates suppliers' compliance with our requirements. For example, we plan and book capacity as early as possible, so suppliers have enough time to deliver our orders, we pre-book production time slots before the sales period for an increasing part of our collection and we also pre-book materials as much as possible to prevent delays due to fabric, yarn or leather deviation or other unforeseen issues. In addition, production is spread as much as possible to reach more continuity in our orders and to minimize peak production. We have done this by expanding the delivery period and the number of drops.

Previously, we produced two 'main collections' for menswear and womenswear respectively, as well as two 'pre collections' for womenswear. From the Fall/Winter 18 collection onwards, we decided to merge the women's pre and women's main collections into one comprehensive collection created by one team. This change was made to reach an increased focus, create stronger collections and even more desirable products. It also enabled us to further consolidate our supply chain and intensify relationships with our suppliers. Additionally, women's and men's wear are now also combined in production. This means the supplier now only has one contact person per product group for Acne Studios instead of two for communication on order placement and production follow up. As men's and women's often share suppliers this will enable more aligned consideration of a supplier's capacity.

Raising awareness

Our sustainability team is working together with the development and production teams to ensure that the results of monitoring our suppliers are factored in our sourcing decisions. The sustainability team informs the head of the relevant department and the responsible managers about the results after an audit has taken place and they are often included in email communication on CAP follow up. Our Collection/Production Director is also regularly updated on monitoring results, especially for key suppliers or if we have a critical audit outcome.

To formalise the information sharing between the sustainability team and the development and production teams, we have implemented a schedule of regular meetings between the sustainability department and the development and production teams. Before order placement, the sustainability team has a meeting with each head of department and with the managers of each product group on the sourcing plans and monitoring results of each supplier. Throughout the season, the sustainability team is kept up-to-date on possible changes or future sourcing plans.

We are working with a new Product Lifecycle Management (PLM) system since the Fall/Winter 18 collection. We have designed this system in such a way that only the sustainability department can add new production locations to the system. This way, we have built in another check to make sure all new suppliers are approved by the sustainability department before orders are placed.

To facilitate the internal communication of the sustainability status of our suppliers, we have set-up a rating system for suppliers on sustainability performance. We have rated all suppliers and factories and share this rating with our development and production teams during the seasonal meetings. The goal is to implement this rating method in our new PLM system during next year.

Training

Via our monitoring process, we are aware of the situation at our production facilities. However, monitoring alone does not bring us answers to solve possible issues found during audits. To tackle any issues, it is necessary to dig deeper and identify root causes. That is why training for factory management and workers are part of our collaboration with suppliers as well.

We encourage suppliers and agents to attend 'training and capacity building' events offered by FWF. This could either be FWF seminars in certain countries focusing on specific topics or the FWF Workplace Education Programme (WEP) that is held at individual factories. The purpose of this WEP training is to improve communication within factories on labour issues, aimed at both management and workers. Sometimes we also arrange our own trainings, for example in countries where FWF is not represented.

In the past, we have done a WEP training at our three major suppliers in China that we aim to follow-up with new trainings next year. We are also planning to set up trainings in Romania at our most important suppliers and at our new supplier in Turkey. Since FWF is not represented in Italy, we are working on setting up trainings in this country focused on labour rights in general, and region-specific risks such as migrant workers, lack of documentation and low wages in particular. These trainings will be done with our auditor in Italy, together with other brands of the Italy Working Group (for more information, see the 'Italy' section in the Transparency chapter below) or by a representative of our sustainability team. This depends on the product group of the supplier, the region where the production facility is located and the relevant challenges and topics covered by the training.

Transparency

As explained above, all our direct suppliers and their subcontractors are included in the monitoring process that we have set up together with FWF. We share all names and details of these production facilities with Fair Wear Foundation via their database. These details include; the address, the number of workers and division by gender, other brands the factory works for, production steps done in-house and the contact details of the factory manager.

Each year, a Brand Performance Check is executed by Fair Wear Foundation. During this check, FWF gets insight into all our sourcing processes, our order data, and monitoring activities. The outcome of this Brand Performance Check is published on the website of FWF and on our own website. In the last four years, Acne Studios has received FWF's highest grade 'Leader' for our achievements. Below, a recap of our scoring in the past four years is given.

	FY 16/17	FY 15/16	FY 14/15	FY 13/14
FWF Category	Leader	Leader	Leader	Leader
Share of production facilities under monitoring	95%	92%	92%	91%
Share of production facilities visited	91%	83%	79%	85%
Share of production in low risk countries	56%	59%	59%	38%
Share of production facilities we work with for > 5 years	39%	45%	37%	52%
# of complaints received	2	0	2	1

Our Brand Performance Check over the financial year 2017/2018 will take place at the end of 2018 and for this reason, the scoring for this year cannot be given yet in the recap. Instead, we explain below in which countries our production took place in the past year, how many of our production facilities are located in this country and how we have worked together with our suppliers to further improve social standards in our supply chain.

