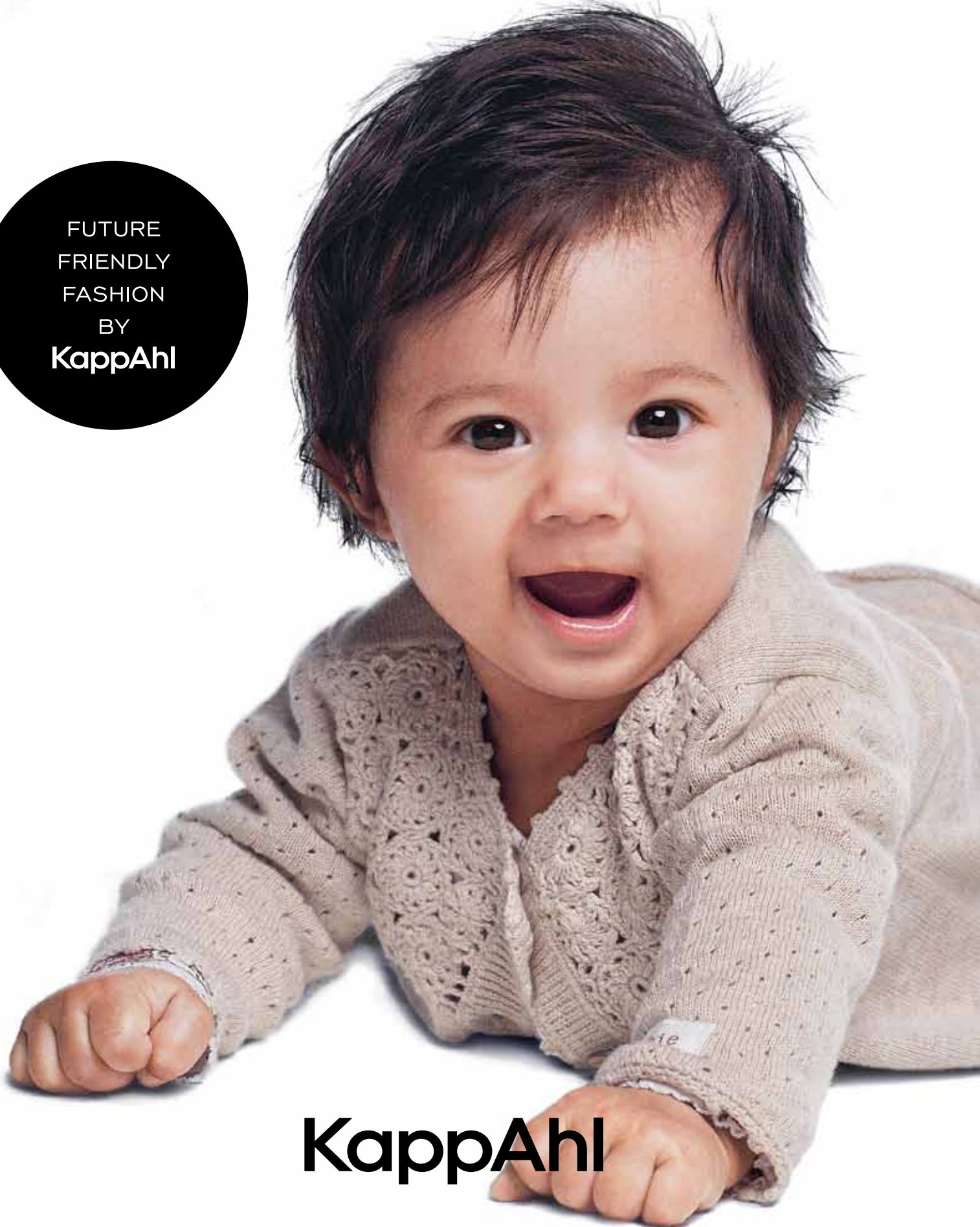


# SUSTAINABILITY REPORT 2013

FUTURE  
FRIENDLY  
FASHION  
BY  
**KappAhl**



**KappAhl**

## CONTENTS

CEO Statement	2
KappAhl's stakeholders	4
Challenges along our value chain	6
Future Friendly Fashion	8
Sustainability work in summary	
Section Future	10
Work on environmental issues	
Section Friendly	14
Social responsibility work	
KappAhl in the world	18
Section Fashion	22
Work on sustainable fashion	
KappAhl's sustainability journey	28
GRI index	30

## ABOUT KAPPAHL

KappAhl was established in 1953 and is a leading fashion chain close to 400 stores and almost 4,500 employees in Sweden, Norway, Finland and Poland. KappAhl sells value-for-money fashion with a wide appeal – to women, men and children – and focuses in particular on women in the prime of life. Our own designers create all the garments that are produced by carefully selected suppliers. KappAhl was the first fashion chain to achieve environmental certification in 1999 according to ISO 14001. In the 2012/2013 financial year KappAhl's net sales were SEK 4.8 billion. KappAhl's head office is in Mölndal, Sweden, and the company is listed on Nasdaq OMX Stockholm.

### MISSION

KappAhl's mission is "Value-for-money fashion with wide appeal" – for women, men and children.

### VISION

"KappAhl is to be a significant fashion chain in Northern Europe." This is the vision that drives KappAhl forward. All day-to-day activities are to lead ultimately towards the vision. Each initiative, each change, each decision.

### SUSTAINABILITY VISION

"Our activities are economical, environmentally and socially sustainable and create fashion with consideration for our planet today and in the future."

## BRIEF INFORMATION ABOUT THIS SUSTAINABILITY REPORT

This report describes our work in central areas of operation from a sustainability perspective.

We have worked systematically for a long time with the most central sustainability issues in our industry throughout the entire workflow: from raw materials to design, production, transport, store and finally consumption, reuse and recycling. Unless otherwise stated, the report covers initiatives taken during the 2012/2013 financial year. We report annually on our sustainability work and our previous report was published in autumn 2012.

### IN ACCORDANCE WITH GRI G3 LEVEL C

The report covers all operations and is based on the Global Reporting Initiative (GRI) guidelines for sustainability reporting. The selection of content is based on our sustain-

ability strategy and the questions and viewpoints that have arisen in the dialogue with our stakeholders. In our own assessment, KappAhl's CSR report meets the requirements for reporting level C under GRI version G3 1, at the same time approaching GRI's new guidelines, G4, through detailed reporting of our value chain and our supplier chain, among other things. To fully move over to G4 next year we intend to carry out a more thorough materiality analysis.

### SUPPORT FROM TROSSA AND SOLBERG

No third party audit has been made of the report. However, Trossa, which is a consultancy in sustainable development, provided assistance with a GRI gap analysis in relation to previous sustainability reporting, as well as a review and overall assessment of the report. Solberg Kommunikation, which

advises on strategic communications associated with sustainability and other issues, also provided assistance and support. KappAhl's environmental work is thoroughly audited through ISO 14001 certification.



Sales have increased by

3.6%

Operating profit improved by

281%

Gross margin strengthened by

2.5

percentage points



Net debt decreased by

60.5%

## THIS YEAR KAPPAHL ...

... achieved increased sales and profitability and reduced net debt considerably, which contributed to a stable financial situation.

... was one of the initiators of SWAR, a Swedish project for cleaner textile production in India.

... signed an international agreement to create safer working conditions for textile workers in Bangladesh. A total of 1,600 factories and 2 million workers are covered.

... received top marks again from its employees; an average of 4.3 out of 5 possible points for the business and workplace as a whole.

... carried out a total of 396 follow-up visits and 288 inspections at our 220 suppliers.

... again received awards for high garment quality. For example, we received the “Best in Test” award for our sunscreen clothes by Swedish test institute Testfakta.

... conducted 1,500 tests in independent laboratories to minimise the presence of unwelcome chemicals in our products.

... was awarded a high score by our employees for sustainability work in the yearly attitude survey. The mark increased to 4.4 (4.3) out of 5. More than half gave the highest mark.

... published our suppliers’ production units.

*“Future Friendly Fashion  
– consideration for our planet today and in the future”*

## “WHY WE WORK ON SUSTAINABILITY”

Dear Reader,  
I would like to start by describing why I and my colleagues at KappAhl think sustainability matters. To do this we need to look back.

### A SIMPLE IDEA AND SOUND CULTURE

KappAhl started in 1953 from a seemingly simple idea; that more people, in fact everyone, should be able to afford attractive fashion at a good price. It wasn't like that then. But the small team in the first store in the outskirts of Gothenburg dared to break the norm and move in the direction the idea took them. And they did it based on a sound corporate culture that created great loyalty.

### TWO MAJOR DIFFERENCES

We are here today thanks to them, inspired by the same simple idea, culture and loyalty towards our customers, the company and everyone else we have dealings with.

There are, however, two major differences. One is that we operate on a global market today. This means that we need to build global relations with suppliers, workers and communities thousands of miles away. Otherwise we may find it difficult to be successful in the long term.

To succeed in building long-term relations in geographically distant places we need to be committed to specific improvements on site, and show that we do not tolerate structural collapses in factories with thousands of workers, child labour or dangerous chemicals in production. But also that we want to help poor women in slums to get training and the freedom that a job provides, which we are doing in Bangladesh and you can read more about in this report. Only then will we earn great public confidence.

The second major difference is that the economic growth we have seen since the 1950s has been enormous.

In many respects this has been positive. Several nations bearing the label developing country only a few decades ago are now among the richest in the world.

The same will happen to many of today's developing countries that have just made the move from agriculture to industry. In any case if we in the West continue to trade with them and contribute knowledge that leads to improvements for individuals, companies and society.

Unfortunately technical developments going hand in hand with growth have also contributed to our using the earth's resources at an increasingly fast rate. This also applies to us in the fashion industry. The price we may have to pay for this is high, unless we start to act a little more wisely, with smarter freight solutions, cotton cultivation, reuse and recycling of material. These are issues we are working on and that you can read more about on other pages.

