

KappAhl



CSR
REPORT
2010

A few words about our sustainability work and this report

The CSR report you now hold in your hand describes our work in central areas of the environment, ethics, social responsibility and human rights – and how it is integrated with the rest of our operations.

We have worked systematically for a long time on the most important environmental and social risks in our industry, as well as their impact throughout the entire workflow: from design, production, transportation and warehousing to store. The operative sustainability work is directed by functions in each part of the flow and is represented in Group management.

Unless otherwise stated, the report covers initiatives taken in the 2009–2010 financial year. The selection is based on the Global Reporting Initiative (GRI) G3 Guidelines for sustainability reporting and the issues and views arising from the dialogue with our stakeholders. In addition the report is based on GRI's Apparel and Footwear Sector Supplement.

KappAhl's CSR report meets the requirements for an application level C report under GRI's

framework and the requirements in GRI's industry specific Apparel and Footwear Sector Supplement. No third party audit has been carried out. GoodPoint, which is a firm of consultants in sustainable development, has assisted with a GRI gap analysis in relation to earlier sustainability reporting and pre-audit of some parts of the report. The audit and consulting firm, Grant Thornton, was also part of the pre-audit team.



		According to GRI 2002					
		C	C+	B	B+	A	A+
Optional	Mandatory	Self Declared	<input checked="" type="checkbox"/>				
	Third Party Checked						
	GRI Checked		Report Externally assured		Report Externally assured		Report Externally assured

CSR is an abbreviation of Corporate Social Responsibility. CSR work is conducted in the form of self-regulation, in which companies and organisations follow up and ensure that their actions are in line with legislation, ethical standards and international directives in the area of sustainability.

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VISION

"KappAhl is to be a significant fashion chain in 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.

MISSION

KappAhl's mission is "Value-for-money fashion with wide appeal". It is the task of the company to give people the opportunity to be well dressed. When customers have shopped at KappAhl they should feel fashionably dressed and that they have spent their money wisely.

STRATEGY

KappAhl's strategy is aimed at earnings growth and improved profitability. The strategy consists of:

- Expanding the store network.
- Continually upgrading stores.
- Increasing sales in existing stores.
- Using economies of scale in the business model.

MARKET

KappAhl operates in the fashion markets of Sweden, Norway, Finland, Poland and, since October 2009, also the Czech Republic. The company's single largest market is Sweden. The total value of KappAhl's market at the beginning of 2010 was SEK 196 billion.



SURVEYS FOR WISE DECISIONS

KappAhl regularly surveys overall challenges and opportunities as well as weaknesses and strengths in the CSR area. Stakeholders' views are of great importance here. The results form the basis of our CSR priorities. Read more on pages 4–6.

Our CSR vision is: "KappAhl is to be a leader in CSR among the major fashion retailers to operate, for people and the environment, and create conditions for a sustainable future for a successful company. KappAhl works actively for positive social and human rights, responsible action and an integrated sustainability process we create conditions for. As the world develops, new challenges and opportunities will emerge.



OUR THREE GUIDING PRINCIPLES

Three policy documents are central to CSR work: the Code of Conduct, the Environmental Policy and the Work Environment Policy. They create a clear framework for KappAhl's actions, something which all 4,800 employees benefit from in their day-to-day work. Read more on page 8.

WE LISTEN TO THE CUSTOMERS

Everything KappAhl does is based on the customers' needs. So we listen to them carefully, not least as regards sustainability. We know, for example, that many families with children want eco-labelled garments. We have taken note of this. Read more on pages 20–21.

WORKPLACE WITH TOP MARKS

Creativity, Clarity, Energy and Courage are four keywords that have contributed to getting top marks from employees and to effective CSR work. Read more on pages 16–19.

ion chains in Europe.” This means we take responsibility for the society in which we
able future. Long-term action for sustainability and social commitment is required
uman development, locally and globally, in areas related to our operations. Through
ons for a sustainable future. There are always things left to do and as we grow and



RESPONSIBLE PRODUCTION

KappAhl has an important role to play in developing a sustainable society, in which a good environment and human rights are respected. This has great importance when working with producers.
Read more on pages 21–28.