High risk countries

China

- Percentage of order value: ~16% (14%)⁵
- Number of factories: 8 (6)
- Number of audits⁶: 4 (3)

The share of the total production value in China has increased, which is mainly caused by a new woven supplier with whom we have managed to build up an important business relationship during last year. We have worked with this supplier previously and this experience from the past facilitated the new cooperation. Production with this supplier took place in two factories that both have been audited by FWF in this year. Both audits were accompanied by a member of our sustainability team. Since one of the outcomes of the audit was that no effective grievance system was in place at the main factory, and because worker representation is a challenge in China in general, we will organise a WEP training at this supplier next year to increase the awareness of workers on their rights and improve the communication between workers and management.

Our three long-term suppliers in China, with whom we work for many years continue to produce an important part of our collection and represent over 90% of our order value in China. All three suppliers have been audited by FWF at least three times during our business relationship and we conduct regular follow up audits to verify progress. Because of our long term relationship, we can talk about challenges openly and work together on continuous improvements. One of these factories was audited this year, for the third time. This supplier has managed to eliminate structural excessive overtime, a common challenge in China, completely over the past years towards a situation in which there is excessive overtime in occasional, exceptional circumstances only. They have done this by improving the production planning to bring working hours down and, most importantly, by changing the mindset and habits of factory management towards understanding the importance of reducing excessive overtime.

In addition, we also sourced from three accessories suppliers that produce small quantities for us. We audited one of these suppliers this year and another was visited by our sustainability team member and a FWF auditor for an informal check. In case we continue production with this supplier, we will audit the production facility next year. The accessories factory that we audited mainly works for Japanese customers and has little experience with sustainability and auditing. Due to this, they don't have all the necessary internal systems and documentation in place to demonstrate compliance with our Code of Labour Practices. Even though we have small orders and a small leverage at this supplier, we will put effort in creating awareness at management level for the importance of having such an internal monitoring system and support them with implementing this.

A third accessories supplier is a big factory with many international customers that has been audited multiple times before. We have received an audit report and Corrective Action Plan from a recent audit from them. We have asked follow up questions on the CAP and improvements made and, based on the audit outcome and additional information, have decided that a FWF audit is not prioritized at the moment.

⁵ The numbers in brackets are from the previous financial year 2016/2017

⁶ Audits, incl. follow up audits, ordered by Acne Studios and done by FWF or other independent auditors in financial year 2017/2018.

Turkey

- Percentage of order value: ~9% (7%)
- Number of factories: 5 (5)
- Number of audits: 1 (3)

We started working with a new supplier for leather garments in Turkey this year. Even though this supplier has been audited by other brands and organisations many times before and shared audit reports and CAPs of previous audits with us, we decided to audit this supplier with FWF as well. Turkey has many challenges, related to excessive overtime, freedom of association and the illegal employment of Syrian refugees and we wanted to be sure we have a correct and

detailed picture of the situation. The supplier divides its production over two factories that are located next to each other; one produces leather garments, the other one shearling garments. We did an audit at the leather facility this year that was accompanied by our sustainability team member. We will audit the shearling facility in the end of 2018.

With another leather garments supplier in Turkey, we have been working for five years. They produce mainly in-house and work with one subcontractor in case they need extra capacity. Both facilities have been audited at least twice. Since one of the major findings during the last audit was excessive overtime, coming follow up audit at the end of 2018 will give us the opportunity to evaluate if changes made in our order schedule and their planning system have decreased overtime.

The risk of Syrian refugees getting abused in the garment industry in Turkey is something that we continue to keep an eye on and is part of audits done by the Turkish FWF team. Also, we urge our suppliers to take part in trainings given by FWF on the issue of Syrian refugees. I.e. our supplier joined the online training given in October 2017. Up to date, we have not detected any use of Syrian workers in our Turkish supply chain. Since we only produce leather garments, which requires high skill levels and experience, the risks are lower than for product groups that need less complex operations.

Romania

- Percentage of order value: ~9% (9%)
- Number of factories: 11 (13)
- Number of audits: 0 (4)

The production volume remained roughly the same while the number of factories decreased in Romania for this year. This is a result of the fact that Romania is becoming a country with a more stable supplier base for us with suppliers we aim to continue working with. Most of our suppliers in Romania are making woven garments but we also have one shoe subcontractor in Romania. Two factories are leather garment producers where we placed test orders for one season but where we now have quit working with due to quality issues.

In the past years, we have been building up our supplier base in Romania and, as a part of this, invested heavily in auditing our suppliers there. 8 of the 11 production facilities, that for this year represent 98% of the order value in Romania, have been audited by FWF in the past three years. This year we have focused on the resolution and remediation. Since the findings of previous audits were mainly minor health and safety issues and incomplete documentation, this has primarily been done over email.

Next year, we are planning to do new audits and follow-up audits to re-evaluate the status at the Romanian factories. Another general finding during the audits here was lack of knowledge among management and workers about the FWF Code of Labour Practices and complaints procedure. That is why, we are also planning WEP trainings for next year. We had planned to do WEP trainings already this year, but eventually decided to use the year to support factories with making improvements towards resolving the existing CAPs so all factories have experience with that before setting up a WEP training for management and workers.