### IMPROVEMENTS STEP BY STEP

We are open about needing to manage major sustainability challenges going forward. And behind each challenge there is an opportunity that we intend to use. We will do it methodically. This is how we create perceptible changes in the long term – for our customers, other stakeholders in our business environment and thus also for us. Because it all hangs together and this requires both balance and focus. At least if you want to run a company that is strong in the long term and inspires positive associations.

We call our approach Future Friendly Fashion. Three words that summarise all we do in sustainability and thus also throughout the business; from design to sales and how we give advice to our customers and ultimately also reuse and recycling.

Using the concept Future Friendly Fashion also means that we choose to

expand the term sustainability. Normally the projects we run in cultivation of ecological cotton in India and water purification in India and Bangladesh are called sustainability projects. Similarly this applies to all the hundreds of visits we make to our suppliers every year to follow up and support, based on our Code of Conduct. The same goes for the 1,500 tests we made in independent laboratories this year to ensure that there were no unwelcome chemicals in our products.

The problem of the sustainability label is that it is easily perceived and discussed as something alongside other operations. That is not the case. All the initiatives mentioned above strengthen our entire operations, our relations and conditions for long-term access to necessary resources.

The logic is actually simple. By helping our suppliers to economise on resources such as water and energy we help them to achieve higher efficiency. And by contributing to better and safer working conditions we create the conditions for higher productivity. The same thing happens when we invest in training our employees, since they then obtain new tools for meeting customers' needs, which in turn creates increased effectiveness, pride and job satisfaction.

Altogether all these efforts result in higher profitability, for our partners and for us. At the same time customers receive better treatment and the right fashion at the right price. In addition it contributes to setting a positive improvement spiral in motion, which lives on and benefits the individual, the company and society. That is why we work on sustainability.

### SIGNED UP TO THE ACCORD

In this context I must mention the dreadful disaster that took the lives of more than 1,100 textile workers in Bangladesh in spring 2013. The factory that collapsed did not belong to any of our suppliers, so





*“And behind each challenge there is an opportunity that we intend to use. We will do it methodically. That is how we create perceptible changes in the long term.”*

we do not have full insight into underlying causes. We only know that these things must not be allowed to happen. Consequently it was natural for us to sign the Bangladesh Safety Accord. Support for the Accord is the greatest ever, including almost 100 major companies, trade union organisations, the ILO and the Bangladesh Government. This indicates a positive trend.

#### COOPERATION THAT MAKES A DIFFERENCE

It is not an end in itself for us to cooperate with industry colleagues and other organisations on matters connected to Future Friendly Fashion. We do it when we consider that it makes a difference.

One example is the water project SWAR, of which we are one of the initiators. It is a cooperation project started in May 2013 and is expected to improve efficiency in textile production and reduce consumption of water, energy and chemicals at the participating suppliers. Ultimately the lessons learned can be passed on to other suppliers.

#### MUCH REMAINS TO BE DONE

In conclusion I would like to point out that even if we are proud that much has been done in the area of sustainability, we are all extremely aware that there is an infinite amount still to do. And it is important that we continue on the path staked out.

I would also like to thank all employees for all their sound efforts this year, characterised by a tough market and major adaptations in the organisation. It is a sign of strength that we were able to hold the standard high with long-term important initiatives in Future Friendly Fashion.

So I am looking forward to another year with all customers, employees, suppliers and other stakeholders.

Johan Åberg, President and CEO  
Mölnådal, 1 November 2013.

# “GOOD DIALOGUE WITH

For us it is natural to cooperate with our stakeholders. It gives us the opportunity for exchange of knowledge, increased understanding and contributes to the development of our organisation.

The dialogue varies for different stakeholders. One important stakeholder is our customers, with whom we commu-

nication through many channels apart from the meeting in the store.

## DIALOGUE IN SOCIAL MEDIA

Social media is becoming an increasingly important channel for exchanging experiences, putting forward views and questions.

KappAhl is on Facebook, for example, where both we and the customers can ask questions and comment on events in the area of sustainability.

We also answer hundreds of emails about sustainability matters every year.



### Important dialogue areas:

- Work environment and pay
- Gender equality
- Open working climate
- Training opportunities and career development
- Trade union cooperation

HOW DO YOU ENSURE THAT KAPPAHL IS A GOOD WORKPLACE WHERE PEOPLE ARE HAPPY AND DEVELOP?

### Important dialogue areas:

- Environment and climate impact
- Working conditions/ pay
- Animal welfare
- Use of water/chemicals
- Contribution to social development

WHAT DOES KAPPAHL DO TO ENSURE DECENT CONDITIONS IN PRODUCTION?

### Important dialogue areas:

- Environment and climate
- Business ethics
- Human rights
- Working conditions
- Expansion
- Profit and sales trend

HOW DOES KAPPAHL'S SUSTAINABILITY WORK AFFECT ITS ABILITY TO ACHIEVE BUSINESS GOALS?

### Important dialogue areas:

- The work environment in production
- Quality of the products
- Value for money garments
- Good design
- Chemicals in the garments
- Chemicals/emissions in the process and from transport

AS A CUSTOMER CAN I BE SURE THAT THE CLOTHES ARE SAFE FOR ME AND MY FAMILY?

### Important dialogue areas:

- Long-term relations
- Early order and capacity bookings
- Contribution to development of measures to improve the environment
- Clear requirement specifications and monitoring compliance

HOW DOES KAPPAHL ENSURE THAT SUPPLIERS ACT MORE SUSTAINABLY?

# OUR STAKEHOLDERS”

## MEET REGULARLY

We meet several of our investors regularly to go through how they regard our work in sustainability. We also cooperate closely with schools and universities, where we answer questions from school pupils, lecture and participate in projects and contribute to essays and research.

## NETWORKS ARE OF GREAT IMPORTANCE

Through the networks we participate in we meet representatives from many stakeholder groups, such as municipalities and universities. We work all the time to develop the stakeholder dialogue and seek new ways to meet.

## THE MOST COMMON QUESTIONS

We present below frequently asked questions by our stakeholders. The most common customer questions in 2012/2013 concerned chemicals in textiles. One current question from stakeholder organisations, authorities and industry representatives, concerns recycling of textiles.

AGENCIES

NETWORKS AND  
INDUSTRY  
COLLEAGUES

SOCIETY

SCHOOLS  
AND UNIVERSITIES

### Important dialogue areas:

- Working conditions
- Legal compliance
- Environmental and climate impact
- Cooperation projects

### Important dialogue areas:

- Cooperation on environment and climate, such as transport, energy
- Cooperation around working conditions in production countries
- Establishing joint guidelines for example for The Better Cotton Initiative and water code
- Cooperation projects around recycling/re-use of textiles

### Important dialogue areas:

- Investments
- Jobs
- Social commitment/development
- Environmental and climate impact

### Important dialogue areas:

- Environment and climate
- Working conditions in the production countries
- Work experience places
- Training

HOW DO YOU REGARD  
FUTURE DEVELOPMENT?

HOW CAN KAPPAHL  
AND THE INDUSTRY  
TOGETHER DRIVE  
DEVELOPMENT?

HOW CAN KAPPAHL  
CONTRIBUTE TO A  
BETTER SOCIETY?

HOW DO YOU WORK  
FOR SUSTAINABLE  
DEVELOPMENT?

The responses to stakeholders' questions are in this report and under "Future Friendly Fashion" on our website: [www.kappahl.com](http://www.kappahl.com).

We want our customers to love our fashion, but also to like us as a company. So sustainability issues are important. This applies all the way from idea and design to sales in our close to 400 stores or our Shop Online. We give you a picture here of our high priority challenges at each stage. Behind every challenge is an opportunity. We intend to use them.

### GOOD WORK ENVIRONMENT AND HIGH COMPETENCE LEVEL

KappAhl consists of thousands of competent employees that go to work every day to contribute to operations. A significant challenge and opportunity is their satisfaction with their working conditions and development opportunities. In the same way our ability to ensure the right competence among our employees. Consequently we work systematically on everything from work environment and training to follow-up and feedback. In that way we can continue to be an appreciated workplace, which the follow-ups indicate.

### PRODUCTION

Two major challenges and opportunities at the production stage are contributing to good working conditions and environmentally effective processes, for example linked to water consumption in the cultivation and preparation stages of cotton, at our suppliers. To create an effective and quality assured production process we have production offices in important purchase markets. By signing a framework agreement the supplier undertakes to follow the Code of Conduct and work proactively to meet the requirements within its operations and its part of the value chain. We make regular evaluations and contribute knowledge to our suppliers. Both on issues linked to our Code of Conduct and the environment. In addition we run a school to train poor women. We also participate in several environmental projects, for instance concerning water purification, in line with the environmental code we have drawn up.

### DESIGN/RAW MATERIALS

All our garments are from our own designers. In that process it is important to take into consideration challenges and opportunities linked for example to use of water resources, but also use of chemicals and child safety as well as overall quality. In that way we contribute to increased sustainability in other parts of the value chain and the lifecycle of the garment. For example this year we sold more than 9 million eco-labelled garments and in the long term are increasing the proportion of ecological cotton, which is welcomed by our customers.



THIS YEAR WE SOLD MORE THAN

**NINE**

MILLION ECO-LABELLED GARMENTS.



## LOGISTIC

The greatest challenge and opportunity in our logistics business is the ability to create effective transport.

By choosing the correct mode of transport and group shipment to a greater extent we can reduce the environmental impact and improve efficiency of logistics, leading to lower costs per shipped item. Logistics for the entire Group are coordinated at the head office. KappAhl's distribution centre is there too, one of the most effective in the whole of Europe. Here the distribution system plays an important part. Each year over 50 million items pass through the facility.

More than 95 per cent of shipments from the country of manufacture are by sea, for environmental and cost reasons. We make demands of our carriers, regardless of mode of transport and want them to work actively on issues concerning safety, the environment, quality and health. Through our membership of the Clean Shipping Index we work to reduce the environmental impact of shipping. We also re-use hangers, recycle plastic bags in which goods are shipped and have our own production of transport crates of recycled plastic.