DETERMINED ENVIRONMENTAL WORK

KappAhl's customers expect the right feeling for fashion, but also that the company takes responsibility for its operations from an environmental perspective. KappAhl has taken note of this. The fact is that the company was first in the industry to achieve environmental certification.
Read more on pages 29–36.

CONTRIBUTION TO SOCIETY

Apart from determined CSR work in KappAhl's operations, the company collaborates with other organisations to achieve improvements in society as a whole, including sponsoring and training initiatives.
Read more on pages 37–45.

KEY RATIOS

	Sep 09 –Aug 10	Sep 08 –Aug 09	Sep 07 –Aug 08	Sep 06 –Aug 07	Sep 05 –Aug 06
Net sales, SEK million	5,111	4,866	4,622	4,473	4,217
Operating profit, SEK million	551	526	651	618	530
Profit after tax, SEK million	402	315	436	659	302
Gross profit margin, %	61.8	61.1	62.4	61.1	60.2
Operating margin, %	10.8	10.8	14.1	13.8	12.6
Earnings per share, SEK	5.36	4.20	5.81	8.78	4.02
Number of stores	345	319	291	272	260

Christian W. Jansson, President and Chief Executive Officer of KappAhl:

“Wise decisions have made us second largest in eco fashion”

KappAhl is a long-term company. We who work here have created value-for-money fashion with wide appeal since 1953 and intend to continue to do so for a long time.

Our starting position is good. The number of customers is steadily increasing. This year we had more than 300,000 visitors in our stores every day. And this year we passed the SEK 5 billion mark in sales for the first time. Profitability is also good.

We have achieved the margin target throughout the worst recession within living memory.

To continue in this direction means we must stick to the path we have chosen: to always look for wise solutions in what we do. For us this implies acting in a way that is good for the society we are in, and the individuals we meet throughout our journey, from idea and design to store and customer.

BENEFIT FROM OUR BUSINESS CULTURE

Here we derive great benefit from our business culture. This is based on the desire not only to do the right things, but also to do them well – something which requires sensibility to needs and changes in our surroundings. Right from the start we understood the significance of dialogue with the rest of the world and of taking responsibility for what we undertake. Otherwise it is difficult to grow profitably with long-term sustainability.

ACTED EARLY ON SUSTAINABILITY

We understood early that issues concerning the environment and social responsibility are important for us all – and hence for our operations. This is partly why we were first in the world in our industry to achieve environmental certification. This was as early as in 1999.

NEXT LARGEST IN ECO FASHION

Our sustainability work is strongly linked to our customers' needs. In 1993 we launched our first eco-labelled garments. This year the target was to have 15 per cent of our total range eco-labelled. We achieved 18 per cent, corresponding to over 10 million fashion products. This makes us next largest in eco fashion in Sweden, according to a survey by the market research company GfK. We are really proud of this, and we are continuing to develop this work. Much of the input that leads to our taking such initiatives comes from all our competent staff in the stores, in their daily contacts with customers. It also comes from all our meetings with interest organisations, schools, suppliers and other stakeholders that are of great importance to our development.



ALL EMPLOYEES ARE AFFECTED

Every year we have taken new strides, and sustainability work affects all parts of the company. The work is directed by decisions taken by top management. But the initiative itself, what actually leads to sustainable improvements, is often taken at individual level in all parts of the organisation. Such as the idea of manufacturing our own crates from recycled plastic to transport garments in. The initiative has led to reduced environmental impact and reduced costs. That type of drive is typical for our culture and is something we encourage.

Similarly, our initiatives at the production stage and support to development of sustainable cotton cultivation are vital. Both for the environment itself and because we want to ensure a good future supply of cotton as we continue to grow.

Of course, much still remains to be done. And as we grow and develop, new challenges and opportunities in sustainability work will emerge. In this report you can read about areas where we already see that we need to do more, but also about what we have succeeded in achieving to date, of which we are proud.

Möln dal, 22 March 2011

Christian W. Jansson

Material opportunities and threats: “We’ve pulled every thread”

Just as in other business development, working with sustainability rests on thorough analysis of the opportunities and threats identified in the business environment. They are then matched to the strengths and areas of development identified in our own operations. In that way we see which areas we should focus on in our work to achieve a good outcome.

