

Kappahl

SUSTAINABILITY COMMITMENT - KAPPAHL AND ALL BUSINESS PARTNERS

DOCUMENT OWNER	VERSION	DATE
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1. Introduction

At Kappahl we believe that we have an important role to play in the development of a sustainable society. We want to ensure respect of the human rights of the people whose work is contributing to our business; respect of the environment; and good governance in all our business relationships and throughout our value chain. Kappahl is committed to work with transparent, responsible, and sustainable partners and to be a fair partner ourself. We strive to work with suppliers that share our values and ambition, so that by collaboration we can come further than what is required by law.

This Sustainability Commitment¹ informs about:

- legal requirements and international standards that applies to Kappahl's products and its operations in Chapter 2;
- requirements due to Kappahl's membership in industry collaborations in Chapter 3;
- stakeholder expectations that Kappahl strives to meet in Chapter 4; and
- Kappahl's governance structure for sustainability, including business incentives, monitoring, corrective action and non-compliance consequences in Chapter 5.

By signing this document, the supplier commits to working proactively to meet these requirements within its operations, business relationships and in its supply chain.

Signing our Sustainability Commitment is mandatory for all business partners.

¹ This Sustainability Commitment replaces our Code of Conduct for Suppliers and is based on the same standards as the Code.

2. Legal requirements and international standards

SUMMARY REGULATION AND STANDARDS

- ❖ APPLIES TO:
 - ALL TIERS IN KAPPAHL'S VALUE CHAIN AND LOGISTICS OPERATIONS
 - SUPPLIERS' AND SUB-SUPPLIERS' OWNED AND/OR SUB-CONTRACTED FACTORIES AND/OR SERVICES
- ❖ INCLUDES COMPLIANCE WITH:
 - OPERATIONS-RELATED LEGAL REQUIREMENTS IN THE RESPECTIVE COUNTRY (ANNEX 1)
 - PRODUCT-RELATED LEGAL REQUIREMENTS IN KAPPAHL'S SALES COUNTRIES (ANNEX 1)
 - INTERNATIONAL LABOR STANDARDS (ANNEX 2)

Several legal requirements and international standards apply to Kappahl's products and its operations in different parts of our **value chain**, see Figure 1.

We ask of our suppliers to take the **value chain** perspective and proactively work to meet all of these requirements.

We also ask our suppliers to actively strive to work with sub-suppliers which follow international standards and comply with the laws of their respective countries, and which in their turn put such requirements on the next tier in the supply chain.

While Kappahl recognizes that there are different legal and cultural environments in which our suppliers and their factories operate, we expect all our suppliers to follow the internationally accepted labor standards, i.e. the conventions of the International Labour Organization (ILO). Further we expect our suppliers to continuously work on improving the labor conditions for those involved in the production of our garments and other products as well as any other operation throughout our and their value chain. A short version of the Kappahl requirements related to labor and working conditions is found in Annex II.

All Kappahl's suppliers and sub-suppliers should keep themselves updated with and operate in compliance with the laws of their respective countries and with applicable rules and regulations for the products in Kappahl's sales countries. This requirement applies also to owned and sub-contracted factories. Where there are differences between the provisions of this commitment and national laws or other applicable standards, suppliers and sub-suppliers shall adhere to the higher or more stringent requirements.



Sub-supplier production countries

Operations requirements:

- operate in compliance with the laws of their respective countries
- follow international standards, e.g. the ILO convention

Production countries and logistics

Operations requirements:

- operate in compliance with the laws of their respective countries
- follow international standards, e.g. the ILO convention

Kappahl's sales countries

Operations requirements:

- operate in compliance with the laws of their respective countries
- follow international standards, e.g. the ILO convention
- *EU Due Diligence for human rights, the environment and good governance in business relationship or in their value chains (coming)*

Product requirements:

- Product regulation: PSD, Fibre labelling regulation etc.
- Chemical regulation: REACH, POP, biocides etc.

Figure 1. Example of a value chain perspective where compliance with legal requirements and international standards are governed in all tiers, regardless of the country where the activity is on-going. A more extensive list is provided in Annex I.