South Korea

- Percentage of order value: ~4% (5%)
- Number of factories: 1 (1)
- Number of audits: 0 (2)

We work with one supplier in South Korea that manufactures a product for us that requires special hand work, made by skilled homeworkers, in addition to the main factory. The supplier uses a number of lead homeworkers that have a direct relationship with the supplier. The lead homeworkers then have their own network of secondary homeworkers among which they divide the orders. All homeworkers are highly skilled housewives that sew from home and are very independent because there is a high demand for their special skills. Even though their work is irregular, we therefore don't see risks of critical labour rights violations or abuse of workers' rights. Our main concern has been lack of transparency, the contracts of homeworkers and the payments they receive. Over the past years, we have been putting effort in getting a better insight in the unique production set-up of this supplier. We have organised trainings with the lead homeworkers on our Code of Labour Practices and all of them have signed a specially developed questionnaire that we translated into Korean. We have also interviewed and visited some home workers during audits. Since this year, we also receive an overview with the names and details of both the lead and secondary homeworkers that work for us each season.

Bulgaria

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

For the first time, our agent for woven garments in Lithuania used two production facilities in Bulgaria. Garment production for woven products like ours is decreasing in Lithuania and our agent experiences difficulty in finding suitable factories within its borders. Since Bulgaria is considered a high risk country, we requested both facilities to be audited before the start of production. One of these facilities was audited by FWF in 2016 for another member brand and our agent shared the audit report, CAP and follow-up with us. The agent also arranged an independent audit at both facilities and we are in close contact with the agent and factories on remediation and improvement.

Morocco

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

In Morocco, we collaborate with one factory that we have been working with for many years. We audited this facility in 2013 and 2016. No critical issues were found but improvements related to health and safety and the workers' committee should be implemented. The supplier has been working on this and next year we will audit the facility again to see if improvements have been made. This factory also uses a wash house for simple washes on some styles.

Other high risk countries

- Percentage of order value: ~0.5% (0.25%)
- Number of factories: 4 (1)
- Number of audits: 0 (1)

The 'other high risk countries' we produced in this year are India and Tunisia. India is a somewhat new production country for us. We have placed small one-time orders for special products in the past but never had a long-term relationship with a supplier in this country. This year we had production with three suppliers in India. One supplier was doing a small special order for hand embroidered garments. The supplier is located in Bangalore in Karnataka and we had a call with the India expert of FWF to get more information about eventual risks in this region. After a phone meeting with the factory manager on the production structure, the work force, wages and working hours we decided to place the order there. We did not audit the factory as it concerned a small one-time order. We also placed a one-time order for bags in India. This factory was recently audited by another client and sent us the report with detailed

information on the resolution of findings. Finally, we are working together with an Indian sock supplier. This supplier too has been audited and has sent us the audit report. We have received an explanation of their follow-up, including photos of improvements and certificates of trainings done. India is a very small production country for us that is mainly used for orders of special products. Currently we have no intention of increasing our production in India further.

Last year, we started working with a new shoe supplier that makes leather shoes for our women's collection. This supplier is located in Italy but has a subcontractor in Tunisia. This facility was audited by FWF last year, and it was found that there is a trade union in the factory and wages are relatively high for the garment industry in that region. This year, we have been in touch with both the supplier in Italy and the subcontractor in Tunisia to follow up on the Corrective Action Plan, especially for the health and safety issues that were found during the audit.

Low risk countries

Italy

- Percentage of order value: ~31% (35%)
- Number of factories: 86 (82)
- Number of audits: 9 (11)

Italy continues to be our most important production country. Our leather shoes, bags and small leather goods are manufactured here, which is why our production office for these product groups is located in Italy. All our denim styles are produced in Italy as well and, even though our denim team is located in Stockholm, we have a local quality controller for denim that follows production closely and visits the factories regularly. All production of other product groups in Italy is handled from our head office in Stockholm.

The main reason for the high numbers of suppliers in Italy is that the Italian fashion industry is fragmented and often exists of many small production facilities that each execute one step in the production process, instead of big vertically integrated factories that do everything in-house. For this reason, our biggest focus in Italy is on getting insight in the production set-up per supplier and on style level. Because Italy is classified as a low risk country, the main monitoring activities include making sure that all production facilities have filled in our self-assessment questionnaire and have posted the Worker Information Sheet. However, we also know there can be a risk of labour rights violations in Italy. Three years ago, we started auditing factories in Italy that have a higher risk profile. These are factories with (often Chinese) migrant labour in lower tiers of the supply chain and factories in the South of Italy. Common issues in Chinese-run factories are weak health and safety standards and lack of documentation on working hours and wages. We audit production facilities in the South of Italy because unemployment is high in this region, which can lead to low wages and benefits for workers. In total, we performed 9 full audits and follow up audits in Italy this year and 25 in the two years before that. Since FWF does not have an audit team in Italy we are working together with an external consultant with extensive knowledge on labour issues in the Italian industry.

However, to create structural and long term change in the sector, we have realised more is needed than audits alone. That is why we set up the Italy Working Group last year together with a selection of other brands. The purpose of the group is to share experiences on labour standards and practices in Italy and to collaborate on making sustainable improvements. We started by sharing challenges and identifying the most critical issues and regions. We also developed a common strategy and roadmap. This year, we have worked on mapping local NGOs, trade unions and other organisations focusing on worker rights. A next step is to approach these organisations to receive feedback and advice on how to further improve labour standards in our supply chains in Italy. Next year, we will also focus on arranging trainings for our Italian suppliers to raise awareness on the importance of a transparent supply chain, good labour standards and a healthy and safe working environment. We will do these trainings either for our suppliers alone or in cooperation with other brands of the Italy Working Group.