We have worked systematically for a long time with the most important environmental and social risks in our industry, as well as their impact throughout the entire workflow: from design, production, transportation and warehousing to store. The operative sustainability work is led by functions in each part of the flow and is represented in Group manage-

ment. The work is clearly delegated and integrated into day-to-day operations so as to be effective and constantly kept alive.

KappAhl has identified the following overall threats and opportunities in the business environment and our internal strengths and improvement areas in terms of sustainability:

Opportunities in the business environment	Examples of measures taken by KappAhl	Threats in the business environment	Examples of measures taken by KappAhl
Increased awareness of social and environmental challenges at the consumer level, leading to increased demand for "sustainable" clothes.	Increased percentage of eco-labelled garments in 2010 to more than 18 (10) per cent of the entire range.	Risk of adverse public opinion towards industries close to the consumer in relation to environmental and social issues, such as working conditions. Can lead to reduced confidence and falling demand.	Seminars, training and on-going dialogue with representatives of interest organisations and the media. Production of information material.
New technology and innovative processes give a better basis for both environmental and working conditions.	Ban on sandblasting denim jeans. New washing methods give similar appearance.	Lack of cultivation capacity and clean water contribute to the risk of increased raw materials prices and a more expensive and difficult production process.	Member of the Better Cotton Initiative, which aims to create conditions for sustainable cotton cultivation. Running a water project in Bangladesh to ensure an effective finishing process from the point of view of both the environment and production technology.
Innovative solutions, for example in the form of redistribution of resources that contribute to positive development on matters concerning the environment and social issues.	Climate compensation that contributes to an UN-based project to extend wind turbines in India.	Risk that negative environmental impact will lead to stricter legislation and increased costs, for example in the form of penalty taxes on transport fuel.	Endeavouring to change transportation to forms of transport with less environmental impact, such as by sea. Member of Clean Shipping.
Increased demand for workplaces that are clear in their responsibility regarding the environment and social issues.	Skills development in the area. Communicate our social responsibility and development focus within the organisation.	Increased pressure on prices to increase competitiveness, which risks leading to worsened working conditions at the production stage. This includes working hours, health and safety, the possibility of joining a trade union and remuneration levels.	Goal-oriented work on our Code of Conduct, which covers all these areas. Check compliance with requirements and provide support to suppliers to live up to the action plan.

