

Acne

Studios



## Recap of the year

This Sustainability Report covers the financial year (FY) 18/19, which runs from 1 September 2018 to 31 August 2019. In short, the year can be summarised as follows:

- More than **800** employees of which over **200** are based at our Headquarters in Stockholm
- **8** offices in **Scandinavia, Italy, Paris, New York and Shanghai**
- Roughly **2.56 billion SEK** turnover
- **60** Acne Studios stores in **24** cities, **14** countries on **4** continents
- E-commerce in **66** markets
- Wholesale distribution via around **800** stores and online shops in **48** countries
- **62** suppliers with more than **200** production locations in **16** 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. 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, leather goods and denim. Over the years, Acne Studios has grown into a global fashion company that annually produces over 1.6 million products 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 of high quality and continue to be desirable and worn for a long time. This 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 after it is worn out also influence its total environmental impact.

During last financial year several global reports have highlighted the urgency of environmental risks on especially loss of biodiversity and climate change that will directly impact our business operations. This has made us strengthen our ambition and resulted in several targets and actions explained further in this report.

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 making long hours, earning low wages and working in unsafe 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 take responsibility for these. Because our main challenges arise during the production of our collections, two key areas 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



#### 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 presents which goals are relevant for us.

Many people are affected by, or can influence, the choices we make as a company. When developing our sustainability ambition, we therefore always have our stakeholders in mind. 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.

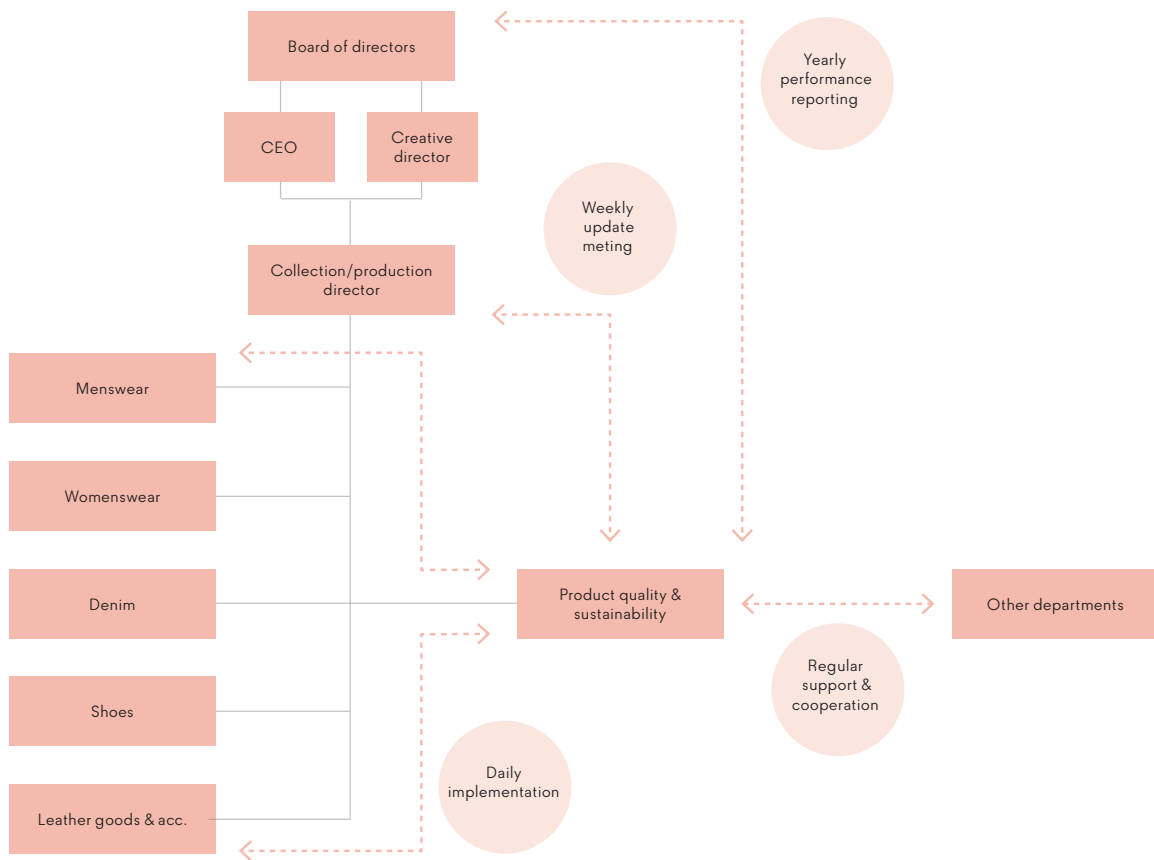
Key area	Focus topic	Page	SDGS	Stakeholders
Our products	Circularity	7		Customers, sourcing partners, NGOs & interest groups, other brands
	Raw materials	8		
	Animal welfare	9		
	Chemical management	10		
	Production processes	10		
Our suppliers	Labour standards	13		Sourcing partners, NGOs & interest groups, other brands
	Purchasing practices	15		
	Training	16		
	Transparency	16		
Our operations	Environmental impact	21		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	Industry initiative
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 Fashion Working Group
Our operations/products	Environmental impact	Sweden Textile Initiative for Climate Action (STICA)

## Integration of sustainability

To implement our sustainability ambition, responsibilities are integrated in the organisation and in our business strategy. Our CEO has the overall responsibility for the sustainability strategy. The Product Quality & Sustainability department is responsible to advise on targets and strategies, to analyse risks and opportunities, to coordinate the implementation of goals and to communicate results internally and externally. This department reports to the Collection/Production Director. The Product Quality & Sustainability department also has regular contact with departments such as PR & Marketing, Supply Chain and HR, depending on running projects and priorities. The Board of Directors approves the annual sustainability report and our CEO keeps them updated on developments, risks and results. As of next financial year, our sustainability targets are also included in our overall business strategy.