Portugal

- Percentage of order value: ~20% (15%)
- Number of factories: 32 (19)
- Number of audits: 0 (0)

Similar to other low risk countries, the main monitoring activity in Portugal is making sure that we have full insight in our supply chain and that all factories have completed our self-assessment questionnaire and posted the Worker Information Sheet in the factory. Portugal's production set up is comparable to the one in Italy and is characterised by suppliers working with relatively small production facilities. Several of our production facilities in Portugal have been audited by other organisations or brands and have shared the results and remediation activities with us. Compared to last year, our production in Portugal increased and the number of factories increased as well. We started working with four new suppliers; two for jersey products, one for woven and one for Blå Konst. With two of these suppliers we cooperated for one season only and decided not to continue working with them since they did not meet our sourcing needs. We will continue to work with the other two new suppliers and aim to increase production with them next year. As of end 2018 we will hire a local Quality Controller to oversee production in Portugal. Previously, this was done by a Quality Controller based in Stockholm but because of the increase of production in Portugal, it was decided that local support was more effective. This Quality Controller will visit the factories regularly, which will also help to get an even better insight in the production set-up per supplier.

Lithuania

- Percentage of order value: ~6% (7.5%)
- Number of factories: 28 (20)
- Number of audits: 0 (0)

In Lithuania, we are working with an agent that places production at several factories. Factories are chosen depending on the type of products, order sizes as well as the capacity of the factories. Most of them have been working for us for many years already. Since Lithuania is classified as a low risk country, we follow the monitoring procedure of low risk countries. However, our agent arranges independent audits at own initiative at most of the factories. So far, over half of the factories that produce for us are audited. Findings are mainly on health and safety and improvements are followed up on and verified by our agent.

Poland

- Percentage of order value: ~1% (2%)
- Number of factories: 9 (11)
- Number of audits: 0 (0)

Production in Poland is arranged through an Italian agent with production in, mainly, Italy and Poland. Until now, the situation in Poland and at the factories has given us no reason to expand our monitoring activities beyond the regular monitoring procedure for low risk countries. We have agreed with the agent that production is placed as much as possible at production facilities that have been audited. Currently, 7 out of the 9 factories in Poland are audited and approved by another luxury brand. The agent informs us when new audits take place.

Other low risk countries

- Percentage of order value: ~0.02%
- Number of factories: 3
- Number of audits: 0

Three other low risk countries are the United Kingdom, France and Sweden. In France, we work together with a supplier for small orders of belts and our supplier in the UK produces hats for us. In Sweden, we have produced a special product - a limited-edition door mat - with a supplier of high end home textiles. Our production quantities at these suppliers are small and since the risks for labour rights violations in both countries are very low, we only require them to send us a questionnaire and photo of the posted Worker Information Sheet.

Fjällräven collaboration

For the AW18 season, we have launched a collection that is jointly designed and produced with Fjällräven. The production of this collection takes place in the regular factories used by Fjällräven. Since Fjällräven is a member of the Fair Labor Association, the factories they work with are closely monitored and have all been audited. The factories are located in China, Portugal and Vietnam.

To make sure the factories comply to the social standards of both Acne Studios and Fjällräven, all factories that produce for the joint collection have received an informative introduction about the cooperation and have been asked to fill in the Acne Studios self-assessment questionnaire. Fjällräven has shared the latest audit reports, CAPs and follow up developments of all factories involved in the project with us but since they have direct contact with the suppliers, they continue to be responsible for auditing and follow up with the suppliers.

Our operations

The chapter on our operations includes how we as a company want to take responsibility of our over 800 employees worldwide and how we work to promote an ethical business behavior. This is explained in the focus topics employee engagement and business ethics. The focus topic environmental impact covers how we can reduce the environmental impact of our operational processes such as packing, shipping and storing our products, visiting our suppliers and running our offices and stores.

Be a responsible employer that considers the ethical and environmental impact of our operational activities

Focus	Commitment	Highlights FY 17/18
Environmental impact	We reduce the environmental footprint of our daily business activities	Completed our first Climate Report
Employee engagement	We offer an inspiring and challenging workplace for dedicated individuals	Employees have given their managers a score of 4 out of 5 in the yearly managers evaluation survey
Business ethic	We conduct business in an honest way, employing diverse talent world wide	All employees in the head office and on management level have signed our 'Anti-corruption & bribery policy'

Environmental impact

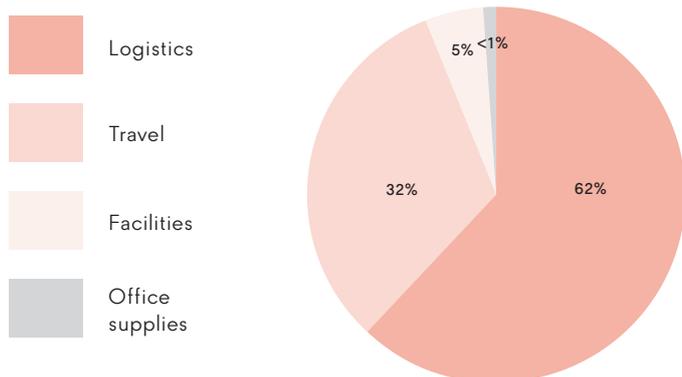
We have calculated our carbon footprint for the first time over the previous financial year 2016/2017. We did this together with the Swedish organisation Tricorona and according to the GHG protocol. We have divided the emissions in three operational categories:

- Energy consumption from our stores, offices and warehouses (facilities)
- Business travel by employees (travel), and
- Transportation of our products from factory, via warehouse to store (logistics).