3. Requirements due to Kappahl's membership in industry collaborations

SUMMARY INDUSTRY COLLABORATION

- ❖ ALL SUPPLIERS NEED TO:
 - FOLLOW REQUIREMENTS ON LABOR AND WORKING CONDITIONS (ANNEX II)
 - REPORT ON CLIMATE EMISSIONS AND WORK TO REDUCE CLIMATE EMISSIONS
- ❖ SUPPLIERS OF GARMENTS AND STORE MERCHANDISE NEED TO:
 - AGREE TO THAT KAPPAHL PUBLICLY SHARE ADDRESS, PARENT COMPANY, TYPE OF PRODUCTS AND NUMBER OF WORKERS AT EACH SITE
 - FOLLOW KAPPAHL'S RESTRICTED SUBSTANCE LIST
 - FOLLOW KAPPAHL'S ANIMAL WELFARE POLICY
- ❖ KEY SUPPLIERS OF GARMENTS NEED TO:
 - ADOPT THE HIGG INDEX TOOLS

Kappahl is active and involved in several partnerships and industry initiatives with sustainability focus. We see a need to work for closer partnership and greater transparency to build capacity and bring about a system shift to tackle the major problems in societies where textiles are produced. Our engagements often implicate that Kappahl commits to set stricter sustainability requirements than what legislation demands.

General requirement for all suppliers:

Ethical Trading Initiative (ETI)

ETI is a leading alliance for businesses, trade associations and NGOs campaigning for workers' rights. Kappahl has been a member since 2016. We comply with the ETI guidelines and engage within its network for joint action on manufacturing-chain challenges such as social dialogue, the right to collective bargaining and the rights of migrant workers. The ETI member requirements are found here: <https://www.ethicaltrade.org/>. A short version of Kappahl's requirements on suppliers and sub-suppliers related to labor and working conditions is found in Annex II.

Swedish Textile Initiative for Climate Action (STICA)

STICA is an initiative jointly launched by Peak Performance, H&M, Sustainable Fashion Academy, Elco and Kappahl in 2018. Today, STICA has more than 40 members in the Nordic Countries. ***All members commit to reducing their greenhouse gas emissions in line with the 1.5°C target and the Paris Agreement.*** At Kappahl, we have produced a roadmap for our strategy to reduce carbon emissions in our value chain by half by 2030. With the lion part of our emissions occurring in the supply chain, we need to cooperate with suppliers that have ambitious climate targets and can report on reductions.

Requirements only relevant for garments and store merchandise:

Sustainable Apparel Coalition (SAC)

SAC sets industry standards to facilitate transparent communication of environmental and social performance in the textile value chain. We are a member of SAC since 2018 and use the Higg Index suite of tools and encourage our suppliers to do that too. ***Being a member of SAC requires an increase in suppliers' adoption of the Higg suite of tools over time.*** Therefore, Kappahl will prioritize collaboration with garment suppliers that use the Higg tools for social and environmental performance in their value chain.

Transparency Pledge

Transparency Pledge is a wide-ranging coalition of large global organizations (Human Rights Watch, IndustryAll, Clean Clothes Campaign and more) that works to promote transparency in the fashion industry's supply chains. Kappahl has published a list of our supplier factories on our website since 2013 and they are also published at the Open Apparel Registry. To make our commitment clear, we joined Transparency Pledge in autumn 2019. ***The Pledge requires member companies to publish a list naming all sites that manufacture its products on a regular basis, including address, parent company, type of products and number of workers at each site.*** Therefore, Kappahl suppliers need to share this updated data from their own as well as subcontractor factories.

The Chemicals Group at RISE

The Chemicals Group at RISE is a knowledge-building network offering guidelines on chemicals restrictions and strategies. Kappahl follows the Chemicals Guidance, which lists unwanted substances in textile/leather products and production processes, with required limit values as agreed in the business sector. ***The Chemicals Guidance has additional requirements to legal requirements (REACH, Stockholm Convention, BPR, and the packaging directive) and addresses both use of chemicals in processes and occurrence of chemical substances in products.***

The Swedish Trade Federation

Kappahl's policy for animal welfare is based on our collaboration with the Swedish Trade Federation and their animal welfare policy. Our Animal Welfare Policy is found in Annex III.

4. Stakeholder expectations on Kappahl

SUMMARY KAPPAHL'S COMMITMENT

❖ KAPPAHL COMMITS TO:

- INFORM OUR STRATEGIC SUSTAINABILITY WORK VIA STAKEHOLDER DIALOGUE
- WORK FOR FAIR PARTNERSHIP
- OPERATE A STRICT ETHICAL POLICY FOR OUR OWN EMPLOYEES
- WORK FOR INCREASED TRACEABILITY, FAIR WAGES AND ACCOUNTABILITY IN THE VALUE CHAIN
- WE STRIVE TO CREATE A BUSINESS INCENTIVE FOR SUPPLIERS TO RESPECT OUR SUSTAINABILITY COMMITMENT

Kappahl has an ongoing dialogue with stakeholders that to a large extent have impact on or are impacted by our business. The key stakeholders are Kappahl's customers, owners, suppliers and employees. Other stakeholders include governments, media and Non-Governmental Organizations (NGOs). The insights from the stakeholder dialogue are used to inform our strategic sustainability work, in addition to guidelines and principles from international bodies and the challenges and opportunities we identify in our value chain.