## WANT TO HELP CUSTOMERS MAKE WISE CHOICES

We are convinced that every customer wants to make wise choices from a sustainability perspective even after leaving the store, which is a considerable challenge and opportunity. We have produced a brochure, "Wash right", containing information to help customers substantially reduce their use of energy and soap powder when washing clothes. We also work to find effective solutions for recycling textiles, when customers want to change wardrobe. In addition we welcome questions from our customers and other stakeholders, since we consider an open dialogue has great importance in enabling us to improve and contribute to moving sustainability work forward.



MORE THAN

95%

OF SHIPMENTS FROM THE COUNTRY OF MANUFACTURE ARE BY SEA, FOR ENVIRONMENTAL AND COST REASONS.

## SALES

Creating environmentally sustainable stores, providing sound information to our customers and other stakeholders and recycling textiles are three significant challenges and opportunities at the sales stage. We have high requirements regarding materials when we build and develop our stores. Together with one of our suppliers we have worked to reduce the weight of our store fittings, which reduces the amount of material used and thus also the need for transport. We also work to reduce energy consumption in stores. In addition our plastic bags consist of recycled plastic.

We endeavour to inform our customers about our eco-labelled goods and how they can look after their clothes, since much environmental impact in the lifecycle of garments arises after purchase by the customer. For us it is also important to stand for sound ideals. For example, we do not sell or market garments that can be perceived as offensive and we use models and mannequins with healthy bodies, to avoid contributing to an excessively thin and misleading ideal of the female body.





## “FUTURE FRIENDLY FASHION – CONSIDERATION FOR OUR PLANET TODAY AND IN THE FUTURE”

KappAhl’s mission is “Value-for-money fashion with wide appeal” – for women, men and children. Value for money is also about our customers being satisfied with KappAhl as a company. So we developed the following sustainability vision: “Our activities are economical, environmentally and socially sustainable and create fashion with consideration for our planet today and in the future.”

### SUSTAINABILITY WORK SUMMARISED IN THREE WORDS

Under Future, Friendly, Fashion we gather everything KappAhl does for our planet and the people we affect with our operations and for more sustainable fashion in our stores.

### SYSTEMATIC WORK THROUGHOUT THE VALUE CHAIN

We work systematically on sustainability throughout the entire workflow, from design, production, logistics to sales. All so that customers can feel secure with the products they buy at KappAhl and our way of acting, for example in relation to our producers and their employees, as well as on matters concerning our joint environment.

### LONG HISTORY IN SUSTAINABILITY

We have worked for a long time on issues concerning the environment and social responsibility. As early as in 1993 we launched the first collection of ecological clothes and in 1997 we produced our first

code of conduct for our suppliers. Besides this, KappAhl was the first fashion chain in the world to achieve environmental certification according to ISO 14001. This was as early as in 1999. This year 18 per cent of KappAhl’s range is eco-labelled fashion.

We also give tips to our customers on how to contribute to positive development, for instance by looking after their clothes in the best way possible.

# FUTURE FRIENDLY FASHION BY KAPPAHL



## FUTURE

*“We will contribute to a better future for our planet.”*

Under the term Future we gather KappAhl’s environmental work. It is a matter of how we manage the earth’s resources in a more sustainable way, from cultivation to finished product. The following focus areas form the foundation for our goals: reduced emissions of substances that have a negative impact on the environment, effective use of finite resources and good waste management.



## FRIENDLY

*“We build long-term relations.”*

Under the term Friendly we gather KappAhl’s work to build long-term, sound relations with all the people and communities that contribute to our operations. We based our sustainability goals on these focus areas: good relations with our key stakeholders, a good workplace and good training.



## FASHION

*“Value-for-money fashion for many people, responsibly.”*

Under the term Fashion we gather what KappAhl does to develop sustainable and attractive fashion. All this is so that it will be simple to buy fashion produced with consideration. Our focus areas in Fashion are: to take the sustainability dimension into account already at the design stage, to ensure high quality from an overall perspective, which covers everything from safety to using appropriate raw materials.

## Our overall objectives

### FUTURE

- Reduce emissions of carbon dioxide.
- Reduce the use of water and chemicals in production.
- Reduce energy consumption.
- Reduce the amount of waste and increase the percentage of recycling and re-use.

### FRIENDLY

- Act openly and transparently in our sustainability work, internally and externally.
- Be an attractive workplace.
- Contribute to sustainable development in our suppliers’ operations.
- Contribute to a more sustainable society through information and training initiatives.

### FASHION

- Guarantee quality and sustainability throughout the chain, from idea and design to finished product.
- Increase the percentage of sustainable material in our collections.



# Cooperation for cleaner production in India

Cleaner water, fewer dirty emissions and a more secure work environment for a large number of workers in India. This is the aim of the Sustainable Water Resources project (SWAR), started in May 2013. Behind the project are KappAhl and two other Swedish textile buyers as well as the Stockholm International Water Institute, SIWI. Sida is also contributing support.

The project is expected to improve textile production efficiency, thereby reducing the consumption of water, which is a great challenge in the production and preparation of cotton. In addition the projects are expected to lead to reduced use of energy and chemicals among participating suppliers.

## INCLUDES 40 SUPPLIERS

SWAR will continue for two years and include some 40 suppliers in India. The ambition is to make a perceptible difference to humans and the environment in India.

## MEASURES AT THREE LEVELS

The measures can be broken down into three levels. The first level covers relatively simple measures such as inspecting and repairing water piping systems and showing the resulting gains. It is here that most of the initial work of the project will take place.

When this type of simple measure is completed, creating great environmental

benefit at a low cost, level two awaits. Here slightly larger projects are conducted, such as utilising steam or replacing costly diesel generators.

The third level is concerned with supporting long-term thinking and investing in new technology that gives great effects in the long run.

## GREAT EFFICIENCY GAINS

Each implementation, regardless of level, is expected to lead to great efficiency and environmental improvements in the form of reduced use of water, energy and chemicals at the suppliers. In that way we hope the project will also contribute to continued development of the Indian textiles industry. The results so far are positive. Altogether the measures have led

to savings of 13.5 million litres of water, 824 tonnes of chemicals and a substantial reduction in annual energy consumption.

## BASED ON A NEW WATER CODE

The project is based on the Water Code that 33 Swedish textiles companies have drawn up jointly and which includes guidelines for water, chemicals and emissions.

## INSPIRED BY EARLIER PROJECTS

SWAR was inspired by the successful IFC/World Bank Cleaner Production project in Bangladesh in 2011, which was declared one of the three most valuable projects of the year at the World Economic Forum in Davos. KappAhl also participated in Cleaner Production.



## Water Partnership for Cleaner Textiles

### Continuation of commended project

In May 2013 KappAhl signed up to the Bangladesh Water Partnership for Cleaner Textiles, PaCT. This is an international cooperation project to achieve cleaner production in Bangladesh.

PaCT is a continuation of the project declared to be one of the year's

three most valuable projects at the World Economic Forum in Davos in 2011, partly thanks to a carbon dioxide saving of 11.7 tonnes. The use of chemicals and energy also decreased, while participating suppliers received a 267 per cent return on invested

capital. The purpose of PaCT is to continue developing the important textiles industry with cost-effective improvements linked to water consumption and chemicals emissions. Ultimately it will lead to a better environment, increased efficiency in the textiles industry and a more secure work environment.

# Working for sustainable cotton

KappAhl buys 7,400 tonnes of cotton annually. It is our most important raw material.

A great challenge is that it requires large amounts of water to cultivate and prepare cotton. According to the World Wide Fund for Nature, cultivating the cotton for one single pair of jeans requires 10,000 litres of water. The fact is that traditional cotton cultivation is estimated to account for the consumption of 3.5 per cent of all water and 6 per cent of all pesticides in global agriculture, due to ineffective methods.

It is our responsibility to strive for improvements. For that reason, in 2007 KappAhl joined the Better Cotton Initiative (BCI), which works to increase the supply of sustainably cultivated cotton. The cost of membership is about SEK 400,000. Besides that there are the costs of project management, training and follow up.

## EMPLOYS 300 MILLION

The cotton industry employs 300 million people worldwide. More than 90 per cent

of the farmers are in developing countries. At present BCI cotton accounts for 4 per cent of global cotton production. The aim is to reach 30 per cent in 2020.

## INCLUDES 220,000 FARMERS

Via the BCI farmers learn to use less water, fewer chemicals and pesticides even in conventional cotton cultivation.

The first harvests with Better Cotton were in 2010/2011 in Brazil, India, Mali and Pakistan. Since then development has been rapid. In 2012 there were 220,000 farmers working, organised in 8,300 "Learning Groups", which harvested 623,000 tonnes of BCI cotton.

## MORE EFFECTIVE CULTIVATION METHODS

According to the BCI's studies, which compare ordinary cultivation with Better Cotton agriculture, there are several advantages to sustainable cultivation. The harvests produce considerably more cotton as well as increasing the economic returns. The most recent study, from 2012, showed that the farmers in India who had

changed to BCI achieved profitability that was 32 per cent higher than in the control group.

## 8,250 TONNES VIA OWN FAST TRACK

In 2011 KappAhl together with other actors formed a "fast track" to speed up development in sustainable cotton cultivation, in accordance with BCI guidelines. The first harvest from this initiative was in autumn 2011.

To date 2,400 farmers have undergone training. In total they cultivate more than 8,250 tonnes of cotton per year. Implementation is together with the Cotton Connect organisation.

## OUR MOST IMPORTANT RAW MATERIALS

Cotton accounts for 58 per cent of our raw materials consumption, followed by polyester, 12 per cent, nylon, 11 per cent and viscose, which accounts for 6 per cent.



THE AIM IS THAT

30%

OF ALL COTTON IN THE WORLD SHOULD BE CULTIVATED IN ACCORDANCE WITH BCI'S PRINCIPLES IN 2020.



# Measures for effective transport

The goods we buy are shipped to our distribution centre in Mölndal, Sweden, and from there out to the stores. It is important that the process is dealt with effectively, both for the environment and the economy. Consequently we have for a long time been conducting discussions with carriers on new fuels and engines and effective route planning.