The impact of our office supplies, such as coffee, fruit, and paper are included in our total climate impact as well but since this is such a small part of our total emissions, we do not address this in a separate chapter.

The climate impact of our operations during the financial year 2016/2017 amounted to 12 226 tonnes of CO₂ equivalents (CO₂e). Figure 1 shows the emissions divided into the operational categories. The main impact clearly comes from shipping our products (62%) followed by emissions from travel, which accounts for 32%. The carbon footprint of running our offices and stores accounts for 6%, divided in energy use and office supplies.

Climate impact
tonnes CO₂e



Since we did our first climate footprint in the FY 2016/2017, we have used this year to set up strategies with all departments involved and we will monitor progress in the years to come. We will do a new climate footprint calculation every two years. In the next climate report that will cover the financial year 2018/2019, we will be able to evaluate if and how much developments in the previous two years contributed to our climate impact. After that, when we have two climate reports as a reference and can better evaluate how changes in our facilities, travels and logistics influence our carbon footprint, we will also set long term targets on the reduction of our CO₂ emissions.

Facilities

The main environmental impact of our stores, offices and warehouse is the emissions from energy used in heating and cooling. Most of our activities take place at our head office in Stockholm, where the majority of our employees are based as well. In addition, we have a design studio in Paris and a production office in Empoli, Italy. We also have offices in Paris, Oslo, Shanghai and New York. Our main warehouse is located in Sweden, but we also have 3PL (third party logistics) warehouse operations in China and the United States. We have in total 56 stores globally.

The climate calculation covered in this chapter is done over the year 2016/2017. Some business developments took place in this financial year (2017/2018) that are not covered in this climate calculation. Our office in Copenhagen has been closed to make our Scandinavian set-up more efficient and our office in Italy moved to a new building. At the end of 2017, we have moved our headquarters to a new building in Stockholm. Before that, our headquarters was divided over two buildings. We also initiated collaboration with a 3PL warehouse in China in October 2017 that was not included in the climate calculation and we opened and closed some of our points of sale. In the next climate report, we will be able to evaluate if and how much these changes contributed to our climate impact.

Emissions from energy used in our facilities represents around 5% of Acne Studios's total emissions. Most of these emissions come from energy use in stores, which represents 71% of our emissions from facilities. Covering only 1% of our emissions from facilities, our head office has a relatively small climate impact because it runs on green electricity from wind power. Our stores in Sweden also run on green electricity (mainly wind), as well as our stores in New York, Beijing and Milan.

Zoom in: New head office

We moved to a new headquarters during the financial year and went from Gamla Stan to Floragatan in Stockholm in December 2017. This relocation was decided on since we needed more space for our growing workforce and creative processes. The building is located in central Stockholm and is easily accessible by public transport. The majority of our employees commute to the office by public transportation or by bike.

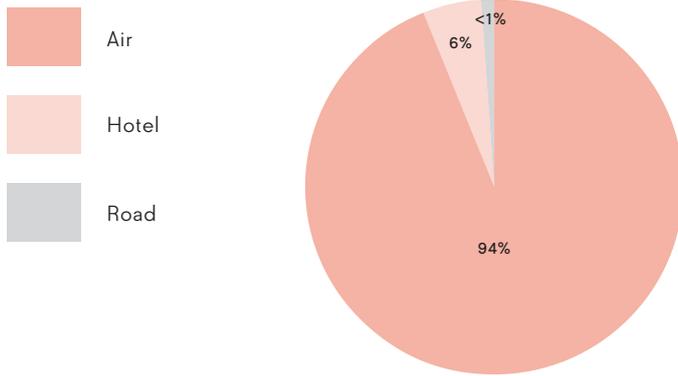
When it comes to the interior, we have taken several measures to improve and facilitate sustainable office behaviour. We continued the recycling of our waste streams and sort office paper, plastic-, metal- and paper packaging and now also added the possibility to separate compostable waste (food). We changed to a new cleaning company that uses chemical-free-cleaning methods that work with purified water instead of chemical detergents. All lightning is designed and placed to resemble daylight as much as possible and is switched on and off at the same pre-scheduled time every day. Responsible printing is encouraged by requiring access with a tag to reduce unnecessary print jobs. In our old office, one meeting room was equipped with a video conference system but in our new office we have increased this to 7 out of the 11 meeting rooms in the building to encourage meetings on distance. Our offices in Italy, New York and Paris have such a system in place as well.

Travels

Employees at Acne Studios travel throughout the year for several reasons. This section covers the environmental impact of all business travel paid by Acne Studios. It includes travel by air, train, taxi, rental car, private car and leased car. Hotel nights are also included in business travel. Since we are an international company with suppliers, stores and offices around the world, job travel by air accounts for the majority of the emissions.