## 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 production of our products. Our efforts are divided into five focus topics; Circularity, 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 topic	Commitment	Highlights FY 18/19
<b>Circularity</b>	We enable long term product use through high quality standards and reuse and recycling of materials	Launched two upcycled denim capsule collections made of leftover garments
<b>Raw Materials</b>	We make active choices to increase the use of more sustainable materials in our collections	Committed to only use 100% sustainable materials whereof 40% recycled by 2030
<b>Animal Welfare</b>	We demand an ethical treatment of animals and push for traceability to the origin of our materials	Implemented traceability to farm level on all products containing mohair
<b>Chemical Management</b>	We offer safe products that are free of hazardous substances in line with industry best practice	Updated our Restricted Substance List (RSL) for packaging, leather & textiles
<b>Production Processes</b>	We work with our suppliers to decrease the environmental impact of manufacturing	Pledged to set 'science based targets' to reduce our climate impact in line with the Paris agreement



## Circularity

Making a garment that sustains, from a quality perspective and as a desirable item reduces our product's environmental impact in a life cycle perspective considerably. Design, quality and sustainability are therefore closely connected for us. We want our customers to value our products and be able to use them for a long time. This respect for our product and its materials is reflected in everything we do; from our design constructions, quality assurance processes, sales support to customers and reuse and recycling strategies.

### Quality assurance

A lot of effort is put into assuring 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. This year our share of customer claims remained at the same low level as last financial year with a 0,4% claims rate.

### Care and repair

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 own behaviour. 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.

### Reuse and recycling

We design our products with great care and believe that a product that is not sold or used is an enormous 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 leftover 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.

This financial year we launched two recrafted capsule collections within our Blå Konst concept, where garments were constructed from leftover denim jeans. We also started a pilot collaboration with the Swedish company Renewcell, donating leftover cotton garments to their factory to be recycled into cellulose pulp used for viscose and lyocell fibre production. These and similar activities where we aim to find ways to reduce and recycle our waste will be a focus for next financial year, together with finalising our company wide 'waste strategy' which was initiated this year.

## 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. We measure our material use annually and cotton remains our most important fibre. It is the main fibre used in our jersey, fleece and denim products but is present in many other product categories as well. Wool is our second most used fibre type. It is mainly used in knitwear but also in woven categories such as outerwear and suiting. Leather is used for both garments, shoes and accessories and is our third key material.

### Sustainable fibre benchmark

We have developed Acne Studios Sustainable fibre 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 and the Higg Materials Sustainability Index as a starting point. We consider materials ranked as 'recommended' and 'good' as more sustainable. 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 explained in the animal welfare section of this report.

The benchmark will continuously be updated based on newly developed materials, scientific research or industry best practices. It forms the basis for our sustainability targets on raw materials and 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.

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	
Ecovero® (lenzing viscose)		Virgin polyester	
Organic wool	*Incl. traceable mohair,	Acrylic	
Recycled wool*	cashmere, alpaca, yak	Polyurethane	
Responsible wool (RWS)		Elastomultiester	
Recycled down		Elastane	
Responsible down (RDS)		Acetate	
Recycled polyamide		Triacetate	
Recycled polyester			
*Incl. recycled mohair, cashmere, alpaca, yak			

### Sustainable materials target

This financial year, we have adopted a long-term sustainability target for our raw materials. By 2030 we only want to use materials classified as 'Recommended' and 'Good' according to our benchmark and at least 40% of those should be recycled materials. An implementation strategy has been developed in which we have set targets per product category for each season. This has helped us to analyse and communicate our targets internally towards designers, product developers and to our fabric sourcing team. For next financial year, the aim is to integrate sustainable materials targets in the range plans that set the framework for each season's collection.

Products made in more sustainable materials account for around 9% of what has been delivered this year. Our target for the coming year is to increase this share rapidly and to focus primarily on jersey and fleece, but also denim, to reach over 20%. Due to our long design, development and production lifecycle we know that we are on track to reach this target. Another project we are considering for next year is to focus more on alternatives to cotton as we believe we need to address both the financial and environmental risks connected with relying so heavily on one single fibre as we do today.

## 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 we use. This includes mohair, cashmere, alpaca and merino wool but regular sheep wool represents the biggest part. 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 fulfilment 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 certified to Responsible Down Standard (RDS) or Global Recycle Standard (GRS).
- 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.

## 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.

To get a more detailed insight into our leather supply chain, we have developed a traceability questionnaire for our tanneries. Currently, 70% of our leather garments are from tanneries located in Italy and France and 30% in Turkey. Almost all tanneries for shoes and bags are located in Italy, except for a small share of locally sourced leather used for sneakers that we produce in China. 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, substantiated with documentation. We have also set up leather sourcing requirements for our product developers on regions with increased risks for animal welfare violations or environmental issues. For example, we do not source leather from Brazil due to deforestation issues.

We also implemented requirements to increase transparency for our wool materials including cashmere, mohair and alpaca. We require documentation in the form of an official shipping document or country of origin certificate. In addition, for mohair we request traceability back to the farm and for merino wool originating from Australia we ask for a non-mulesing declaration, as the risk for this animal-unfriendly practice is present here.

### Zoom in: Mohair

The majority of our mohair is from South Africa, which is the main producer of mohair worldwide with around 700 commercial farms. Acne Studios is committed to use sustainable mohair. We push our suppliers and the industry to reach transparency and traceability in mohair production and have strengthened our sourcing practices to enforce this.

We currently request the mohair buyers in our supply chain to only select mohair for us from farms that have passed an audit according to the MSA Sustainable Guidelines. We have reached this for most of the mohair in our Fall/Winter 2019 collection and require it for all mohair as of Spring/Summer 2020. As a next step, the organisation Textile Exchange is currently developing a 'Responsible Mohair Standard' that includes third party traceability. We are involved in the piloting phase of this standard and joined Textile Exchange on a field trip to South Africa to gain further insight in each stage of the mohair production process.

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 setup of the fashion industry. That is why we aim to achieve this goal step by step together with our suppliers, in collaboration with other brands and within industry initiatives. We are a member of the Leather Working Group and part of their Animal Welfare Group. We also participate in Textile Exchange's Responsible Leather Round Table and their working groups focused on mohair and cashmere.

## Chemical management

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 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 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 Rise 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. This year we also became a member of 'BLC Technology' to get further support on chemical management of leather products. We have also updated the content and the format for our Restricted Substance List.

## Production processes

In addition to raw materials, production processes such as tanning, dyeing, printing, washing and finishing can also leave a heavy 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, wanted design and technology used. Most of our materials are processed in Europe where it is more probable that best available technology is used and where risks in terms of water pollution and chemical use are generally lower. However, there are still important environmental factors for us to consider in our processes. Many of these we can control ourselves via design requirements.

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 tools for more sustainable processing. We also became a member of the Sweden Textile Initiative for Climate Action (STICA) this year. Within STWI we did not run any projects this year due to changes in their organisation, but we are active members in the LWG and STICA.