## INCREASE FILLING RATIO

In 2012/2013 we worked to increase the filling ratio in our shipments, the whole way from supplier to store – to avoid transporting “air”, which is costly both for our economy and our environment.

By changing our way of writing orders we increased the filling level in cartons shipped from suppliers to our distribution centre. We have also increased the filling ratio of our crates of goods sent to stores. All in all, the improvements means that fewer shipments are needed to move the same amount of goods.

In coming years we intend to further improve the effectiveness of our distribution to stores. We are reviewing the possibility of increasing the percentage of grouped shipments with companies that have stores in the same shopping centres as us. This will lead to more fully loaded trucks and a reduction in the number of vehicles on the roads.

## SHIP MAINLY BY SEA

In 2012/2013 sea transport accounted for 97.3 per cent of our shipments from producer countries, counted in tonne kilometres.

Other freight from suppliers is by air and road.

Sea transport clearly decreases emissions per tonne and kilometre compared with air transport, which is one reason why we ship a clear majority of our fashion from Asia by sea. Another reason is that it is far more cost effective than by air.

## RESULTED IN LOWER EMISSIONS

The increasing use of sea transport has had a positive effect. Despite the fact that during the financial year on average we shipped each garment 1.4 per cent further, emissions of carbon dioxide and nitrogen oxide decreased – albeit marginally. Carbon dioxide emissions per garment decreased by 0.7 per cent and nitrogen oxide emissions by 0.4 per cent.

## PART OF THE CLEAN SHIPPING PROJECT

Since 2008 KappAhl has belonged to the Clean Shipping Index, a member-driven network for transport buyers aimed at increasing focus on environmental issues in shipping. The Clean Shipping Index requirements are part of our procurement of goods transport.

The basic requirement in 2012 for approval is that at least two of the shipping company’s ships are verified in accordance with the Clean Shipping Index criteria.

## REDUCED EMISSIONS PER GARMENT DESPITE LONGER FREIGHT DISTANCE

	Freight tonne kilometre	Carbon dioxide, kg	Nitrogen oxide, g	Hydrocarbons g	Carbon monoxide, g	Particles, g
2011–2012 total	287,556,512	6,966,750.43	145,406,308	3,638,566.28	12,308,809	5,778,166
2011–2012 average/garment	5.51	0.134	2.79	0.07	0.24	0.11
2012–2013 total	285,170,613	6,796,125.37	141,503,462	3,595,800.98	12,122,142	5,746,145
2012–2013 average/garment	5.60	0.133	2.78	0.07	0.24	0.11

Despite transporting each garment slightly further on average in 2012/2013, emissions of carbon dioxide and nitrogen oxide decreased, while other values are at approximately the same level as the year before.

## First fashion chain to achieve environmental certification

KappAhl was the first fashion chain in the world to be certified under environmental management standard ISO 14001. The first time was as early as 1999. A new audit is carried out each year. ISO certification covers management, product flow organisation, administration and distribution as

well as store operation in Sweden and Finland. Certification of stores in Norway is also carried out on the basis of the nationally recognised standard.

KappAhl’s annual audit for environmental certification is conducted by the SP Technical Research Institute of Sweden.

This year’s audit found seven minor non-conformances, in other words nothing of a serious nature.



# Nominated for Retail Awards

In spring 2013 KappAhl was nominated as “Sustainable Store of the Year” in the Swedish Retail Awards. The citation reads: “KappAhl uses the potential of a large company in its sustainability work, which informs its entire operations. From production, with environmental work and training of suppliers, via careful considerations in logistics, stores and HR work, all the way to communication with the end customer.”

## IMPORTANT COMPONENT OF THE CONCEPT

Sustainability is an important issue when we create our store concept. Our concept and building department has clear requirements concerning input material in building and renovation. For example we do not use any form of chromium in our store fittings.

Since 2009 we have worked actively to reduce the weight of our store fittings. There are several gains from this. It reduces transport requirements and use of materials as well as being an economic

saving. The weight of our store fittings decreased by a third in the period 2010–2013.

In addition we work to reduce the amount of waste. For example, we have a return system for crates of recycled plastic instead of cardboard cartons for freight from the distribution centre to the stores.

## GREEN ELECTRICITY SINCE 1999

In Sweden KappAhl has been using electricity with a guarantee of origin from hydropower facilities since 1999. About 70 per cent of electricity consumption in the Swedish organisation comes from this source.

In parallel we cooperate with the company Elkraft, to reduce energy consumption. Between 2011 and 2012 electricity consumption in stores in Sweden decreased by 2,437 MWh, corresponding to 8 per cent of total consumption in the stores. At the head office and distribution centre consumption decreased by 50 kWh and 81 kWh, corresponding to 4 and 3.5 per cent.



## Safeguarding resources

KappAhl wants to reuse and recycle as much as possible of the products used in operations.

### RECYCLED PLASTIC BAGS

This has led to our consumer plastic bags being made of recycled plastic and our goods being transported in crates of recycled plastic. We have had the crates manufactured ourselves from waste plastic from operations. In addition millions of hangers are reused and recycled every year.

### RECYCLING TEXTILES

We work to find functioning solutions in re-use and recycling of textiles, including in networks of the largest Swedish textile companies. The Textiles for Recycle Initiative, T4RI, is an example. Together we look at solutions for promoting re-use via second hand and redesign shops and recycling of textile fibres. We are also part of the Network for Reuse and Recycling, one result of which is the report “Nätverk, trådar och spindlar – Samverkan för ökad återanvändning och återvinning av kläder och textil” (Networks, threads and spindles – Cooperation for increased re-use and recycling of clothes and textiles).

We have been donating sample garments and refused garments in stores to local charities for ten years.



# THE CODE OF CONDUCT PAVES THE WAY FOR BETTER WORKING CONDITIONS

Widespread poverty, frequent workplace accidents and patriarchal structures that obstruct women’s development. The list of areas for improvement is long as regards Bangladesh. Some people maintain that the situation is so bad that the morally correct thing to do is not to buy goods manufactured in that country.

At the same time there is another picture, indicating that the textile industry in Bangladesh is a good example of why it is important to industrialise poor countries and also give them the chance to sell their products internationally.

## STAY AND CONTRIBUTE – DON’T RUN AWAY

“Buying clothes produced in Bangladesh is the best way of contributing to the continued development of the country” is a quote from the report “Made in Bangladesh – Textilindustrin som fattigdomsutrotare” (Made in Bangladesh – the Textile Industry as Poverty Eradicator), September 2013.

This fits in well with our perception. As the manufacturing industry grows and

develops with the help of new technology, increased competence and better working conditions, productivity and GDP per capita rises, leading to reduced poverty and improved living standards. In addition, industrialisation contributes to development and release from patriarchal structures for millions of young women.

## EXHORTED THE PRIME MINISTER TO INCREASE MINIMUM WAGE

In that way companies like KappAhl play a key role by remaining, contributing to growth and positive development in several respects – on their own and together with others when that is most appropriate.

In 2010 for example, we and eleven other companies signed an exhortation to the country’s prime minister to raise the minimum wage and introduce annual adjustments.

We believe that those working in our suppliers’ production units should have wages that cover more than basic needs and that they should be compensated for the hours worked. This year’s signing of the Accord on Fire and Building Safety in

Bangladesh affords a good opportunity to steer development in the right direction on several levels.

## FIRST STOP ON ROUTE AWAY FROM POVERTY

At the same time it should be remembered that Bangladesh has only just started its journey from poor agricultural nation and that the textile industry is the first stop on the route to more refined and technology-intensive industries.

History confirms this pattern. This applies both to older industrial countries such as England, where the industrial revolution started with textile production, and Sweden, as well as younger industrial countries such as South Korea, Taiwan and Singapore.

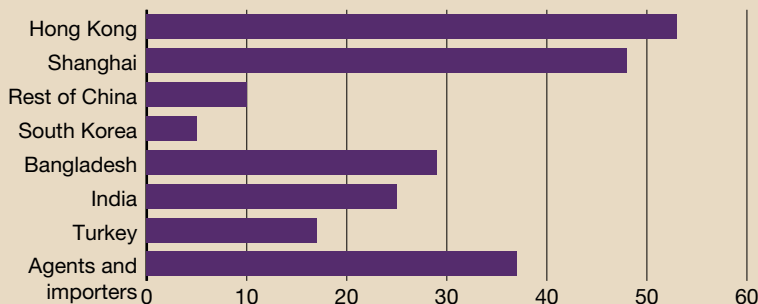
In the case of Bangladesh, however, development may be rapid if things continue in the same direction as in recent years. According to forecasts by the World Bank and McKinsey, Bangladesh may be classified as a medium-income country already in the early 2020s.

## CODE OF CONDUCT – A CENTRAL TOOL

We are convinced that KappAhl has an important role to play in developing a sustainable society in Bangladesh and other countries from which we buy goods, with good workplaces characterised by sound working conditions and fair pay. In that way a “win-win-win” situation is created, with gains for workers, factory owners and for us.

To steer this work as effectively as possible we have drawn up a code of conduct for our suppliers. In addition we run a number of improvement projects in the form of education for poor women and cooperation projects and agreements to create a better environment and better as well as safer working conditions.

Number of suppliers and production units per production office



**PART OF THE FRAMEWORK AGREEMENT**

The Code of Conduct is part of the framework agreement with our suppliers and covers areas such as forced labour, child labour, freedom of association and organisation, pay and working hours and safety at the workplace. In addition suppliers undertake to meet our requirements concerning business ethics and corruption.

By approving the framework agreement the supplier commits to working proactively to live up to the requirements of the Code of Conduct and work to improve terms of employment and working conditions.

**PROCESS FOR IMPROVEMENT**

Our daily work is done on the basis of a process consisting of five parts: identify non-conformance with the Code of Conduct, initiate improvement measures, supervise and support the work of improvement and ensure that production takes place in approved production units.

**A FIVE-PART WORK PROCESS**

Production units covered by our system are graded in a four-level system; from Not approved to Fully approved. Our approach is that suppliers' and production units' compliance with the Code of Conduct must be developed as the business relationship develops.