All Acne Studios travelers are responsible for complying with the 'Acne Studios Travel Policy'. Since business travel is time consuming, costly and has an environmental impact, it should always be evaluated if there is a real business need to travel in person, or if the meeting can take place over phone or by video conference. For internal meetings, video conferences should always be considered as first option before traveling. We are hoping that the increased possibility for video conferencing in our new head office will reduce unnecessary traveling by air and we will evaluate if this is the case in our climate report for next year. The metro, train or bus should always be the first choices of transportation for road travel. Only if it is not possible to use public transportation, a taxi should be ordered.

Emissions from business travel
tonnes CO₂e



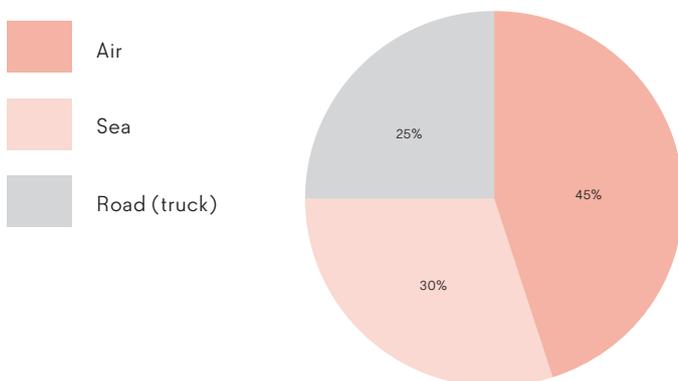
Our travel by air accounts for 94% of emissions from travel and 30% of the total operational emissions. Most travels are made by our Product and Design teams and the most frequently used flight route is from Stockholm to Paris. Travel between these two cities is inevitable since we have an office, design studio and our seasonal runway shows in Paris. Other important reasons for traveling is to visit suppliers to check production. We also often visit our stores, especially when new stores are opened. Since all of our stores have a unique interior that fits the space and location, building a new store needs a lot of involvement from our retail team. For FY 16/17, traveling by the retail department increased since we opened more stores the United States and Asia. Currently, we are further evaluating all flights together with relevant managers, to see if there are flights that are redundant or could be replaced by train travel or meetings on distance.

Logistics

Production at our suppliers mainly takes place in Europe and also in Asia. After production, the goods are transported to our stores, wholesale partners and online customers via our warehouse in Sweden, our 3PL warehouse in the United States and, as of FY 17/18, a new 3PL warehouse in China. We have four main logistics partners for deliveries from supplier to warehouse and for the shipments between warehouse and store. We also have some additional logistics partners for local transports that represent a minor part of our total shipments that are not included in this climate calculation.

With 62% of our total emissions, transportation of our products makes the largest contribution to our carbon footprint. This is mainly due to air freight that represents 45% of our transportation, while 30% is done by truck and 25% by boat⁷. However, air freight is responsible for 96% of these emissions, being a very ineffective shipping method in terms of climate impact. Sea freight is the most effective shipping method.

Shipped tonne-km
per mode of transportation

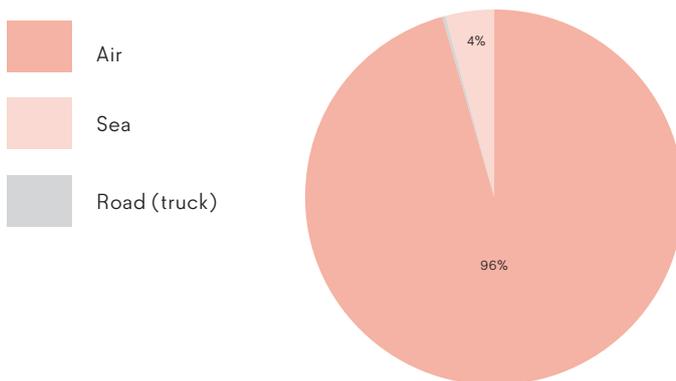


Inbound shipments

Inbound shipments are shipments from our suppliers to our warehouses. Our policy is to use boat transportation from Asia and our production planning is based on this as well. As explained in the 'Our Suppliers' section, we have increased the number of drops to reach more continuity in our orders and to minimise peak production. This has a positive impact on the capacity planning of our suppliers and reduces the risk of overtime. However, this also means that we have less flexibility on delivery dates and we use more air freight. This is especially relevant for our 3PL warehouse operations in the US. Since most of our production takes place in Europe, lead times for transportation to our warehouse is much shorter for Sweden than for US. To make sure goods go to store at the same time, we sometimes keep products on hold in our warehouse in Sweden till they arrive in the US but when it is not possible to wait, goods are shipped to the US by air. We expect this air transport to lower again when we get used to the new production planning with an increased number of drops.

Historically, train freight has been used for our inbound transports from Italy to Sweden, but due to efficiency problems within the European railway system it has not been chosen lately. Still 5% of our shipments from Italy are done by train but this is not differentiated by our carrier, so it is reported as road transportation. We have also evaluated using train freight from China to our Swedish warehouse, but it is not an appealing option for us since it generates little time savings compared to transportation by boat, while the emissions are still higher.