During this financial year, we mainly focused on two areas; leather tanning and denim washing. All our denim finishes are done in Italy with a small number of wash houses. We developed an environmental questionnaire for these wash houses to map their progress on low impact practices in terms of water, chemicals and energy use but also on their machinery and availability of measurement tools. They also gave details on their renewable energy use, as several of our wash houses run their processes entirely or partly on green energy. We also developed a capsule collection made with low impact washing techniques which will be for sale next year and we piloted the switch of some carry over styles to more environmentally friendly techniques. Our goal for coming year is to translate the results of the questionnaires and test runs in a 'low impact denim wash strategy' with measurable targets to reduce the environmental impact of denim washing. We believe that we have great opportunities here as many of the wash houses already have high standards and knowledge on environmental matters.

#### **Zoom in: Sweden Textile Initiative for Climate Action (STICA)**

As a result of the alarming reports on the urgency for climate action, the initiative STICA was set up beginning 2019. The overall goal of STICA is to support Scandinavian brands to set science-based targets and to ultimately reduce their climate impact in line with the Paris agreement to keep climate change well below 2 degrees. The general target within STICA is for brands to reduce their climate emissions with 30% by 2030 and to reach zero emissions by 2050. Acne Studios has been a member of STICA from the start and we have adopted this target as well. This means we need to look into all aspects of our climate impact, including raw materials, production processes and operations such as logistics and travels. However, from a life cycle perspective, one of the main areas of our climate footprint is the production process as this is the most energy intense stage.

We are already calculating our climate impact from logistics, travels and facilities (see chapter 'Our operations'). Our aim for next year is to start measuring the climate impact of our products, including the production processes. This is a complex and time-consuming project that will require a lot of work and tight collaboration with our suppliers. We will start with evaluating the energy sources that our main material suppliers use during production so we can analyse which priorities to set. We will also investigate recommendations given in latest life cycle assessment (LCA) research to find which other actions are applicable for our business model.

Most of our leather is processed in Italy. It is either chromium, synthetic or vegetable tanned. The method used is determined by the desired design and quality but, if possible, a preference is given to chromium-free tanning. Next to assessing the tanning techniques, we are a member of the organisation Leather Working Group (LWG). They focus on improving environmental standards through trainings and on environmental audits to rate tanneries on their performance. Currently, we are working with four audited tanneries for shoe production and two tanneries for garment production. Our target is to increase the share of rated tanneries as this gives an assurance of good practice in terms of water, chemical and energy efficiency as well as transparency.



## 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 Topic	Commitment	Highlights FY 18/19
Labour standards	We look after fair jobs for those who contribute towards the creation of our products	Over 90% of production is under monitoring and commissioned 8 FWF audits at factories in Romania, Turkey and Bulgaria
Purchasing practices	We facilitate our suppliers' compliance with labour standards through our sourcing decisions	Started a project to evaluate our pricing policy and costing sheets in regards to living wages
Training	We contribute to knowledge and communication within factories on labour rights	Organised WEP trainings at 100% of Turkish suppliers and 75% of Chinese suppliers <sup>1</sup>
Transparency	We share supplier information with Fair Wear Foundation and consumers	Received FWF's highest grade, 'Leader', in their annual Brand Performance Check for the last five years

<sup>1</sup> Based on order value

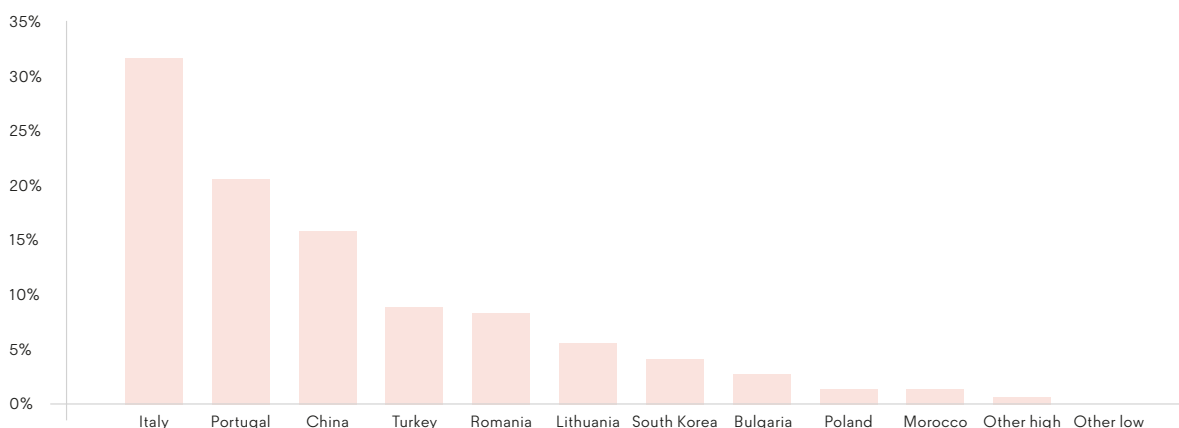
## Labour standards

Acne Studios' collections are mainly produced by suppliers in Europe, China and Turkey. Looking at order value, 70% of our production is done in Europe. Europe is a preferred region for us for several reasons. The region traditionally has experience with high end products and social and quality standards are generally high. In addition, suppliers that are closer to our headquarters also make it easier to control our production and to visit our suppliers regularly.

During the financial year 2018/2019 we placed orders with 62 suppliers<sup>2</sup>, using over 200 production locations (including subcontractors) located in 15 countries. Our top ten suppliers stand for almost 60% of the order value. An important reason for the high number of production locations is the number of 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 does all production in-house.

We want to have a stable supplier base that can meet the different requirements for our various product groups. This year, around 50% of the order value was produced at factories we have been working with for more than five years. The majority of our orders is placed at 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 to discuss improvements in terms of working conditions.

**Production countries**  
Based on order value



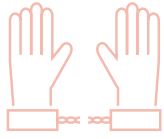
## Monitoring process

Since 2008 we have been a member of Fair Wear Foundation (FWF). This is a multi-stakeholder initiative that helps us to monitor and improve labour conditions at the factories that manufacture our products. We focus our monitoring on the stages in the manufacturing process that are labour intensive and where we have direct leverage. This includes all production locations involved in the manufacturing steps after fabric production; cutting, sewing, embroidery, printing, washing, ironing, knitting, finishing and any other related processes.

The basis of our framework to monitor our production and to ensure that our products are made under fair and safe working conditions, is the Code of Labour Practices. We are committed to implement these eight standards in our supply chain and to improve working conditions for those making our products.