Opportunities in the business environment	Examples of measures taken by KappAhl	Threats in the business environment	Examples of measures taken by KappAhl
Increased insight at the supplier stage that sustainability work leads to increased control, which in turn gives better long-term economic development.	Increased advisory initiatives via our social compliance officers. Clearer integration of the Code of Conduct with the business – this is part of the agreement between us and the suppliers.	Risk that work with the Code of Conduct will not lead to real improvements at the production stage, for example due to fraud and corruption.	Implemented a new working method for the Code of Conduct. Inspections still constitute an important part, but there is more focus on follow-up and advice to ensure long-term sustainable progress. All suppliers can access our Code of Ethics, which states that we have zero tolerance to bribery and other varieties of corruption.
Increased cooperation at industry level and between different industries and interest organisations and supranational bodies such as the EU and the UN.	Cooperation for example with SIDA (Swedish International Development Cooperation Agency), NIR (International Council of Swedish Industry), the World Bank, the UN and colleagues in the industry on various projects to improve conditions for a sustainable society.		
Central areas where KappAhl is strong	Examples of measures taken by KappAhl	Areas where KappAhl has development potential	Examples of measures taken by KappAhl
We have a long history of working with sustainability issues. Our culture leads to a wealth of initiative and the endeavour to find wise solutions.	Initiatives are taken regularly in all parts of the organisation. At the logistics level we invested in manufacturing transport crates of recycled plastic in 2010. This cuts cost by half and improves the environment.	We conduct extensive and well-coordinated sustainability work in all parts of the organisation, but need effective processes for data collection, which in turn makes wise decisions easier in sustainability work as the organisation grows.	Work is in progress to simplify data collection in connection with the Code of Conduct – for inspections, follow-up and advice. The ambition is to achieve increased comparability in the material, which creates better conditions for analysis.
Size and competence make it possible to achieve clear improvements at production level.	We have 11 social compliance officers working full time to give support at the supplier level, based on the Code of Conduct. In addition, our quality controllers contribute to improvement. They visit each factory twice per order. In some factories we place hundreds of orders per year.	Potential to reduce emissions of carbon dioxide in connection with transportation. During the year the use of air freight increased from 4 to 6 per cent of total freight. This had a considerable effect on carbon dioxide emissions.	It has been decided to require more information from forwarding agents concerning emissions per shipment after the turn of the year 2010/2011. This will enable more effective freight planning.
We cooperate to a great extent with external partners to achieve sustainability goals.	In 2010 KappAhl became a member of Business for Social Responsibility (BSR). This is a global, non-profit organisation. BSR's overall ambition is to endeavour to achieve sustainable improvements through transfer of knowledge to suppliers, a view we share.	The possibility of further reducing energy consumption at store level.	Pilot project in two stores in Norway in 2010 to reduce energy consumption. Consumption was halved in both stores during the test period.
We have an attractive workplace, which is shown by employee surveys and spontaneous job applications. During the year KappAhl received an award from the magazine Veckans Affärer for Sweden's best workplace.	Determined work to develop employees. During the year our employees underwent 33,000 hours training. Each year an attitude study is conducted among employees.	Communication and PR in the CSR area.	Information to fashion journalists on eco-labelling and sustainability work.
We have a well-functioning process for security issues, for which we have received awards from independent reviewers.	During the year we carried out comprehensive continuity planning and implemented a process for increased security throughout the organisation. We received the award for the year's best security solution at the Swedish Retail Awards 2010.	Research and development around new technology to ensure raw materials supply and effective production. Here is development potential and maybe future cooperation with external parties.	Since 2007 we have sponsored the Better Cotton Initiative, which strengthens conventional cotton farmers around the world with training and information to achieve more environmentally adapted cotton cultivation.

Overall objectives of our CSR work

Long-term action for sustainability is a pre-requisite for long-term positive development in society, locally and globally, in areas that are related to our operations. We can spread knowledge and commitment with our initiatives.

Our responsibility covers both humans and the environment. Through responsible action and an integrated sustainability process we create conditions for a sustainable future.

There is always something remaining to be done. As we grow and the world develops,

new challenges and opportunities will emerge. When they do, we will also use them to build on.

Here are some of the areas we are focusing on right now.

Target	Measures	Completed
Reduced CO ₂ emissions and energy savings	Reduced energy consumption – implement energy saving programmes in all units and markets	Ongoing
	Introduce "green" electricity in all units and markets where possible	Ongoing
	Minimise air transport	2011
	Improve documentation for environmental reporting and transport management	2011
Reduce environmental impact of production	Increase share of ecological and eco-labelled garments to 20 per cent of the total range	2012
	Increase alternative fibres, for example recycled fibres	Ongoing
	Active cooperation in interest organisations such as the Swedish Textile Water Initiative (STWI), Business for Social Responsibility (BSR) and Better Cotton Initiative (BCI) for sustainable development	Ongoing
	Together with 30 or so other textile and leather companies in the STWI, draw up guidelines for wet processes	2012
	Through membership of the BCI, work for improved cotton cultivation and increased access to sustainably grown cotton and better conditions for cotton farmers	Ongoing
	Continue work with our suppliers who have most impact on the environment through helping them to improve their processes.	Ongoing
Improve the work environment for the manufacturers of our clothes	Work to increase compliance with our Code of Conduct. A computer system for follow-up will be brought into operation in 2011.	Ongoing
	Increase transparency of subcontractors	2012
	Increase activities for training women in Bangladesh to three classes	2012
Communication and training	Mark out our eco-garments clearly on the website and in stores	2011
	Give customers and employees the opportunity to calculate their carbon footprint on the website	2011
	Give our customers advice on how to look after their garments in a more sustainable way	2011
	Together with other textile companies, improve opportunities for re-use and recycling of clothes	2012
	Educate our employees in CSR work. New interactive environmental training ready in 2011	Ongoing
	Train designers and buyers in the Sustainable Fashion Academy (SFA) from 2011	Ongoing
Most attractive employer	Improve internal communication by developing KappNet	Ongoing
	Develop offensive recruiting to social media	Ongoing
Well-established culture and watchword "A winning team"	Communicate our culture and keywords to all employees in 11 countries	Ongoing
	New staff magazine	2011
	New material for employee performance reviews	2011
	New introduction material	2011