Emissions
tonnes CO₂e per mode of transportation



Outbound shipments

Outbound shipments cover all our shipments from our warehouses to the consumer; via our own stores, wholesale clients or online. We also added other shipments that are not going directly from our warehouses to the consumer, such as shipments between stores, to the outbound category as the main reason for these shipments is to get our products to our stores/customers as well.

Our 3PL warehouse operation in China opened in October 2017 and is not included in this climate footprint calculation. It is set up for shipments to our Chinese wholesalers, customers and own stores. Before, suppliers would ship their goods to our warehouse in Sweden and it would be shipped from there to the Chinese market. Now it possible to ship directly from our suppliers to the Chinese warehouse. Since our market in Asia is growing, this warehouse will have a positive impact on reducing our CO₂ emissions. An additional 3PL warehouse operation in Hong Kong is currently under discussion for opening in the spring of 2019. All shipments for all APAC markets, excluding China, will then be done from this 3PL warehouse operation. This will have a big positive impact on our CO₂ emissions as well.

⁷ Calculated in tonne-km, which is the transport of one tonne of goods by the given transport mode (road, air, sea) over a distance of one kilometer.

Before March 2018, we shipped all online orders to our consumers via our warehouse operations. As of March 2018, we added the option to ship orders to our consumers from our stores as well. This will have a positive result on the climate impact for online shipments since orders can be shipped from either the closest warehouse operation or the closest store. This will decrease the distance per shipment significantly.

Inbound and outbound shipments per mode of transportation



Packaging

Various types of packaging are used in transportation of our products to and from warehouses and as part of the buying experience for our customers. The packaging used by our suppliers for shipping to our warehouses is arranged by our supplier, but our consumer-facing packaging is designed and developed by our Marketing department. This includes packaging such as shoe boxes, paper bags, e-tail boxes etc.

We see packaging as an important part of our brand and consumer offer. Packaging is designed in such a way that it is desirable and useful for our customers, instead of solely a method to protect the product that is thrown away after use. Because of this, we spend a lot of time on designing packaging products that are of high quality and fit our brand aesthetics.

All our pink paper bags used in our stores are made from paper certified by the Forest Stewardship Council (FSC) and as of next year our outlets will also use paper bags that are FSC certified. Most other paper packaging used is either FSC certified or made from recycled cardboard. For next financial year, we will develop new polybags that will be made either in recycled plastic or bio plastics.

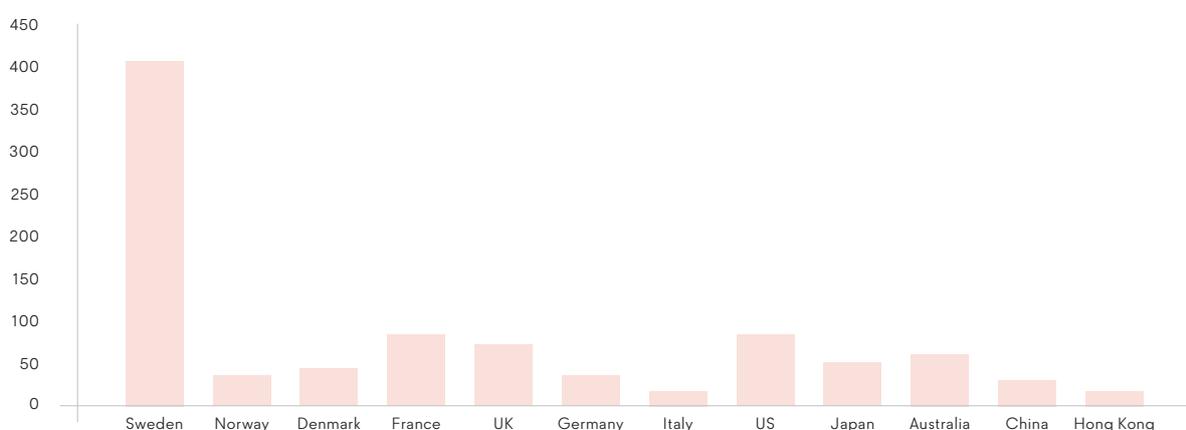
Our workplace

People are the centre of our operations; only with a committed and competent team, we can remain the progressive and creative business we aim to be. We believe we can achieve this by working according to the following principles:

- Being the obvious preference for diverse talent world-wide
- An inspiring and challenging workplace for dedicated individuals
- Holistic leadership and comprehensive cross-functional team work
- Communication that is clear, honest and constructive

This year we employed 851 people globally, of which around 238 were stationed at our headquarters in Stockholm.⁸ We also have staff working at our other offices worldwide and in our own stores.

Number of employees per country



Employee engagement

All our employees should perceive Acne Studios as a work place where they can feel content and engaged. The most successful workplace cultures are built on trust, which is a key driver of engagement. We want to be the obvious preference for diverse talent worldwide. To reach this, it is important to attract, recruit, retain and develop committed employees who are also given the opportunity to grow within the company.

As a basis, all employees have Performance Reviews every year that focus on personal development goals and competencies. In addition, employees can give feedback on the working environment, work life balance and discuss with their manager to see if and how improvements can be made. Each employee also gets the yearly opportunity to provide feedback anonymously on their manager's performance according to Acne Studios leadership competencies. The average score for 2017 was 4.02 out of 5. Examples of leadership competencies that are measured are leading by example, people development, delegation skills and communication. Leadership trainings for managers are organised for selected managers on a regular basis, depending on tasks, skills and needed competencies.