<sup>2</sup> This includes the factories for the Acne Studios Fjällräven and Starter collaborations that are jointly designed with Fjällräven and Starter.





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

Via our monitoring process 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. The FWF division of high and low risk countries is the primary guideline to determine the risk level in a new sourcing country. Countries are considered high risk when there is, for example, evidence of poor legal enforcement and/or limited legislation on labour conditions. The high risk production countries where we source from are Albania, Bulgaria, China, India, Morocco, Romania, South Korea, Tunisia and Turkey.

### Self-assessment

When we are in contact with a potential new supplier, we require them to fill in and sign our self-assessment questionnaire to confirm that they are willing and able to commit to our Code of Labour Practices. 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. To make sure all new suppliers are approved by the sustainability department before orders are placed, the sustainability team is responsible for adding new production locations in our Product Lifecycle Management (PLM) system.

### Worker feedback

One important aspect of our monitoring process is the grievance mechanism that needs to be implemented in each production facility that produces for us. All suppliers are required to post a Worker Information Sheet on a visible spot in the factory and actively inform their workers about the content of this document. It shows our Code of Labour Practices and includes contact details to a local FWF complaints handler. Through this channel, workers 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. This year, we have not received complaints from workers via this channel.

### Auditing

The next step in our monitoring programme is to perform social audits that are, in most cases, executed by FWF auditors. We 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.

This year, 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.

#### Zoom in: Offsite worker interviews

An important part of the FWF audit setup is the use of offsite worker interviews in addition to onsite interviews. Offsite interviews take place outside of the factory premises and are always conducted prior to the audit to make sure workers can answer questions with an open view. They are a valuable source of information as they allow workers to talk freely and at an impartial location.

To make onsite interviews as valuable as possible, such interviews are always held outside the presence of factory managers and may also include informal conversations at the factory floor, during breaks or just outside the factory.

In addition, FWF often interviews local stakeholders to assess working conditions in a country or specific region or to provide insights into the conditions in the factory that is to be audited.

## 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 unforeseen issues with our fabric, yarn or leather supply. In addition, production is spread as much as possible to reach more continuity in our orders and to minimise peak production. We do this by expanding the delivery period and the number of drops.

### Raising awareness

Our sustainability team is closely working together with the development and production teams to ensure that the results of monitoring our suppliers are factored in our sourcing decisions. Apart from regular updates on developments, 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 per supplier before every seasonal order placement. We have also developed and implemented a rating system for suppliers on sustainability performance. The sustainability team rates all our suppliers according to this system and updates the ratings on a seasonal basis.

#### Zoom in: Responsible Pricing

We have started a project this year to evaluate the influence of our pricing policy on wages at the factories we source from. The Sustainability Department always tracks wage levels in production countries and develops a wage gap analysis of our suppliers to identify where the difference between minimum wage and living wage is highest.

As a first step, the wage gap analysis has been further expanded this year. We used to focus on the wages of sewing workers since this is the most common job in the first-tier of our supply chain but we now also include the wages of the lowest paid workers to evaluate where the gap is biggest. In addition, we have started to assess the root causes of wage gaps in our supply chain. We did this by asking suppliers that we audited this year for more information about the factors that influence the wages in their factories. Next year, we will involve more suppliers in this evaluation. Finally, we have started a project together with our product & production department to get a better idea of the share of labour costs in our prices. We have added labour costs and labour minutes to our costing sheets to achieve this. As a pilot, we have selected five suppliers in China, Romania and Turkey to fill in the new costing sheets for carry-over styles they produce for us. For next financial year, we will further implement these cost sheets in our supply chain.

## Training

Via our monitoring process, we follow the situation at our production facilities. However, monitoring alone does not solve possible issues found during audits. 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. Currently, over half of our production locations in high risk countries<sup>3</sup> has undergone training in the past 3 years.

## Transparency

All our direct suppliers and their subcontractors are included in the monitoring process. We share 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 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 five years, Acne Studios has received FWF's highest grade 'Leader' for our achievements. Below, a recap of our scoring in the past five years is given.

	FY 17/18	FY 16/17	FY 15/16	FY 14/15	FY 13/14
FWF Category	Leader	Leader	Leader	Leader	Leader
Share of production facilities under monitoring	98%	95%	92%	92%	91%
Share of production facilities visited	92%	91%	83%	79%	85%
Share of production in low risk countries	59%	56%	59%	59%	52%
Share of production facilities we work with for > 5 years	46%	39%	45%	37%	52%
# of complaints received	0	2	0	2	1

Our Brand Performance Check over the financial year 2018/2019 will take place at the end of 2019 and for this reason, the scoring for this year cannot be given yet in overview. 90% of our order value is sourced from the countries China, Italy, Portugal, Romania and Turkey. Below we describe our activities in these countries in more detail and give a recap of developments in our other sourcing countries.

<sup>3</sup> based on order value

## High risk countries

### China

Percentage of order value:	17% (16%) <sup>4</sup>
Main product group(s):	Knitwear, woven (mainly outerwear), shoes
Number of factories:	16 (8)
Number of audits <sup>5</sup> :	0 (4)
Number of trainings:	2 (1)

We work together with 9 suppliers in China and the number of production locations increased. This is mainly due to the increase of production with our woven supplier and their use of subcontractors for seasonal products and production steps such as embroidery or printing. We have conducted a WEP training at this supplier this year to increase the awareness of workers on their rights and to improve the communication between workers and management. We also did a second WEP training at our knitwear supplier. We work with this knitwear supplier, that represents 60% of our order value in China, for over 10 years. Both trainings are followed up by further internal communication implemented by the factory management.

We did not do any audits in China this year but instead worked together with our suppliers on follow-up of the Corrective Action Plans of audits conducted last year. For example, we worked intensively with our cap supplier to improve conditions at the factory after last year's audit. They have been able to close many findings and sent us proof in the form of photos and documentation. Next year, we will do a follow up audit to check the status on site, especially on wage and working hours.

We started sourcing from one new bag supplier and one new shoe supplier in China this year. Both have been audited multiple times before by other clients. We have asked follow-up questions on the CAPs of their most recent audit and asked for proof on improvements made. We will plan a FWF audit at both factories next year.