Some examples of what we have achieved in the area of sustainability

1993

- Environmental work intensified
- First collection of "eco clothes"

1997

- Code of Conduct introduced
- Environmental review carried out
- Öko-Text labelled garments

1998

- First environmental policy
- Inspections at suppliers

1999

- First fashion chain in the world to achieve environmental certification under ISO 14001
- Green electricity for entire operations in Sweden

2000

- Started giving surplus clothes to charities in all markets

2002

- KappAhl member of the Norwegian Ethical Trading Initiative.

2004

- Garments EU Flower labelled
- Member of Business Social Compliance Initiative (BSCI)

2005

- Started communicating sustainability issues on the website

2007

- New ecological cotton initiative
- Code of Conduct work reorganised and made more effective
- Carbon offset of business travel by air for the first time.
- Publication of brochure "Mode Miljö Moral" (Fashion, Environment, Ethics)

2008

- Climate analysis of t-shirts and trousers
- Emissions of CO₂ from transportation reduced by 41 per cent after determined efforts
- 10 per cent of the range consisted of eco-labelled fashion
- New organisation for managing the Code of Conduct
- Publication of "Wash right!", a brochure containing simple advice that spares the environment, the garment and the purse

2009

- Sale of environmental bag, giving the surplus to the Swedish Society for Nature Conservation and wind power investments in India.
- All KappAhl's bags in stores manufactured from recycled plastic.

- Designated the Blossoming Company of the Year by the Mayflower Charity Foundation
- 15 per cent of the range consisted of eco-labelled fashion
- CSR report prepared

2010

- Member of Business for Social Responsibility, BSR.
- KappAhl collected 50-öre coins for BRIS (Children's Rights in Society), Childhood and SOS Barnbyar in the "Vacuum Sweden" campaign.
- Collected over SEK 1.4 million for Go Red in Finland, Norway and Sweden.
- We took care of surplus clothes and donated them to local charities
- 18 per cent of the range consisted of eco-labelled fashion
- Training centre for vulnerable women in Bangladesh
- KappAhl is one of the main sponsors behind the Sustainable Fashion Academy

Governance of sustainability work: “Rests on three documents”

Our overall vision is: KappAhl is to be a significant fashion chain in Europe. To achieve that we must not only be successful in purely economic terms, but also be successful with long-term sustainability. Three policy documents are central in this work: our Code of Conduct, Environmental Policy and Work Environment Policy. But ultimately it is of course a matter of all 4,800 employees doing their work well and coming up with new ideas – which history shows is what we do.

OUR CODE OF CONDUCT

We have worked for many years to improve working conditions in the factories that produce garments and other products for us. Their employees must have reasonable pay and a safe and healthy work environment. To effectively guide the work we use a Code of Conduct that is based partly on the UN Universal Declaration of Human Rights, the UN Convention on the Rights of the Child and the International Labour Organization's (ILO) Conventions on labour law and

working conditions, as well as local legislation and ordinances.

OUR ENVIRONMENTAL POLICY

Our Environmental Policy states that we feel a responsibility for the people and environment we meet and affect in our operations. Our ambition is to spare the environment and to conserve nature's resources. This means that:

- All employees show environmental consideration in their decisions.
- We work to constantly improve together with our customers and suppliers.
- We comply with laws and ordinances by a wide margin.
- We communicate openly on our environmental work.

Protecting the environment and the individuals we meet also means that we protect the raw materials and other resources that help us to continue growing and offering value-for-money fashion with wide appeal. Working responsibly on the basis of an environmental perspective also has purely commercial consequences.