At minimum once every three years, we invite our employees to participate in our employee survey that assesses our work place culture by measuring the levels of trust and engagement. The last employee survey was conducted in 2015 together with the external service provider Great Place to Work. The survey measured employee engagement of all employees globally, giving important insights on strengths and development areas within the organisation. The survey covers key areas including strategy and direction, our values, opportunities for career development, recognition and reward, CSR and wellbeing. The next employee survey will follow the same format and is held in the next financial year. It is our aim to reach at least 80% employee engagement, meaning that 80% of our employees agree that Acne Studios is a great place to work.

⁸Based on 'head count'; all employees regardless of the full-time equivalent (FTE). Interns and consultants are not included.

Business ethics

The basis for a constructive work place, is a set of shared norms and values that are communicated to everyone in a clear way. These principles are laid down in our 'Employee Handbook' that we provide for all countries where we are active in. This handbook introduces employees to the company and its history. It also explains policies, procedures, benefits, and working conditions that are applied within Acne Studios. Each local employee handbook informs employees about local regulations and benefits as well.

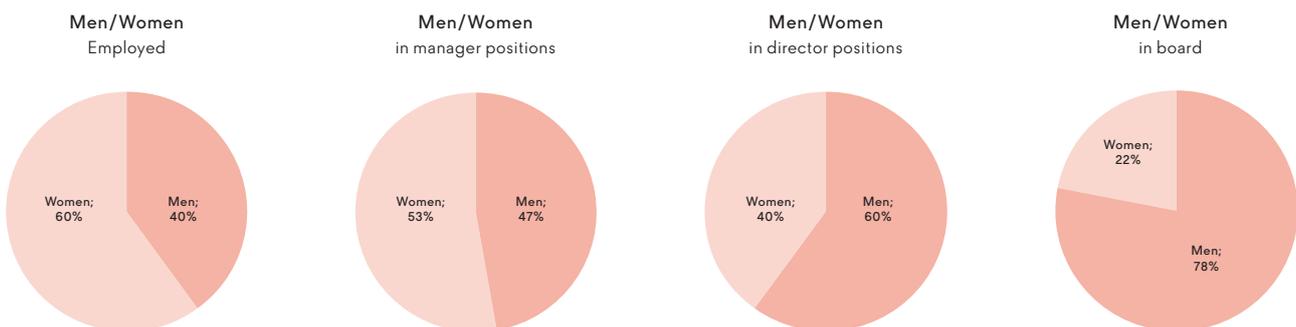
Anti-corruption & harassment

We always want to conduct business with integrity and in an honest and ethical way. For example, Acne Studios has a zero-tolerance approach to bribery and corruption and does not accept any form of harassment, victimisation or insulting behaviour and provides guidelines to all employees of how potential incidents shall be handled. These guidelines are explained in our 'Anti-Corruption and Bribery Policy'. To create an ethical business environment, it is crucial that people are free to speak out without repercussions.

Any employee who experiences or witnesses' corruption, bribery, harassment, victimisation or other insulting behaviour should feel confident to report this without risking any negative consequences. We encourage openness and support anyone who raises genuine concerns in good faith under this policy. During this year we started to implement a whistleblowing function that we hope will be in place in all markets during next financial year. In 2016 we introduced all employees to our 'Anti-corruption & Bribery Policy' and as of today we have a routine it should be signed by employees upon starting of employment.

Equality & Diversity

Based on our 'Equality & Diversity Policy' we work actively to prevent any form of difference in treatment or discrimination within the company. We want our employees to feel that they operate in a work environment in which all employees are treated equally, and where differences between employees because of age, gender, gender identity or gender expression, ethnicity, sexual orientation, disability, religion or belief are enriching and strengthening to our brand and competitiveness. All employees should be treated with equal respect, have the same rights, obligations and opportunities regardless any differences mentioned above. No forms of special treatment, discrimination or bullying are accepted at Acne Studios. Even though we are aware we have not fully reached this balance yet, it is our belief that the gender diversity among our leaders should reflect the gender diversity among our employees in the company.



Healthy work environment

Safety

We want to create a work environment that is safe and healthy for our employees, where risks for injuries and work-related health issues are prevented. This is specified in our 'Work Environment Policy'. With work environment we refer to all physical, psychological and social factors that affect our daily work: facilities, equipment, interior, machinery, chemical products, work methods, work organisation, cooperation and human contacts that our work holds and requires.

With the move to our new headquarters, new safety procedures were developed and tested. Since we moved to the office before the construction was fully completed, this has been a big focus point this year. Apart from the company's responsibility to implement health & safety measures, set short and long-term goals and follow up on them, employees have an essential role to play as well. All employees are encouraged to take their personal responsibility for the work environment by following the rules, instructions and procedures that are in place and to identify and report accidents, near-accidents, risk and threats to a healthy and safe work environment.

Wellbeing

All permanent employees of Acne Studios are entitled to a wellness grant. Employees may decide themselves how to use their wellness grant on exercise or other forms of physical wellbeing. For example, a gym card, gymnastics, tennis or de-stressing activities such as massage, acupuncture or light therapy etc.