Fair partnership

Kappahl's standpoint regarding fair partnership is informed by ETI and other external parties. We are aware that communicating our forecasting and planning to our garment suppliers are examples of areas vital to develop a fair partnership and we welcome feedback from our suppliers on our performance.

Ethical Guidelines

Kappahl operates a strict ethical policy that all our employees have undertaken to respect, covering issues including but not limited to avoiding bribery and corruption, safeguarding company property and information and alcohol and drugs policy. We ask for our partners' cooperation and ask in our General Terms that these guidelines are read and that the undertaking to respect the guidelines is signed.

Other

Kappahl is committed to work for increased traceability, fair wages and accountability in the value chain. We strive to create a business incentive for suppliers to respect our Sustainability Commitment.

5. Kappahl's governance structure for sustainable business relationships

SUMMARY GOVERNANCE STRUCTURE

- ❖ KAPPAHL EXPECTS ITS SUPPLIERS TO TAKE OWN RESPONSIBILITY AND STRIVE TOWARDS CONTINUOUS IMPROVEMENT IN THEIR SUSTAINABILITY WORK
- ❖ THE SUPPLIER SHOULD HAVE A GOOD GOVERNANCE STRUCTURE, INCLUDING:
 - CLEARLY COMMUNICATED ROLES AND RESPONSIBILITIES
 - IMPLEMENTED POLICIES AND ROUTINES
 - FUNCTIONING CONTROL SYSTEMS
- ❖ THE SUPPLIER SHOULD INTRODUCE AND MAINTAIN A MANAGEMENT SYSTEM TO ENSURE THAT SOCIAL CONDITIONS ARE, AS A MINIMUM, WITHIN LEGAL STANDARDS
- ❖ THE SUPPLIER SHOULD INTRODUCE AND MAINTAIN A SUITABLE ENVIRONMENTAL MANAGEMENT SYSTEM
- ❖ KAPPAHL EXPECTS ITS SUPPLIERS TO COOPERATE IN A TRANSPARENT MANNER TO ENSURE FULFILMENT OF THIS SUSTAINABILITY COMMITMENT

Kappahl strives to work with transparent, responsible, and sustainable partners. While we recognize that there are different legal and cultural environments in which our suppliers and their factories operate, we cannot tolerate that partners show negligence when it comes to sustainability aspects that may jeopardize our business either in the short or the long run. Therefore, we strive to create a business incentive for suppliers to respect our Sustainability Commitment. We want to work with suppliers that share our values and ambition and to award partners who themselves are drivers in the sustainability work.

Good governance structure in place at all suppliers

Kappahl expects its suppliers to take own responsibility and strive towards continuous improvement in their work to comply with this Sustainability Commitment.

Good governance including clearly communicated roles and responsibilities, implemented policies and routines, along with functioning control systems, is the foundation for a successful implementation of the Sustainability Commitment and successful business operations.

We encourage our suppliers to implement the Sustainability Commitment into an existing management system or to introduce a management system in the workplaces being used in the production of goods for Kappahl, at own or subcontracted Tier 1 factories.

Environmental Management System

The supplier should introduce and maintain a suitable environmental management system (EMS) or equivalent to minimize environmental impact and risks, and continuously improve the company's environmental performance². The supplier should have ambitious climate targets³ and report annually to

² Environmental performance is the measurable results of an organization's management of its environmental aspects such as use of resources such as energy, water, materials and auxiliaries, emissions to air, water and soil, waste generation and transport work etc. Please see ISO 14001 for a full description of an EMS.

³ Preferably the supplier's climate targets should be in line with the Paris agreement.

Kappahl on climate emission reductions, either via the Higg Index Facility Environmental module or equivalent reporting template.

All Kappahl's suppliers' and sub-suppliers' factories should comply with existing environmental legislations and obtain all legally required permits, licenses and registrations applicable for their business. The documentation should be prepared to be shown to Kappahl on request.

The EMS should cover chemicals management assuring that delivered goods do not contain any unwanted substances according to the Kappahl's Restricted Substance List -RSL, as well as supplier's operations are in compliance with the applicable laws of their respective countries. Any waste, wastewater, or emissions with the potential to adversely impact human or environmental health should be appropriately stored, managed, controlled and disposed of or appropriately treated prior to release into the environment.