**CLEAR ACTION PLAN**

If we identify non-conformances with the Code of Conduct, the supplier must prepare an action plan with information on what the non-conformance consists of, how it is to be dealt with in the long term, when the measures are to be completed and who is responsible for ensuring this.

**DOING MORE THAN JUST INSPECTING**

Some people maintain that there is far too great a focus on the industry inspection itself, and that the objective is often just to pass the inspection to get an order – not necessarily do the right things to achieve long-term improvement.

We try to go one step further, since it is not the inspection in itself that leads to improvement. It is what we do with the results that makes a difference.

So we make a point of the importance of follow-up. We want to do more than just fill out checklists, something that has helped give us a good reputation in Bangladesh for example, in spite of KappAhl only being a relatively small company.

**DISTRUST CAN BE TURNED INTO COOPERATION**

On several occasions we have initially encountered distrust from a supplier and a tendency to conceal information so as to be approved for production. When they



**WE DO NOT ACCEPT CHILD LABOUR**

KappAhl does not accept child labour. Our Code of Conduct defines child labour in accordance with ILO Convention No. 138. We encourage our suppliers to draw up and apply policies and procedures to ensure that children are not employed in their own operations or by sub-contractors and state how important it is to check the age of job applicants.

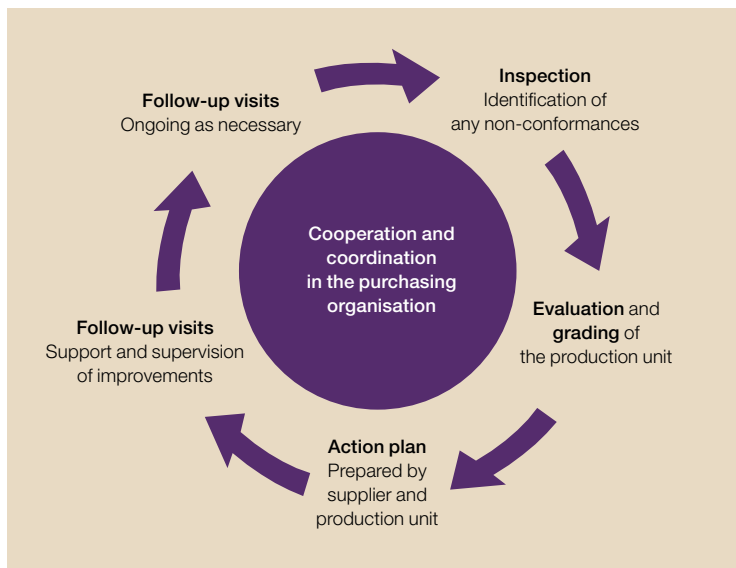
We have a clear plan for how we are to act if child labour is encountered in any of our suppliers' production units. If it happens we act to achieve the best possible solution for the child.

have realised what we want to achieve they have changed their attitude and work methodically in the right direction with a high degree of transparency.

**IMPORTANT FOLLOW-UP**

Our follow-up visits have two purposes – to supervise and support ongoing improvements. In the countries where we have production offices we have decided to use our own staff, since we believe in the value of transparency and cooperation with our business partners. We create this by building long-term trust and having first-hand knowledge of their operations.

In that way we ourselves can make well-founded assessments at an early stage of the



supplier's self-awareness, willingness and ability. At the same time we are realistic and do not expect the factories to be perfect on all counts, but that there is a real intention to create improvements, step by step.

The fact is that more and more suppliers are starting to see the value of our method of working, since it leads to increased productivity.

**MORE FOLLOW-UPS**

In 2012/2013 we conducted 396 follow-up

visits and 288 inspections at our suppliers. About 70 per cent of the visits took place in China, where the factories are spread over large geographical areas, making the work challenging.

In the first place we give priority to suppliers that produce a lot for us, and where we can get most influence. That way we can achieve the greatest possible improvement in the shortest time.

In 2012/2013 the 10 largest suppliers accounted for about 30 per cent of our purchases.

**DECISION SUPPORT FOR THE PRODUCTION OFFICES**

Country managers and other colleagues at the production offices with day-to-day responsibility for the business relation with suppliers, receive regular information on the work on the basis of the Code of Conduct. Placing of orders is limited or stopped if a supplier does not cooperate or if a production unit does not live up to the basic requirements or does not carry out promised improvements.

**Grading of production units per production office and country**

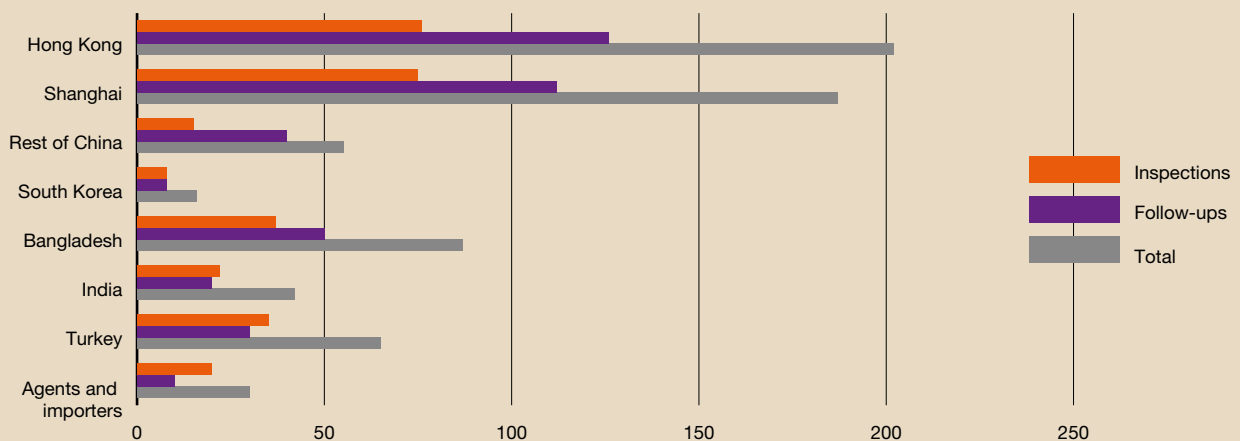
	Approved	Temp. approved	Not approved	Not inspected	Total
Hong Kong	60	39	0	0	99
Shanghai	46	32	0	0	78
Rest of China	24	8	0	0	32
South Korea	8	3	0	0	11
Bangladesh	16	15	0	0	31
India	14	22	0	0	36
Turkey	11	14	0	1	26
Agents and importers	2	20	0	29	51
<b>Total</b>	<b>181</b>	<b>153</b>	<b>0</b>	<b>30</b>	<b>364</b>
Percentage	50%	42%	0%	8%	100%

- <sup>1</sup> The first time a production unit is inspected it is graded Temporarily Approved or Not Approved.
- <sup>2</sup> Agents' and importers' production units in low-risk countries, such as Italy, are not inspected. Agents' and importers' production units are inspected when a certain number of orders have been placed or when the order value exceeds a certain amount.

**PUBLICATION OF SUPPLIER LIST**

In autumn 2013 KappAhl will publish its supplier list, which is in line with our endeavour to create transparency in our sustainability work. The supplier list is published on KappAhl's website.

**Number of inspections/follow-ups per country**





# Concerted effort for safer working conditions

In April 2013 something happened that should not happen. The nine-storey textile factory Rana Plaza in Savar outside Dhaka, Bangladesh, collapsed. Three thousand textile workers were working when the tragedy occurred. More than 1,100 of them died.

This was the second disaster in a short period. In November 2012 a factory fire in Dhaka claimed the lives of 117 textile workers. The preceding years also saw several fatal accidents.

Between 2006 and 2012 more than 600 workers died in more than 200 fires and accidents, according to the international organisation Clean Clothes Campaign. It should be pointed out that no serious accidents have occurred in the factories that produce goods for KappAhl.

## CONCERTED EFFORT FOR INCREASED SAFETY

As a consequence of these disasters at the beginning of July 2013 we signed up to the “Accord on Fire and Building Safety

in Bangladesh”, which aims to create safer working conditions for textile workers in Bangladesh.

The Accord is legally binding and runs for five years. The signatories consist of international trade unions and interest organisations as well as almost 100 large, international fashion companies.

It has never happened before that so many fashion companies and interest organisations have joined together in a common cause in Bangladesh.

According to an interim report of 3 October 2013 almost 1,600 factories and more than 2 million textile workers are included. The number is rising as more companies join.

## INDEPENDENT INSPECTORS

The Accord means that electricity and building design in the factories will be examined by independent inspectors in the next nine months. In connection with the inspections plans for improvements and repairs will be prepared and then

followed up jointly by textile buyers and factories involved.

## CREATE IMPROVEMENTS ON SITE

KappAhl has previously decided to continue to buy production and contribute in other ways to increased welfare and improved safety in Bangladesh, one of the world’s poorest countries.



## Trained 3 million in fire safety

Since the start of 2011 KappAhl has cooperated with 18 other companies to achieve increased fire safety in the Bangladesh textile industry. A training film and module have been developed in collaboration with major employer organisations. Altogether almost 3 million people in about 4,500 exporting factories are covered by the initiative which will be completed in 2013.

KappAhl will continue the measures to increase fire safety at our suppliers even after 2013. For example, many of our suppliers have already decided to use the fire safety film as part of introductory training for new workers.



# “KAPPAHL IN THE WORLD 2012/2013”

- Stores
- Production offices

## NORWAY

Average number of full-time positions (restated): **628**  
 Number of stores: **103**  
 HDI rank (2012): **1**  
 Population in millions (2012): **5.019**  
 Medellivslängd: **81.3**  
 Purchasing power per capita (2012): **\$48,688**  
 GDP growth per capita and year (2008–2012): **1.7%**

## SWEDEN

Average number of full-time positions (restated): **1,441\***  
 Number of stores: **165**  
 HDI rank (2012): **7**  
 Population in millions (2012): **9.517**  
 Average life expectancy: **81.6**  
 Purchasing power per capita (2012): **\$36,143**  
 GDP growth per capita and year (2008–2012): **0%**

\*In addition to store staff, also includes all employees at KappAhl's head office and distribution centre in Mölndal.