OUR WORK ENVIRONMENT POLICY

Our Work Environment Policy states the following: “A sound and safe work environment is an important strategic issue for KappAhl. The aim of KappAhl's Work Environment Policy is to create a physically, mentally and socially sound and fulfilling workplace for all employees, where preventive measures are taken against the risk of occupational injury and work-related ill health.” In that way we ensure access to new employees and can retain and offer attractive development to existing employees. This is a central issue as we grow in existing and new markets.

OTHER POLICIES

We have further policies and action plans that govern our environmental and social responsibility work; for example in sponsoring, gender equality and diversity, as well as policies concerning our clothes, in which we dissociate ourselves from violence, racism, sexism, furs and cruelty to animals.



“Our sustainability work on the map”



SWEDEN

Ranking – Human Development Index: 7 (182)
 Population: 9.2 million
 Life expectancy: 80.8 years
 Purchasing power per capita, USD: 36,712
 GDP growth per capita and year 1990–2007: 2.3 %
 Number of employees at KappAhl: 2,256*
 Number of stores: 153

** Apart from store staff also includes all employees at KappAhl's head office and distribution centre in Mölndal.*

NORWAY

Ranking – Human Development Index: 1 (182)
 Population: 4.7 million
 Life expectancy: 80.5 years
 Purchasing power per capita, USD: 53,433
 GDP growth per capita and year 1990–2007: 2.6 %
 Number of employees at KappAhl: 1,110
 Number of stores: 92

FINLAND

Ranking – Human Development Index: 12 (182)
 Population: 5.3 million
 Life expectancy: 79.5 years
 Purchasing power per capita, USD: 34,526
 GDP growth per capita and year 1990–2007: 2.8 %
 Number of employees at KappAhl: 480
 Number of stores: 56

POLAND

Ranking – Human Development Index: 41 (182)
 Population: 38.1 million
 Life expectancy: 75.5 years
 Purchasing power per capita, USD: 15,987
 GDP growth per capita and year 1990–2007: 4.4 %
 Number of employees at KappAhl: 400
 Number of stores: 40

LITHUANIA

Ranking – Human Development Index: 46 (182)
 Population: 3.4 million
 Life expectancy: 71.8 years
 Purchasing power per capita, USD: 17,575
 GDP growth per capita and year 1990–2007: 3.0%
 Number of employees at KappAhl: 9
 Number of production offices: 1

TURKEY

Ranking – Human Development Index: 79 (182)
 Population: 73 million
 Life expectancy: 71.7 years
 Purchasing power per capita, USD: 12,955
 GDP growth per capita and year 1990–2007: 2.2 %
 Number of employees at KappAhl: 10
 Number of production offices: 1

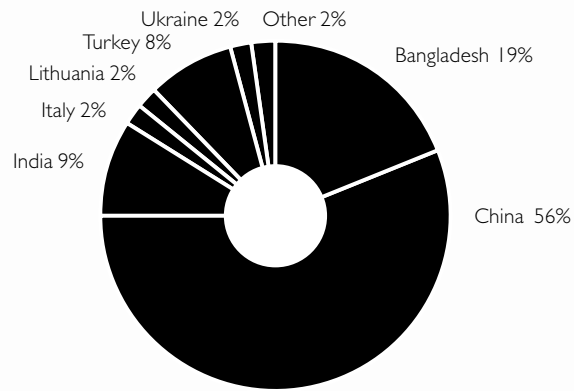
CZECH REPUBLIC

Ranking – Human Development Index: 36 (182)
 Population: 10.3 million
 Life expectancy: 76.4 years
 Purchasing power per capita, USD: 24,144
 GDP growth per capital and year 1990–2007: 2.4 %
 Number of employees at KappAhl: 18
 Number of stores: 1

UKRAINE

Ranking – Human Development Index: 85 (182)
 Population: 46 million
 Life expectancy: 69.0 years
 Purchasing power per capita, USD: 10,841
 GDP growth per capital and year 1990–2007: –0.7%

Share of KappAhl's production per country



BANGLADESH

Ranking – Human Development Index: 146 (182)
 Population: 158 million
 Life expectancy: 65.7 years
 Purchasing power per capita, USD: 1,241
 GDP growth per capita and year 1990–2007: 3.1%
 Number of employees at KappAhl: 38
 Number of production offices: 1