### Romania

Percentage of order value:	9% (9%)
Main product group(s):	Woven (mainly suiting and shirts), shoes
Number of factories:	13 (11)
Number of audits:	4 (0)
Number of trainings;	0 (0)

The production volume remained roughly the same while the number of factories slightly increased in Romania. We audited four woven suppliers in Romania this year, and one just after the end of the financial year. All audits revealed that the health & safety situation at our Romanian factories are relatively good and investments are made in modernisation of the factory floors. In general, a challenge in Romania is that communication channels for workers (i.e. worker representatives or suggestion boxes) are present but don't function well in practice. This is mainly due to the lack of knowledge among management and workers about the purpose of such worker rights and about the FWF Code of Labour Practices in general. To improve this, we want to organise WEP trainings at our Romanian factories. We wanted to plan these training for this year already but due to changes in the FWF audit team, the audits were delayed and our planning for WEP trainings has been moved to next year.

### Turkey

Percentage of order value:	7% (9%)
Main product group(s):	Leather garments
Number of factories:	4 (5)
Number of audits:	3 (1)
Number of trainings:	2 (0)

<sup>4</sup> The numbers in brackets are from the previous financial year 2016/2017

<sup>5</sup> Audits, incl. follow up audits, ordered by Acne Studios and done by FWF or other independent auditors in financial year 2017/2018.

All our leather garments are made at two suppliers in Turkey. One supplier divides its production over two of its own factories. We have audited both factories this year, accompanied by our sustainability team member. The main finding at both audits was excessive overtime with the positive note that workers are paid more than what is required by local laws for this overtime. Both factories also needed to formalise the communication between management and workers further, focussing on better documentation and more involvement of worker representatives. For this reason, we have organised a WEP training for both factories. The supplier is very constructive and proactive at taking next steps to improve internal communication further.

One major finding during the last audit at the other leather supplier was excessive overtime as well. We have done a follow up audit this year to check for progress, with an extra focus on worker interviews to get their input on working hours. Even though improvements were made on overtime, there are still challenges, such as the lack of effective internal communication. That is why we have organised a WEP training that took place in October 2019. Follow up on this training will take place next year.

### Other high risk countries

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. Our main concern has been lack of transparency. To solve this, we now receive an overview with the names and details of all homeworkers that work for us each season. Next year, we will plan an audit combined with a training at the supplier.

In Bulgaria we have a shoe supplier that was audited for the second time this year. Most findings at the facility are related to administration of wages and working hours. For next year we will work with the supplier to improve this and we will evaluate the need for a training to increase awareness at the factory management on social standards and related requirements. We also started working with a new woven supplier in Bulgaria that works with many different production facilities. To make sure we have a good overview of where our production takes place, we have nominated four of their facilities for our production.

Our woven supplier in Morocco has been audited three years ago, so for next financial year we will audit the facility again. In the meantime, we have had a meeting with the supplier this year to go through the CAP and discuss improvement and challenges they are facing.

A subcontractor of our biggest shoe supplier is located in Albania. It is a big facility with many workers that is used for the first time this year as an addition to the supplier's factory in Romania. We will audit the facility next year. In Tunisia we also work with shoe subcontractors that represent a very small share of our order value and are used for special leather shoes. We used to work with a sock supplier in India but decided to move this production to a supplier in Portugal this year to have production closed to our headquarters.

### Low risk countries

#### Italy

Percentage of order value:	32% (31%)
Main product group(s):	Denim, shoes bags
Number of factories:	92 (86)

Italy continues to be our most important production country, which is why we have a production office here with local staff that visits the production facilities regularly. Italy is classified as a low risk country by FWF but there are still risks of labour rights violations. Four years ago, we started auditing factories in Italy that have a higher risk profile, these include factories with migrant labour and factories in the south of Italy where wages are generally lower than in the north.

In the past years, we have not seen enough commitment to make improvements after audits. That is why we have now implemented a stricter process for audit follow up in Italy, with more responsibility for our direct suppliers towards their subcontractors.

In addition, we continue our work with the Italy Fashion Working Group. The purpose of the group is to share experiences on labour standards and practices in Italy and to collaborate between member brands on making sustainable improvements. This year, we focused on collaboration with local NGOs, trade unions and other organisations that emphasis on worker rights. With their input we are currently setting up trainings for our direct suppliers and their subcontractors.

## Portugal

Percentage of order value:	22% (20%)
Main product group(s):	Jersey, denim
Number of factories:	46 (32)

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 signed 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. The main difference is that Portugal has less migrants working in the fashion sector, reducing the risk for exploitation or other labour rights violations. We have a local quality inspector in Portugal that continuously visits our production facilities there. 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. This is mainly due to an increase in orders at two jersey suppliers, which made them expand the number of subcontractors to create more capacity.

## Other low risk countries

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. Findings are mainly on health and safety and improvements are followed up on and verified by our agent.

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.

In France, we work together with a small supplier for woven garments and a leather glove supplier. Both suppliers represent a small share of our order value as they both work on special pieces that are offered in low quantities.

## External collaborations

End 2018, we launched a collection that was jointly designed and produced with Fjällräven. The production of this collection took 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 were located in China, Portugal and Vietnam.

During 2019, we had another collaborative collection with Starter. The denim was produced in our regular denim factories while the other products, which included basketball jackets, shorts and vests, were produced by factories where Starter has a working relationship with in China.

To make sure the factories comply to the social standards of both Acne Studios and Fjällräven or Starter, all factories that produce for the joint collection have been asked to fill in the Acne Studios self-assessment questionnaire. Fjällräven and Starter have 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

'Our operations' includes how we as a company take responsibility of our employees worldwide and how we work to promote an ethical business behaviour. This is explained in the focus topics our workplace 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 Topic	Commitment	Highlights FY 18/19
Environmental impact	We reduce the environmental footprint of our daily business operations	Pledged to set science-based targets on reducing our climate impact in line with Paris agreement
Our Workplace	We offer an inspiring and challenging workplace for diverse talent worldwide	86% of employees agree this is a friendly place to work and 83% are proud to tell others they work here
Business ethics	We conduct business with integrity, honesty and transparency	Implemented a 'whistle blow' policy and procedure across most markets



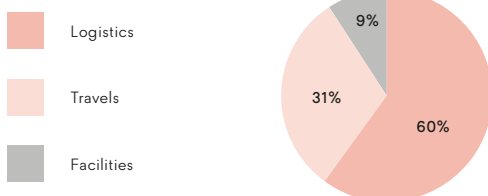
## Environmental impact

This financial year we calculated our second climate footprint of our operations. Analysing the climate impact of our operations includes all the activities within our own stores, warehouses and offices worldwide and the emissions from all shipments and travels we do annually. The climate report was made together with the consultant '2050' according to GHG protocol. We have divided the emissions in three operational categories:

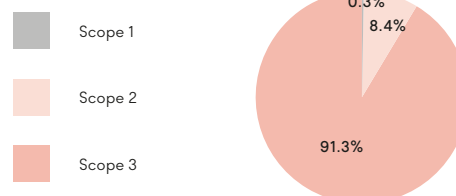
- Facilities - Energy consumption from stores, offices and warehouses
- Travels - Business travel by employees
- Logistics - Shipments of products from factory, via warehouse to store or end consumer

The climate impact of our operations during the financial year 2018/2019 amounted to 16 920 tons of CO<sub>2</sub> equivalents (CO<sub>2</sub>e). Figure 1 shows the emissions divided into the three operational categories and Figure 2 per scope according to the GHG protocol. The main impact comes from shipping our products (60%) followed by emissions from travel, which accounts for 31%. The carbon footprint of running our offices and stores accounts for 9%. For next financial year, we aim to reduce emissions from operations by 5%.

Climate impact per operational category



Climate impact per GHG scope



### Zoom in: GHG Protocol scopes

The GHG Protocol is the most widely used international accounting tool for governments and businesses to understand, quantify and manage greenhouse gas emissions. It classifies a company's greenhouse gas emissions into the following three 'scopes':

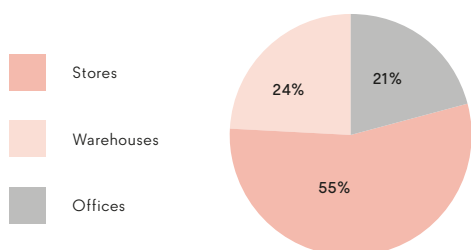
- Scope 1: direct emissions from owned or controlled sources, such as gas boilers in owned facilities or company vehicles.
- Scope 2: indirect emissions from purchased energy for own use, for example in rented spaces used as offices, stores or warehouses.
- Scope 3: other indirect emissions from company activities, occurring from sources that are not owned or controlled. These are usually the greatest share of the carbon footprint, covering emissions associated with business travel, cultivation of raw materials, manufacturing and transportation of finished goods, waste generation, use and end-of-life treatment of sold products.

As the fashion industry's emissions occur for a large part at the supplier stage and in the user phase of clothes, scope 3 covers the main part of our emissions as well. Currently, our climate report focusses on our own operations, meaning that we only include emissions from business travels and logistics from scope 3 in our footprint calculation.

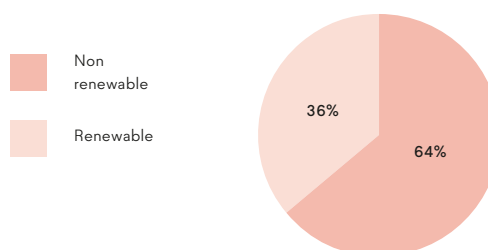
Compared to the previous climate report done for FY 16/17, our emissions from operations have increased while distribution between the three operational categories remained almost the same. It is clear that our climate impact went up, however, we are currently investigating how we can best compare the results of both reports accurately. We will analyse the calculation methods used by 2050 and Tricorona; the consultant of our previous climate report. This includes, for example, comparing the level of estimated data versus real data used for both footprints. Of course, we will also evaluate the reasons behind the increases in emissions from our facilities, travels and logistics. Based on this comparison we will set a base year where our further climate reports and targets will rely on.

As described in the chapter 'Our products', we are aware that the vast majority of our climate impact does not come from our operations but originates during the production of our products instead. Therefore, we plan to expand our footprint calculation next year and include emissions from our product making, in line with the requirements of the STICA membership and 'science-based targets'. This way, we can track progress towards our current goal to reduce climate emissions with at least 30% by 2030 and reach zero emissions by 2050.

**Emissions per facility type**  
Ton CO2e



**Share of renewable energy**  
kWh



## Facilities

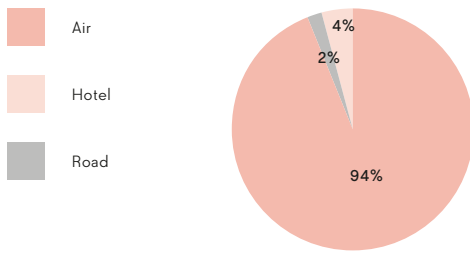
Emissions from energy used in our facilities represents 9% of Acne Studios' total emissions. This includes energy from heating, cooling, lighting and GHG emissions from refrigerants. Most of our activities take place at our head office in Stockholm, where the majority of our employees are based as well. In addition, we have offices in Paris, Empoli (Italy), Oslo, Shanghai and New York. Our main warehouse is in Sweden, but we also have third party warehouse operations in the United States and, since this year, in China. We have 53 own stores globally. Franchise stores have not been included. The most effective way to reduce emissions from our facilities, is to change to renewable energy. At the moment, 45% of our facilities run on renewable energy and we will increase this share where possible together with our retail department for next year.

Most stores, offices and warehouses have well established routines on recycling paper, plastics and other waste streams. Our target for next year is to put these routines into a waste policy for all our facilities.

## Travels

Emissions from business travel represent around 31% of Acne Studios' total emissions. It includes travel by air, train, and road (taxi, rental car, private car and leased car). Hotel nights are also included. Since we are an international company with suppliers, stores and offices around the world, business travel by air accounts for the majority of the emissions with 94%. Of all the travels we make, almost one third are trips between Stockholm and Paris where we have two offices; our women's design studio and a sales office. Many employees also travel to Paris when our seasonal fashion show take place there. Other important reasons for traveling is to visit suppliers in our production countries or to visit our stores, especially when new stores are to be opened.

**Emissions from business travel**  
Ton CO2e



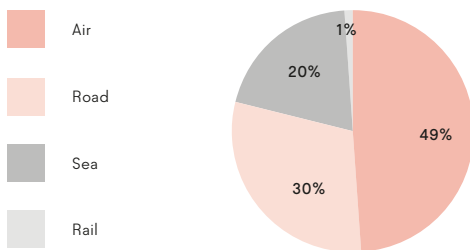
We have a travel policy in place to encourage employees to always evaluate the need for travelling by air and to choose video conferences as a first and preferred option for meetings. However, we believe that there are still possibilities to further reduce our air travels and to strengthen the enforcement of our travel policy. To achieve this, we evaluate with each department manager how to reduce the business travels and related emissions of their department.