## CHECH REPUBLIC

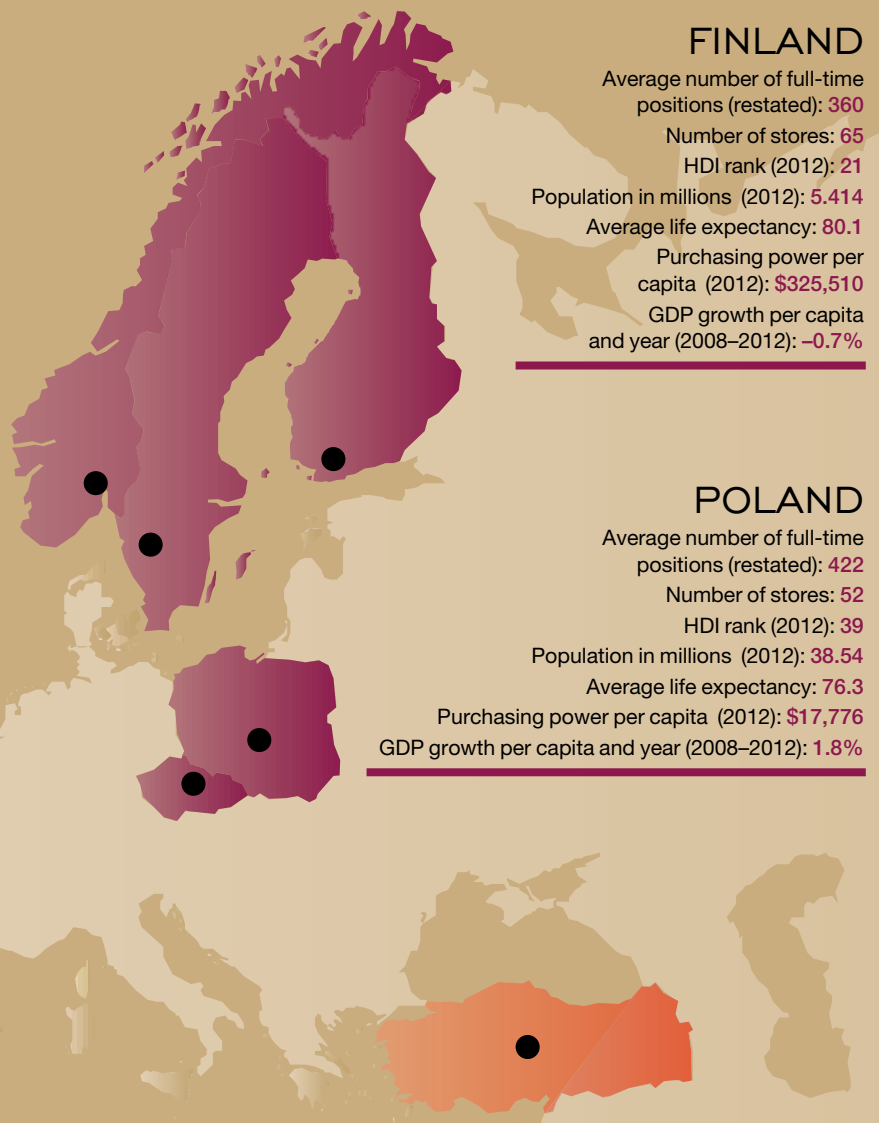
Average number of full-time positions (restated): **26**  
 Number of stores: **5**  
 HDI rank (2012): **28**  
 Population in millions (2012): **10.51**  
 Average life expectancy: **77.8**  
 Purchasing power per capita (2012): **\$22,067**  
 GDP growth per capita and year (2008–2012): **-1.5%**

## FINLAND

Average number of full-time positions (restated): **360**  
 Number of stores: **65**  
 HDI rank (2012): **21**  
 Population in millions (2012): **5.414**  
 Average life expectancy: **80.1**  
 Purchasing power per capita (2012): **\$325,510**  
 GDP growth per capita and year (2008–2012): **-0.7%**

## POLAND

Average number of full-time positions (restated): **422**  
 Number of stores: **52**  
 HDI rank (2012): **39**  
 Population in millions (2012): **38.54**  
 Average life expectancy: **76.3**  
 Purchasing power per capita (2012): **\$17,776**  
 GDP growth per capita and year (2008–2012): **1.8%**



Here you can see the countries where KappAhl has stores and our largest production countries. We do not own any factories of our own but are one of many customers of independent manufacturers throughout the world. We employ locally where we have our own operations, thus creating jobs in Asia and Europe and contributing to social development.

KappAhl is a player on a large market. We want to help to create a better world. The choice of manufacturing countries and suppliers makes particularly high demands on us. We work systematically on sustainability throughout the entire workflow – from design to finished garments and products.

## SHARE OF KAPPAHL'S PRODUCTION

Asia 80 per cent  
 Europe, Turkey and the USA 20 per cent

### TURKEY

Full-time positions: **10**  
 HDI rank (2012): **90**  
 Population in millions (2012): **74**  
 Average life expectancy: **74.2**  
 Purchasing power per capita (2012): **\$13,710**  
 GDP growth per capita and year (2008–2012): **0.9%**

### INDIA

Full-time positions: **20**  
 HDI rank (2012): **136**  
 Population in millions (2012): **1,237**  
 Average life expectancy: **65.8**  
 Purchasing power per capita (2012): **\$3,285**  
 GDP growth per capita and year (2008–2012): **1.9%**

### BANGLADESH

Full-time positions: **40**  
 HDI rank (2012): **146**  
 Population in millions (2012): **154.7**  
 Average life expectancy: **69.2**  
 Purchasing power per capita (2012): **\$1,785**  
 GDP growth per capita and year (2008–2012): **5.1%**

### CHINA

Full-time positions: **80**  
 HDI rank (2012): **101**  
 Population in millions (2012): **1 351**  
 Average life expectancy: **73,7**  
 Purchasing power per capita (2012): **\$7 945**  
 GDP growth per capita and year (2008–2012): **7,3%**

# Empowering vulnerable women

Poor women in Bangladesh live a difficult life with few, if any, rights. We want to help to change the situation, as best we can.

## EDUCATION IN BANGLADESH

That is why we started a training centre for vulnerable women in 2010. The training centre, which is located on the outskirts of Dhaka, takes women from the age of 18 upwards, who come from poor circumstances and have no formal education. The courses are run together with suppliers and a local interest organisation.

## NOT ONLY SEWING SKILLS

The school offers three month training courses. Since the start in 2010 a total of 300 women have completed the training.

Apart from sewing skills the students are taught women's rights, health and safety. While training they are also offered medical care and medicine. Every participant also receives a grant for the study period.

## EVERYONE GETS A JOB AFTER THE TRAINING

The project has been successful. All the women are offered jobs after the training.

There are also examples of former students progressing from seamstress to manager. All in all the good results have led to the training being very popular.

## STILL CONTROVERSIAL ACCORDING TO SOME

Unfortunately it is still controversial to contribute to women's development in this way in Bangladesh. We have encountered some problems, which illustrate women's vulnerable position in some parts of the world.

This just makes us more certain that we are right in endeavouring to help women's individual development in the country.



## Sponsoring and partnerships

Besides the business issues that drive us to develop, we also have a great commitment and a large heart for helping and influencing other areas, where possible. We work on large and small projects, gladly with others to increase the chances of influencing and changing, for organisations who care for children in need, BRIS (Sweden), Kors på halsen (Norway), Mannerheimförbundet (Finland), Nobodys Children Foundation (Poland) och Unua Bezpezi (Czech Republic). In the Save Women's Hearts

campaign, conducted in 2013, necklaces and bracelets were sold in Swedish stores for almost SEK 1 million. The money goes to the Swedish Heart-Lung Foundation. KappAhl has contributed a total of SEK 5.3 million since the start in 2008.

### IMPORTANT TO GIVE LOCAL SUPPORT

It is important for us to give local support. KappAhl is a corporate subscriber to magazines sold by the homeless in Sweden. Our stores, country offices and production offices donate surplus clothes and/or other aid to local charities. In Sweden most goes to Erikshjälpen and Stadsmissionen. We also give targeted

support to organisations and projects in our production countries.

### LARGE NUMBER OF PARTNERSHIP PROJECTS

Apart from sponsoring we have a large number of partnership projects with other companies and organisations. Some of our current commitments are presented below: Business for Social Responsibility (BSR); Clean Shipping Index; School of Business, Economics and Law at the University of Gothenburg; Sweden Textile Water Initiative (STWI) and Textiles for Recycling Initiative (T4RI).



# TOP MARKS FROM EMPLOYEES

We have a multitude of different occupations spread among almost 4,500 employees at about 400 workplaces. Our ambition is to grow and develop together. Consequently all employees are to have the same opportunities and the same conditions, regardless of gender, origin, faith, sexual orientation or disability.

## SYSTEMATIC IMPROVEMENTS

We continually carry out measures at all workplaces to ensure a secure work environment from both the physical and psycho-social perspective. This entails systematic annual surveys and action plans for areas such as safety, work environment and external environment. KappAhl also holds an established and transparent dialogue with the trade unions concerned. Through our European Work Council (EWC), we conduct a dialogue with employee organisations in several countries simultaneously.

## TOP MARKS AGAIN

Our annual employee survey, the KappAhl Attitude Survey, highlights employees' attitudes to the company and their workplace. This year's survey resulted in continued high marks to KappAhl as regards the business and the workplace as a whole: 4.3 (4.2) out of 5. This is clearly better than the average for the industry as a whole, which is 3.7 according to statistics from Mercuri International, which manages the survey.

In the section on My work situation, which has questions about development opportunities, influence and health, employees gave the score of 4.2 (4.1).

## DEVELOPING IN DAY-TO-DAY WORK

We assign great importance to development of the individual and organisation in day-to-day work. We also conduct regular courses. In 2012/2013 we spent a total of 29,966 (30,352) hours on skills development in the Group. This means ten training hours per full time position.