Monitoring, Corrective Action and Non-Compliance

By signing a contract with Kappahl, the undertaking to respect the Sustainability Commitment is signed⁴.

Kappahl expects its suppliers to respect the Sustainability Commitment and to actively do the utmost to fulfil Kappahl's requirements in their own organization and throughout their supply chain. This should be done by cooperating in a transparent manner, by for example granting Kappahl access to relevant documentation and premises.

Kappahl reserves the right to carry out announced and unannounced inspections of all premises producing our goods at any time, either by Kappahl or by an independent third party of our choice.

If Kappahl determines that a supplier or its factory is violating this Sustainability Commitment, we expect the supplier to take responsibility for the implementation of corrective actions.

If corrective action is advised but not taken, Kappahl may suspend the placement of future orders or terminate the business relation at its discretion.

⁴ The Kappahl General Terms stipulates specific consequences of violating this Sustainability Commitment.

This undertaking is drawn up in two counterparts, one of which to be retained by Kappahl and the other by the supplier.

UNDERTAKING TO RESPECT KAPPAHL'S SUSTAINABILITY COMMIMENT

I hereby confirm that I have carefully read and fully accept the Kappahl Sustainability Commitment. I have had time and opportunity to ask questions about and discuss the contents. I undertake to respect the Kappahl Sustainability Commitment.

Place and date

Place and date

Signature of supplier representative

Signature of Kappahl manager

Name in print

Name in print

Supplier representative title

Annex I. Legal requirements in the European Union, United Kingdom and Norway

All Kappahl's suppliers and sub-suppliers should keep updated with and operate in compliance with the laws of their respective countries.

Below is a list of legal sustainability requirements in Kappahl's sales countries with relevance for Kappahl's supply chain operations. The European Union, United Kingdom and Norway all put legal sustainability requirements for Kappahl as a company, as well as legal sustainability requirements for putting textile and leather products on the market. The list is for information and guidance only, and Kappahl does not guarantee neither its completeness nor that it is kept updated at all times.

Product-related legislation (garments and store merchandise):

EU

- General Product Safety Directive 2001/95/EC (GDPS)
 - Legal requirements on the safety of consumer products including child safety, use of the CE mark and other product-related obligations.
 - The requirements relevant for Kappahl's garments and store merchandise are covered by the KappAhl's Production Quality Standard (PQS) and General Terms.
- Regulation (EC) No 1907/2006 (REACH)
 - EU's general chemicals legislation Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).
 - The requirements relevant for textile and leather products are covered by the KappAhl's Restricted Substance List -RSL⁵.
- Regulation (EC) No 2019/1021 (POP)
 - EU's implementation of the global convention on Persistent Organic Pollutants (POP), the Stockholm Convention.
 - The requirements relevant for textile and leather products are covered by the KappAhl's Restricted Substance List -RSL⁶.
- Biocidal Products Regulation EU 528/2012 (BPR)
 - EU's legislation on biocidal products and biocide-treated articles.
 - Kappahl has a ban on biocide-treated articles for all garments and store merchandise.

United Kingdom

United Kingdom continues to follow the European legislation until new national legislation is in place.

⁵ See General Terms.

⁶ See General Terms.

Norway

Norway is part of the European Economic Area (EEA) and EU legislation applies also to Norway. In addition, Norway has own national legislation.

- Internal Control Regulations [Internforskriften] FOR-1996-12-06-1127.
 - The Internal Control Regulations includes a requirement on Norwegian enterprises to introduce and maintain an internal control system to ensure compliance with product-related legislation.

Operations-related legislation:

Norway

- Transparency Act Prop. 150 L (2020–2021)
 - The Transparency Act obliges large and mid-size companies to conduct human rights and decent work due diligence not only throughout their supply chain, but throughout all business relationships in their value chain.
 - Passed on June 10th 2021. The law is expected to enter into force on 1 July 2022.

The United Kingdom

- Modern Slavery Act 2015
 - The UK Modern Slavery Act obliges Certain commercial organisations to publish an annual statement setting out the steps they take to prevent modern slavery in their business and their supply chains

Coming legislation:

Kappahl is preparing also for coming legislation that is expected to enter into force within the next years.

- *Sweden: Extended Producer Responsibility (suggested to enter into force 2023)*
- *EU: Due diligence for human rights, the environment and good governance in business relationship or in their value chains (suggested to enter into force 2024)*

Annex II. Kappahl's requirements related to Labor and Working Conditions

Labor

Forced Labor

Suppliers or subcontractors should not use any form of forced labor, including prison labor or bonded labor as defined by ILO conventions 29 and 105.