**Logistics**

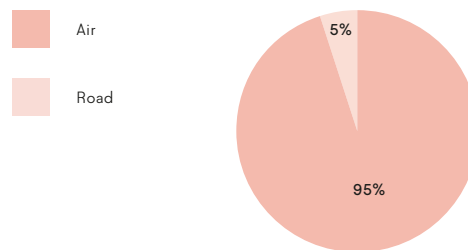
With 60% of our total emissions, transportation of our products contributes most to our carbon footprint from operations. Production at our suppliers mainly takes place in Europe and Asia. After production, the goods are transported to our stores, wholesale partners and online consumers via our warehouses in Sweden, the United States or China. We work together with several local and international logistic partners for these transports.

Air freight represents 49%, while 30% is done by truck, 20% by boat and 1% per train. Train is a new mode of transportation for us since this year. It is used for local transports in China and to transport finished goods from suppliers in China to our warehouse in Sweden. While air freight represents 49% of our shipments, it is responsible for 95% of these emissions. In terms of climate impact, it is a very ineffective shipping method. Sea freight is the most environmentally friendly shipping method.

**Shipped tonne-km**  
per mode of transportation

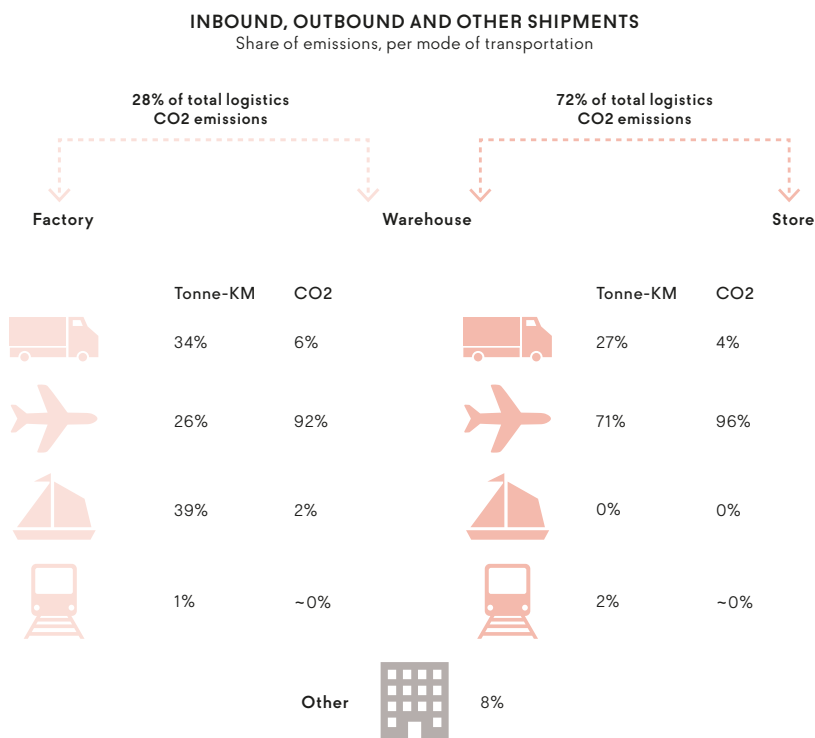


**Emission ton CO2e**  
per mode of transportation



<sup>6</sup> 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.

We divide our shipments into inbound, outbound and other shipments. Inbound shipments are transports of finished goods from suppliers to our warehouse, while outbound shipments cover transports of these goods to our consumers via stores or e-commerce. Other transports are all shipments that are needed for our internal operational activities. Below graph shows the share of emissions per shipment type and mode of transport.



### Inbound shipments

Inbound shipments represent 27% of the total emissions from logistics. We consider boat and train preferred modes of transportation for logistics from Asia to Europe and mainly use truck transports from inbound shipments within Europe. Currently, the biggest part of our inbound transports is shipped by boat (39%), followed by truck (34%) and plane (26%). However, still more than 90% of inbound emissions come from air transportation. For this reason, our priority for next year will be to reduce air shipments. A working group involving our production controllers, supply chain department and the sustainability team will analyse the root causes of each shipment by air and how this can be prevented for coming seasons. In addition, our supply chain department is discussing options for more efficient routes or services with our inbound forwarders.

### Outbound shipments

Outbound shipments are responsible for 65% of emissions from logistics. This is due to the high share of the use of planes for outbound flows, adding up to 71% of all outbound shipments. 41% of the emissions from outbound shipments comes from transports to wholesale clients, another 41% is to or in between stores and 18% is shipments of orders from e-commerce consumers.

For next financial year our supply chain department is executing an analysis of our logistics flows together with an external consultant to investigate if we would benefit from opening new warehouse services in Asia or/and in Europe. In relation to this study the climate impact of various scenarios will be considered when deciding on further changes for our warehouses. Our aim is that this will enable us to reduce our impact on outbound shipments.

### Other shipments

Emissions from other shipments account for 8% of the logistics emissions. This category covers all shipments we do within the company for our daily operations where majority is transports of prototypes and samples from suppliers and between offices. Since these shipments represent only a small part of our total shipments and are often difficult to change, we will give less priority to this category.

## 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 paper bags used in our stores are made from paper certified by the Forest Stewardship Council (FSC). Most other paper packaging used is either FSC certified or made from recycled cardboard. For next financial year, we are reevaluating all our packages and will change many of them where also the sustainability features and purpose of the packaging will be evaluated. In this project, special sustainability focus will be placed on packaging used for e-commerce.

## 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 over 800 employees globally, of which more than 200 were stationed at our headquarters in Stockholm and around 500 employees are working in our stores. In addition, we also have offices in Norway, Paris, New York, Tokyo, Shanghai and Empoli, Italy.

Our 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 present. 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. Following are examples of policies or guidelines that normally are included in our 'Employee Handbook':

- Work Environment and Fire safety
- Equality & Diversity
- Harassment
- Drugs & Alcohol
- Flexibility & Availability
- Anti-corruption & Bribery

## Employee engagement

All our employees should perceive Acne Studios as a workplace where they can feel content and engaged. 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. We always attempt to provide equal opportunities for all employees.

## Personal development

As a basis for continuous development 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 how improvements can be made.

We believe in and strive to work in relation to the 70-20-10 model when it comes to learning and development. According to this model, 70% of an employee's learnings should come from challenging assignments within the role, 20% from developmental relationships, such as more senior colleagues and 10% from formal educational events. We believe that a lot of the responsibility lay on the employees and the managers to learn from each other by upholding a tight dialogue and by working close together. To cover the share of the formal educational events we offer our employees both internal and external courses on demand where applicable.