## GENDER EQUALITY A PRIORITY

By working for and utilising the great diversity of our employees as regards age, sex, language, geographical and religious background we create sound conditions for a modern workplace that reflects the society we want to be part of. The most recent survey in the area shows that every third employee of KappAhl Sweden has one or two parents who were born outside Sweden. This is good because it means our operations reflect the community as a whole.

## ENCOURAGE AN ACTIVE LIFE

The work environment, development opportunities and health are three important factors enabling us to enjoy our work and thereby do a good job. We encourage all employees to lead active lives, leading to good health – for example by giving exercise subsidies. Occupational injuries are very unusual with us. In 2012/2013 no serious incidents were reported.

Sickness absence in the Group as a whole was 5.6 (5.7) per cent in 2012/2013.

## STRUCTURED SAFETY WORK

KappAhl conducts structured work to map risks, analyse and take measures to constantly develop and ensure a safe and secure work environment for our employees and customers. At our head office there is a Crisis Management Team and in every country there is a contingency group at hand for various incidents. The groups

meet regularly to develop and practice. In 2012/2013 no serious incidents took place involving our customers or employees that required the services of the company's Crisis Management Team.

## SECURITY MANUAL

We have produced a Security Manual, which functions as a handbook and support in the daily work of security. The need for competence assurance is handled systematically – for instance by following an annual cycle for internal training in evacuation and robbery related matters. We also arrange internal training in safety when new stores are opened and for all new employees.

## NEW ETHICAL GUIDELINES

In 2012/2013 we drew up new ethical guidelines for all employees in the Group. They present what is expected of us in our role as employee and representative of KappAhl. The guidelines help us to act as we would like others to behave towards us to create a sound working relationship and to avoid corruption, conflicts of interest and to safeguard the company's property and relations.

It is of course impossible to cover all conceivable ethical dilemmas in this type of guidelines. So we encourage employees to raise individual questions with their immediate manager, where necessary.

### Facts

Group	2012/2013	2011/2012
Average number of full-time positions (restated)	3,021	3,122
Total number of employees	4,438	4,468
Percentage of women	93.3	92.4
Average age	36.9	35.6
Staff turnover (%)*	11.0	12.4
Sickness absence (%) (total/short-term/long-term sick leave)	5.6/2.5/3.1	5.7/2.6/3.1



## 9,000,000 eco-labelled garments

Our customers are becoming increasingly aware that their choices have great significance for the environment. This trend will become even stronger in coming years, if the organisation Business Social Responsibility, BSR, is to be believed. According to their report from 2013, two per cent of consumers are very interested in having a sustainable lifestyle today, while 88 per cent are quite interested. In 2018 this percentage of very interested customers will have risen to 98 per cent.

This is a trend that will affect us and that we want to contribute to. The fact is that KappAhl has been working in this direction for a long time. Our customers could buy eco-labelled fashion from us as far back as 1993. This year over 9 million of our garments are eco-labelled. This corresponds to 18 per cent of all products.



### LARGE NUMBER OF ECO LABELS

There are several eco labels for clothes. Among the most common at KappAhl are Öko-Tex Standard 100, the EU flower and Organic Cotton.

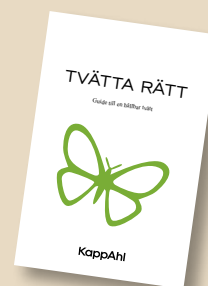
The human ecology label Öko-Tex Standard 100 is the leading label for textiles tested for harmful substances. This involves testing the entire garment everything from sewing thread, tags, embroidery and print are examined.

Organic cotton has been cultivated without the use of dangerous chemicals, chemical pesticides or synthetic fertilizer. Genetically modified crops are not allowed either. Our organic cotton is checked by the certification bodies, GOTS and OE/OCS that guarantee that the cotton we buy is organically grown.

### SAME REQUIREMENTS FOR ALL GARMENTS

All our garments meet the same high requirements; even those that are not eco-labelled must attain the Öko-Tex level. The difference is that the goods are not certified by a third party. KappAhl makes random checks of garments from all our suppliers at a third party laboratory to ensure compliance with our requirements.

READ MORE ABOUT OUR ECO LABELS AT [WWW.KAPPAHL.COM](http://WWW.KAPPAHL.COM).



## How to wash

Sustainability work does not end when we sell the goods, and they leave the store. The customer's importance for the environment is great because of how they wash and dry their garments.

As early as in 2008 a lifecycle analysis was made of t-shirts and trousers, from production to use, from the climate perspective. The analysis, which is based on the customer using the garment for two years, indicates that a large proportion of emissions, 22 per cent for t-shirts and 37 per cent for trousers, arise from customers' washing and drying the clothes. Consequently we give customers tips on how they can help by looking after their clothes sustainably. In our clothing care manual "How to wash" they can find simple tips on clothing care and washing that spares the environment, the garments and purse.

The fact is that there are great savings to be made just by washing more effectively. A wash in 40 degrees uses only about half as much energy as washing in 60 degrees.

### WASHING TEMPERATURE/ ENERGY CONSUMPTION

	60°	40°	30°
90°	-40%	-67%	-80%
60°		-45%	-72%
40°			-50%

Source: Procter & Gamble 2010



## “Eco cotton for everyone”

We want our customers to have more attractive, durable clothes in their wardrobe. This year’s concentration on ecological cotton for all our customer groups is a step in that direction.

### NEWBIE GREW DURING THE YEAR

Newbie is an eco-friendly collection for the smallest members of the family. In spring 2013 the collection was extended to also cover slightly larger sizes; up to 98 centilong.

Newbie is manufactured in natural materials to show concern for the child’s sensitive skin and to contribute to a better environment. The design conveys a sense of calm, thanks to extra soft and fine material. The style is timeless, in which a natural colour scale sets the tone and means the collection works from season to season.

### BASE IN ORGANIC COTTON

Our adult customers must also have the chance to wear eco-friendly garments. So for the past year we have only used organic cotton in the base jersey range in KappAhl Woman.

### SUCCESSFUL COLLECTION BACK

During the year we have also prepared the relaunch of the successful collection “It’s all about being Friendly”, in autumn 2013. The collection is lounge inspired, in a muted colour scale that creates a soft, timeless expression for mother and child. The children’s garments have a timeless unisex look, which makes it easy to hand them down and exchange between siblings and friends.

The garments are manufactured in organic cotton and lyocell – made from

cellulose – of high quality, which means that they keep for a long time if well cared for.

### GARMENTS WORN CLOSE TO THE SKIN

KappAhl Man is also increasing its percentage of organic cotton in the range. This will be in autumn 2013. The greatest concentration on ecological cotton is in underwear and basic tops – garments that are worn close to the skin.



# NO RISK – 1,500 TESTS THIS YEAR ALONE

We have set up a control programme, No Risk, to avoid the presence of harmful chemicals in our products.

To ensure that our quality requirements in the area of chemicals are adhered to, in accordance with the test and production guide that suppliers are bound by, we conduct regular random checks.

## CHILDREN'S CLOTHES HAVE PRIORITY

Every quarter our quality department selects two or three substances from our requirement list for testing. Orders and products are selected by our production offices in accordance with a pre-determined priority list in which children's clothes and clothes worn close to the skin take first place. Every substance is tested on one to four orders per quarter, depending on how large the supplier is.

## 1,500 TESTS THIS YEAR

Altogether we carried out 1,500 tests at accredited laboratories in 2012/2013.

We also conduct a large number of tests internally. It should also be noted that the requirements we impose are higher than normal standards and legislation.

## CONSTANTLY IMPROVING RESULTS

Our work brings good results, with an increased number of approved tests year after year. Of the 1,500 tests conducted in 2012/2013, 98 per cent of the goods were approved. At the 2,500 tests conducted during 2008–2011 93 per cent were approved.



OF THE 1,500 TESTS  
CONDUCTED IN 2012/2013  
**98 PER CENT**  
OF THE PRODUCTS WERE  
**APPROVED**

An unapproved test means that a special action plan is implemented and three follow-up tests are taken at the supplier's expense. If the products do not follow statutory requirements the order is annulled.

## CORRECT INFORMATION TO THE CUSTOMER

No Risk goes one step further than the EU REACH legislation, requiring us to take responsibility for informing our customers of the presence of any hazardous substances.

To ensure that customers always have correct and updated information, stores are encouraged to contact the quality department at head office on questions concerning chemicals.

## Complaints – two per thousand

To discover any production faults as early as possible we make careful production checks. The checks are carried out both by our own quality inspectors and by external independent laboratories, in several stages.

As a rule two checks per order are carried out. This means that we have quality assurance managers in place most of the time at our large suppliers, while some smaller suppliers are only visited a few times a year.

The quality controls give good results. The proportion of customer complaints is only 0.2 per cent.





THE FOLLOW-UP INCLUDES MANAGEMENT AND CONTROL OF ENVIRONMENTAL WORK, HAZARDOUS WASTE, CHEMICALS AND WATER PURIFICATION.

## Guiding suppliers

Our fashion is to be as environmentally and human friendly as possible, so we make clear requirements of our suppliers as regards chemicals in the product itself and in the manufacturing phase. The requirements and subsequent controls also guarantee compliance with child safety and other physical quality requirements.

### ENVIRONMENTAL CODE AS REFERENCE

KappAhl's environmental code helps us examine the suppliers which have their own wet process, i.e. produce the entire garment, from yarn to finished garment. The work is ongoing in Bangladesh and India where the need is great. The follow-up includes management and control of

environmental work, hazardous waste, chemicals and water purification.

### MANUAL TO BE FOLLOWED

We have a production manual that our suppliers undertake to follow: Test and Manufacturing Guide (TMG). The TMG includes a list of forbidden or regulated chemicals in our garments, physical requirements for the garments and safety of children's clothes. The requirements in the manual are continuously being raised. In 2012/2013 they have become more stringent in the area of chemicals.

The TMG is instructional in design and all employees who work with quality monitoring at the production offices are trained in using the documents.