Suppliers or subcontractors should not require their employees to pay any kind of deposits, nor may they retain their employees' identity documents.

Child Labor

Kappahl does not accept child labor.

A child is defined as a person younger than 15 years of age, or as an exception, 14 years of age in countries referred to in article 2.4 of the ILO convention 138. If the national legal age for working is higher than 15 years of age, the supplier must adhere to the higher requirement.

The supplier shall establish and implement a child labor policy ensuring that no child is employed.

If child labor is detected in the production of goods for Kappahl the supplier is obliged to offer a sustainable solution in the best interest of the child.

Young employees (below the age of 18 years) may only be employed in non-hazardous work, if they are above the country's legal age for working.

Freedom of Association and Collective Bargaining

All employees must be able to exercise their legal right to form or join a trade union and participate in collective bargaining without threat of reprisal, intimidation or harassment (ILO conventions 87, 98 and 135).

In countries where freedom of association is restricted the company should strive to create an environment in which the company management and employees can discuss salaries and working conditions in a non-threatening manner.

Humane Treatment

Suppliers or subcontractors should treat all employees with respect and dignity. Physical punishment or the threat thereof, sexual or racial harassment, verbal abuse or power abuse or any other form of harassment or intimidation is unacceptable under any circumstances.

Discrimination

Suppliers or subcontractors should not apply any type of discriminatory practice as regards the recruitment, compensation, promotion or the termination of an employment agreement based upon race, caste, ethnicity, social origin, marital status, sexual orientation, disability, religion, nationality, age, gender and/or union membership or political affiliation (ILO conventions 100 and 111 and the CEDAW convention).

Wages and Benefits

Suppliers and subcontractors should pay its employees at least minimum wage or the prevailing industry standard, whichever highest. The amount should be sufficient to cover basic needs for the employee and their family as well as provide some additional income.

Wages and over time premiums and any incentive (or piece) rates should be paid directly to the employee on time and in full.

Suppliers or subcontractors should provide their employees with paid sick leave, maternity leave annual leave and statutory holidays as required by law or the prevailing industry standard, whichever highest.

To make unfair or illegal deductions from wages or the removal of benefits as a disciplinary measure are not permitted.

Working Hours

Suppliers or subcontractors should set working hours in compliance with applicable laws, and regular working.

The total hours worked in any 7-day period shall not exceed 60 hours.

Employees should have at least one day off in seven and employees should be permitted to refuse overtime without any threat of penalty, punishment or dismissal.

Labor Contract

All employees should be entitled to a written labor contract in accordance with the law.

Working Conditions

Occupational Health and Safety

Suppliers and subcontractors should comply with applicable laws and regulations and provide the employees with a safe and healthy workplace.

Employees should be provided with sufficient personal protection equipment for the work performed. The employer is encouraged to introduce a health and safety policy for its operations.

Dormitory

When dormitory facilities are provided, these should meet all applicable laws and regulations related to health and safety, including fire safety and electrical and structural safety.

Annex III. Animal welfare policy

Kappahl works to ensure that we do not use any leather, animal hair, down or feathers, that come from animals that are mistreated, or under threat of extinction, at any point in our entire production chain. Our values regarding animal welfare are based on our collaboration with the Swedish Trade Federation and their animal welfare policy.

Leather and skin

Kappahl only sells leather from cattle, buffalo, sheep, goats and pigs and we only use leather that is residual product from meat production. We do not accept leather from Indian cows, calves or oxen.

Fur

Kappahl is listed on the Animal Rights Fur Free List, under the Fur Free Retailer Program, an international alliance in which companies guarantee that they do not sell garments or accessories made with animal fur. This does not include sheepskin or synthetic fur.

Animal hair and wool

Kappahl does not accept mulesing (the cutting away of hide skin from merino sheep to prevent fly attacks). Nor do we accept the clips that are used as an alternative to mulesing.

Kappahl does not sell products that contain angora wool or angora hair.

Kappahl allows only mohair sourced from farms that fulfil the Responsible Mohair Standard (RMS) and has phased out all cashmere products.

Down and feathers

Kappahl does not accept down that is plucked from living birds in our products. We allow only down and feathers that are residual products from meat production.

Animal testing

Kappahl does not permit products tested on animals, either during production or as finished products.

Products of animal origin

If a product contains material of animal origin, this will be stated on the care label.