## Leadership

In 2014 we held the first Acne Studios Leadership Program for employees in leadership positions or employees with potential to become a leader. Since then the program has taken place three times. During 2018 we offered this training of four modules for over 20 current and future managers. The training included topics on self-awareness, communication, team effectiveness and continuous learning. Throughout the program we offer both supervised coaching and peer coaching. New training occasions will continue to be held regularly based on organizational needs.

Each employee gets a yearly opportunity to provide feedback anonymously on their manager's performance according to Acne Studios leadership competencies. In 2019 our average score was 4.03 out of 5 which is an increase from 2018 when the average score was 4.0. Our managers were rated high on "leading by example" and "result orientation". The biggest identified area of improvement is "feedback", "team leadership" and "people development". These topics have therefore been highlighted in the leadership training.

#### **Zoom in: Great Place to Work**

In 2019 we invited all our employees globally to participate in a 'Great Place to Work' survey to assess employee engagement and content in our workplace. The survey focuses on measuring the level of trust that our employees have in managers, the level of pride they have in their job and the extent to which they enjoy their colleagues.

We saw positive response in terms of Acne Studios being a friendly place to work, that it is a workplace where employees can be themselves, that people are proud to tell others they work here and that employees are proud of our products and services. Lower scoring was on topics such as being offered training to develop professionally, being involved in decision that affect one's jobs, remuneration and our facilities.

From the results we are analysing our strengths and development areas and will take actions where we have learned it is needed. For example, we intend to review our strategy on people development and to increase the perceived level of involvement in the business e.g. by implementing a new global intranet where we can share organisational updates more regularly. Further we will evaluate how to best assess employee engagement and focus on targeting important topics in different parts of our organisation.

## **Healthy work environment**

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'. For Swedish employees we summarise our activities and findings for HQ 'Work Environment Report' that concerns both physical and social factors that affect our daily work. This report helps us to draw conclusions and set goals for the coming year.

### **Safety**

For the Scandinavian market Acne Studios has a systematic work environment process. An essential part of this process is close cooperation between Acne Studios and our safety representatives – who represent the employees in work environment errands. As part of this cooperation we have a safety committee where topics on the work environment are reviewed. Further, we conduct yearly safety inspections carried out by department managers and safety representatives with assistance from the HR department. These inspections help us identify potential risks and carry out action-plans to prevent the identified risks. On the global markets we follow local regulations regarding the work environment and on specific markets we have external partners who support us in this work.

In order to create a safe work environment all employees are encouraged to take their personal responsibility by following the rules, instructions and procedures that are in place and to identify and report accidents, near-accidents.

### **Work life balance**

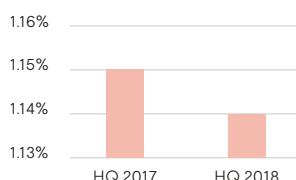
We aim to be an employer who offers its employees possibility of good work-life balance. This reduces risks of health-related problems for employees for example due to stress. During 2019 we offered courses in stress management and mindfulness to employees at our HQ. This was a pilot and we intend to continue to offer similar courses. We also have a policy regarding Flexibility & Availability in our internal Employee Handbook which encourage the dialogue between manager and employee regarding availability and flexibility. We believe it is essential that clear expectations are communicated between manager and employee.

## Absence due to illness

In our systematic work environment process it is our goal to detect health risks early and prevent poor wellbeing and sick leave. We follow up on sick leave regularly and implement rehabilitation plans for both repeated short-term and long-term sick leave. This is also an area that we educate our managers within.

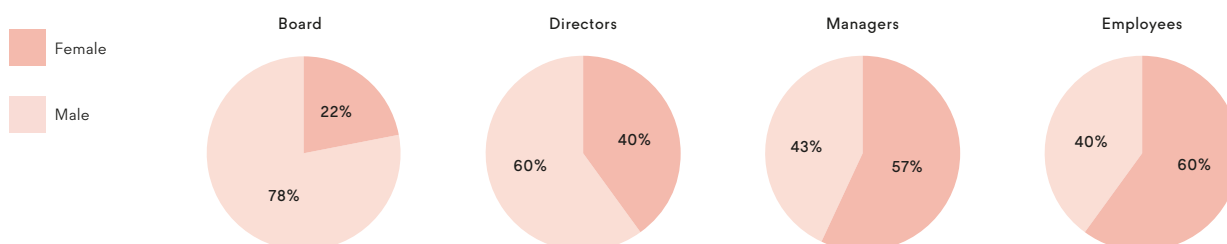
Below show the sick leave figures during last year for employees at our HQ. The total sick leave is 1,14% of scheduled hours. It is almost at the exact same level as 2017 and it is below the average sick leave for Sweden.<sup>7</sup>

Sickleave HQ



## Equality & Diversity

Diversity is central in our way of doing business. 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 are enriching and strengthening to our brand and competitiveness. Acne Studios has employees from many different nationalities represented at the HQ office and in other markets where we are present. We also encourage recruiting managers to try to achieve a diverse gender distribution when hiring new talents.



## Business ethics

We expect our employees as well as those we have agreements with – our suppliers, agents, vendors and other business partners to act with integrity and honesty in all business relations. Since 2016 we have an 'Anti-corruption & Bribery Policy' which should be signed by all employees upon starting of employment. This includes for example that employees should take decisions that lies with Acne Studios interest and not personal interest.

In addition, we want that employees who experience, or witnesses' corruption, bribery or comparable behaviour should feel confident to report this without risking any negative consequences. During 2019 we therefore implemented a 'whistleblowing policy and procedure' to guide how employees should act when witnessing unacceptable circumstances, wrongdoing or malpractice. This procedure is described in our Employee Handbook.

The main risks of corruption are found in our supply chain, both between supplier and us but also at the individual supplier or between different suppliers working for us. The activities made to address this matter is to make screenings of new key suppliers in terms of financial stability but also that we are auditing suppliers in high risk countries according to Fair Wear Foundations Code of Labour Practices. This gives us a good idea on current status of their businesses and eventual risks of corruption. In the chapter 'Our suppliers' we describe further how we address violations to our Code of Labour Practices. For example, non transparency and lack of honesty during social audits is consider findings that requires immediate action on, for us to be able to continue the business relationship.

<sup>7</sup>2017 statistics from 'Svenskt Näringsliv' showed 2,34% in sick leave for office workers