## Networking for better safety

KappAhl sits on several forums to stay updated on new laws and directives and to work with environmental, safety and quality issues linked to the products. This includes standardisation work within SIS (Swedish standards institute) – for example in the groups for chemicals and child safety.

### CHILD SAFETY A PRIORITY

We prioritise safety in our children’s clothes, all the way from design to production.

We run regular random tests, courses in child safety, both for employees in design and purchasing and out at the production offices.

At the design stage there are clear restrictions, for example as regards cords and drawstrings. To ensure compliance with directives there is a checklist that every production inspector follows.

Apart from participating in SIS we also participate in the Nordic Chemicals Group led by Swerea IVF, where we keep ourselves updated on EU Directives, REACH and exchange knowledge and experience regarding chemicals in general.

## Policies for our work

We have a large number of policies and action plans that govern our environmental and social responsibility work; for example in gender equality and diversity, work environment policy, ethical guidelines as well as policies concerning our clothes, in which we dissociate ourselves from violence, racism, sexism, furs and cruelty to animals.

YOU CAN READ MORE  
ABOUT OUR POLICIES AT  
[WWW.KAPPAHL.COM](http://WWW.KAPPAHL.COM).





# Rewarded again for quality

We regard quality from a holistic and sustainability perspective. The garments are not just to be attractive. They are also to be comfortable and deliver what they promise.

So it is gratifying that we have come top again this year in independent quality tests.

## BEST IN TEST

In May 2013 our sunscreen clothes were "Best in test", with a score of 4.4 out of 5 possible points in Swedish test institute Testfakta's big test. In this year's test of children's overalls by Testfakta our winter overall was again placed top, with the best result for overalls costing less than SEK 800 and no adverse remarks for chemicals. In addition our pantyhose won an honourable third place in this year's Råd och Rön (Swedish consumer organization) test, thanks to high marks for strength.

## RAINSUIT GOT TOP MARKS

Testfakta conducts tests of rainsuits every other year. The most recent test was conducted in spring 2012. KappAhl's Kaxs rainsuit was again awarded top marks. The test examined the quality of twelve rainsuits and the results indicated large differences. With a total score of 4.8 out of a possible 5 and the rating "Very good" our rainsuit came second – with a good price margin in relation to the test winner.



IN THIS YEAR'S TESTFAKTA TEST OF CHILDREN'S OVERALLS OUR WINTER OVERALL AGAIN CAME TOP.



IN MAY 2013 OUR SUNSCREEN CLOTHES WERE "BEST IN TEST", WITH A SCORE OF 4.4 OUT OF 5 POSSIBLE POINTS IN TESTFAKTA'S BIG TEST.

# KAPPAHL'S SUSTAINABILITY JOURNEY



**1993–1999** First collection of eco clothes, Code of Conduct introduced, environmental review conducted, inspections of suppliers, first fashion chain in the world to have ISO 14001 environmental certification, green electricity in Swedish operations.

**2000–2007** Eco-labelled garments increasing, member of the BSCI\*, member of IEH\*, initial communications on sustainability, new ecological collection initiative, reorganised and more effective work on Code of Conduct, climate compensation for business trips by air, publication of the report Fashion, Environment, Ethics.

**2008** Climate analysis of t-shirts and trousers, CO<sub>2</sub> emissions from transport decrease after determined efforts, publication of the first How to wash brochure,

10% of the range consists of eco-labelled fashion.

**2009** All bags in stores are made from recycled plastic, nominated as Blossoming Company of the Year by the Mayflower Charity Foundation, 15% of the range consists of eco-labelled clothes, CSR report produced, member of Clean Shipping.

**2010** Member of BSR\*, raised more than SEK 1.4 million for Go Red in Finland, Norway and Sweden, put surplus clothes to use and donate to local charity, 18% of the range eco-labelled, training centre in Bangladesh, one of the main sponsors of the SFA\*, KappAhl voted best workplace.

**2011** Cleaner production started in Bangladesh, fire safety training started in Bangladesh, first BCI harvest in our own

project, launch of It's all about being friendly, launch of Newbie.

**2012** Presentation of the new sustainability platform Future Friendly Fashion, Cleaner Production Project in India, member of T4RI\*, 20% of the range is eco-labelled, update of How to wash, new sustainability report.

**2013** Publication of list of suppliers, signature of the Accord\*, reduction of CO<sub>2</sub> emissions, eco-labelled collections extended.

\* BSCI – Business Social Compliance Initiative  
 IEH – Initiativ för Etisk Handel  
 BSR – Business Social Responsibility  
 SFA – Sustainable Fashion Academy  
 BCI – Better Cotton Initiative  
 T4RI – Textiles for Recycling Initiative  
 Accordet – Accord on Fire and Building Safety in Bangladesh

## Mark of approval from Swedbank

One of many signs that KappAhl is living up to high sustainability requirements is that after a thorough analysis, the company was approved as an investment for all Swedbank Robur ethical funds.

In Swedbank Robur's last review in 2012 we were approved with the additional comment "Good example".

The citation reads: "KappAhl was already approved in our sustainability analysis and continues to be approved as a good example. This is because KappAhl, given the size of the company, stands out in the industry with its far-reaching sustainability work that manages the company's sustainability risks. The sustainability work is reported clearly and transparently and there is a clear link between strategy, objectives and activities. Both supplier chain and own operations, products and staff are included in the sustainability work."



## Positive statement from SP

The SP Technical Research Institute of Sweden made the following positive statement after its audit of the environmental management system:

"The competent and committed staff are a great strength for the business. Several examples of good environmental work were presented during the audit by initiated and knowledgeable staff. The prominent role of the sustainability perspective in the business plan and strategic work constitutes a considerable strength for the business."



GRI INDICATOR		Status	Reference/ comment
<b>1.0</b>	<b>Statement from the President.</b>		
1.1	ORGANISATIONAL PROFILE	●	2–3
<b>2.0</b>	<b>Name of the organisation.</b>		
2.1	Primary brands, products and services.	●	Front page
2.2	Operational structure of the organisation.	●	Inside cover
2.3	Location of organisation's headquarters.	●	AR 26, 55
2.4	Countries where the organisation operates.	●	Inside cover
2.5	Nature of ownership and legal form.	●	Inside cover, 18–19
2.6	Markets served.	●	Inside cover
2.7	Scale of the reporting organisation.	●	Inside cover
2.8	Significant changes during the reporting period.	●	Inside cover
2.9	Awards received in the reporting period.	●	No changes
2.10	REPORT PARAMETERS	●	13, 27
<b>3.0</b>	<b>Reporting period</b>		
3.1	Date of most recent previous report.	●	Inside cover
3.2	Reporting cycle	●	Inside cover
3.3	Contact point for questions regarding the report or its contents.	●	Inside cover
3.4	Process for defining report content.	●	33
3.5	Boundary of the report.	●	Inside cover, 4–5
3.6	Any specific limitations on the scope or boundary of the report.	●	Inside cover
3.7	Basis for reporting on subsidiaries etc.	●	No limitations
3.8	Explanation of the effect of any restatements of information provided in earlier reports,	●	Inside cover
3.10	and the reasons for such restatement.	●	No changes
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	●	No changes
3.12	Table in accordance with GRI identifying the location of the Standard Disclosures in the report.	●	30–31
3.13	Policy and current practice with regard to seeking external assurance for the report.	●	Inside cover
<b>4.0</b>	<b>GOVERNANCE, COMMITMENTS AND ENGAGEMENT</b>		
4.1	Corporate Governance.	●	AR 59–67
4.2	Indicate whether the chair of the highest governance body is also an executive officer.	●	AR 64–67
4.3	For organisations that have a unitary board structure: number and gender of members of the highest governance body that are independent and/or non-executive members.	●	Not relevant
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body or management.	●	AR 67, 68
4.14	List of stakeholder groups engaged by the organisation.	●	4–5
4.15	Basis for identification and selection of stakeholders.	●	4–5
<b>PERFORMANCE INDICATORS</b>			
<i>Economic</i>			
EC8	Development and impact of infrastructure investments.	●	10, 20
EC9	Significant indirect economic impacts, including the extent of impacts.	●	10–11, 14, 20

- Fully accounted for
- ▮ Partly accounted for



GRI INDICATOR		Status	Reference/ comment
<i>Environmental</i>			
EN1	Materials used	●	11
EN2	Percentage of materials used that are recycled input materials.	◐	13
EN4	Indirect energy consumption.	◐	13
EN5	Energy saved due to conservation and efficiency improvements.	●	13
EN8	Total water withdrawal by source.	◐	6, 10–11
EN16	Total direct and indirect greenhouse gas emissions by weight.	◐	12
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	●	12
EN22	Total weight of waste by type and disposal method.	◐	13
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	●	6–13, 22–25
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	◐	7, 13
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	●	No fines
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	◐	12
<i>Labour practices</i>			
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.	◐	21
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities.	●	21
LA10	Average hours of training per year per employee by gender.	●	21
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	◐	21, AR 64–67
<i>Human rights</i>			
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	●	15–16
HR2	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken.	●	15–16
<i>Society</i>			
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	◐	21
<i>Product responsibility</i>			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	●	24
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	●	No reported cases
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	◐	24
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes. The information is given broken down by the effect of the non-compliance.	●	No cases
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	◐	24
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.	●	No fines



# Please don't hesitate to contact us!

We want an open, straight and constructive dialogue with our stakeholders concerning our sustainability work. So we would appreciate it if you gave us your views on what we are doing or what we should do.

Questions about sustainability work and this report will be answered via [miljo@kappahl.com](mailto:miljo@kappahl.com) and [csr@kappahl.com](mailto:csr@kappahl.com).

You can find more information on our sustainability work at [www.kappahl.com](http://www.kappahl.com) under Future Friendly Fashion.

“In conclusion I would like to point out that even if we are proud that much has been done in the area of sustainability, we are all extremely aware that there is an infinite amount still to do. And it is important that we continue on the path staked out.”

JOHAN ÅBERG, CEO STATEMENT, PAGES 2–3.



[www.kappahl.com](http://www.kappahl.com)