CHINA*

Ranking – Human Development Index: 92 (182)
 Population: 1,329 million
 Life expectancy: 72.9 years
 Purchasing power per capita, USD: 5,383
 GDP growth per capita and year 1990–2007: 8.9%
 Number of employees at KappAhl: 65
 Number of production offices: 3 (Hong Kong and Shanghai and Beijing via agent)

**Demographic and economic facts are exclusive of Hong Kong.*

INDIA

Ranking – Human Development Index: 134 (182)
 Population: 1,165 million
 Life expectancy: 63.4 years
 Purchasing power per capita, USD: 2,753
 GDP growth per capita and year 1990–2007: 4.5%
 Number of employees at KappAhl: 16
 Number of production offices: 2



“Our values are not something you achieve; they are what we work with every day.”

Creativity, Clarity, Energy and Fashion are four keywords for us.

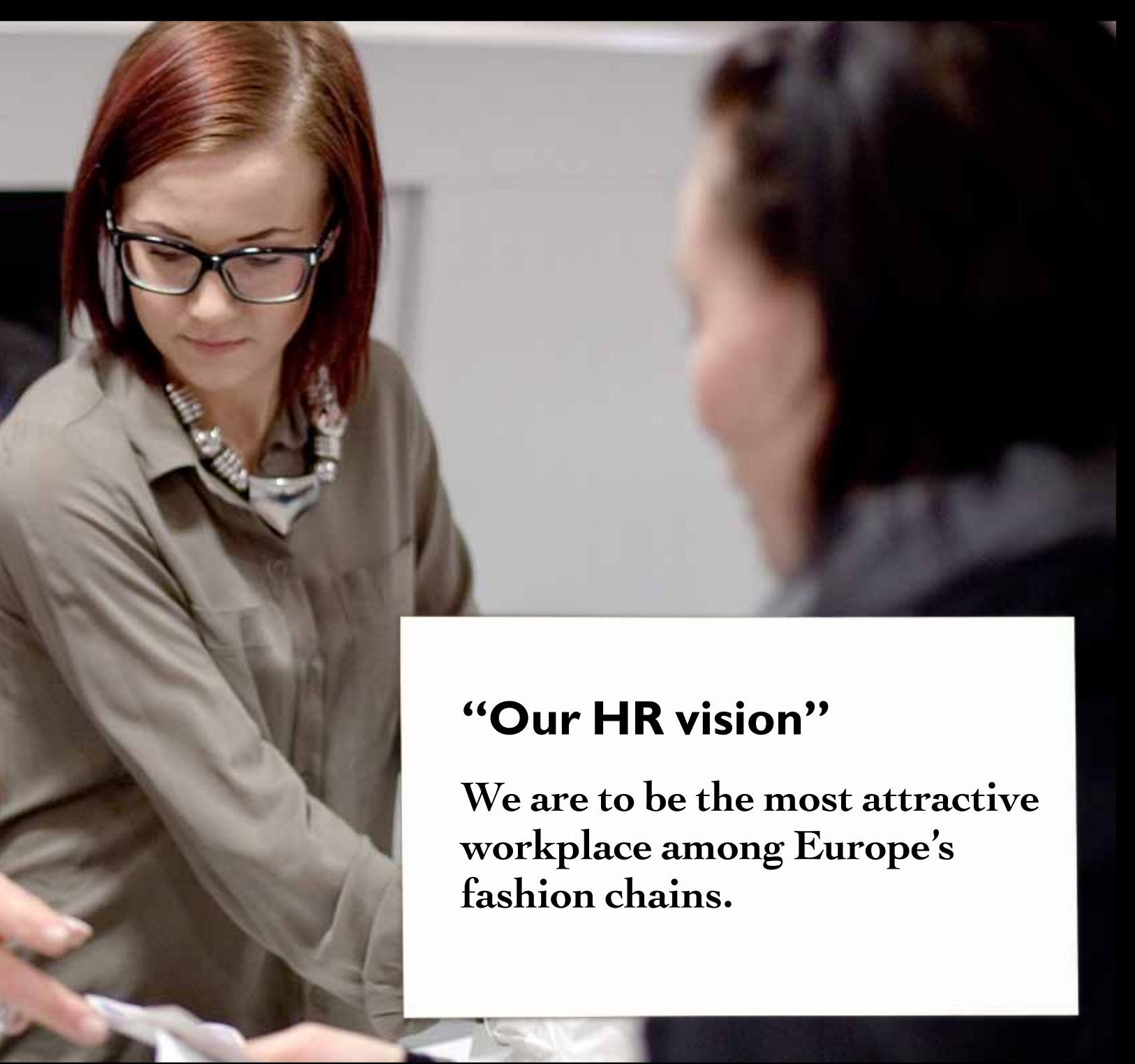
To put it simply, our success depends on our being individuals in a good setting in which respect for each other, our roles and ability to cooperate are decisive. People do not grow alone, they grow together. In our industry you

must dare to make decisions on matters where there is great uncertainty. This makes great demands on the ability to support each other in both failure and success.

LEADERSHIP IMPORTANT IN THE WORKDAY

Cooperation alone is not enough though. Creativity is also necessary. Being a flourishing

company in the fashion industry is about having creative processes that satisfy the customer, which means that employees must be allowed to grow and come up with new ideas. Here leadership is important, and that is why we attach great importance to developing our managers.



“Our HR vision”

We are to be the most attractive workplace among Europe’s fashion chains.

CUSTOMER FOCUS CAN INCREASE FURTHER

Customers visiting shopping centres are drowning in good offers. If we are to continue to succeed in reaching through the hub-bub as well as we have in the past, the customer meeting, which covers real-life treatment of the customer, the garments and the display, is enormously important. Conse-

quently, we attach great importance to developing the organisation in this area.

CREATE STRENGTH FOR IMPROVEMENT

Being awarded such high marks in employee surveys as we are could easily lead to complacency. Our initiatives in development, training and the work environment never cease.

The watchwords are central here as well, since they encourage improvement. Our values are not something you achieve; they are what we work with every day.

“Our Code of Ethics helps us say no”

To achieve the full effect of all the good ideas and processes we have throughout the Group, we must have a fine-meshed network of good order, and a clear structure for what is ok and what is not. When this is established we can concentrate on everything that satisfies our customers. Our Code of Ethics plays an important part in this.

The code was drawn up to support the organisation and the individual. It creates a clarity that helps us say no, when we encounter proposals that are not in line with our business culture.

All employees at the head office, distribution centre, production offices and everyone who has contacts with suppliers have read the code. This is part of the employment procedure and is available in all Group languages. All the company's employees have read the code and it is also part of the agreement signed with suppliers.

The code acts as a support in day-to-day work decisions. For example, it is not ok to be offered a free trip in connection with a procurement. The limit for a gift is SEK 300. If there is the least doubt, the line manager or the head of security should be contacted.

Any employee acting in a way that is contrary to the code and current legislation, for example through theft, will be prosecuted and dismissed from employment. Luckily this is a very uncommon occurrence. We also have a whistleblower channel through which employees can communicate suspected irregularities.

ADJUSTMENT TO THE SITUATION

For an international company such as ours there are cultural aspects to address. Our

Swedish view of what is a bribe sometimes differs from that of other countries. For example, in Hong Kong, there it is a tradition to receive cash gifts on formal occasions, which would be very impolite to refuse. This must be handled diplomatically, for example

by asking them to donate the money to a charity instead.

We do not lobby or take part in political decision-making processes. Nor do we give any contributions or gifts to political parties, individual politicians or similar institutions.

To live up to our Code of Ethics we must always

- Comply with the laws, rules and ordinances in the countries where we work.
- Do business in an honest and honourable way.
- Take responsibility for our actions.



“Security high on the winners’ stand”

We received the award for the year’s security solution at the Swedish Retail Awards 2010 “For having addressed the classic problem of how security work should keep up in an expansionary phase. The company has developed its own security standard, which is consistently applied already when new stores are planned. This comprehensive approach gives a high and level security standard in all stores in all markets where KappAhl operates”.

Security, assurance and profitability go hand in hand with us. This is particularly important now when the company is in the midst of an expansionary phase. Coordination of security work in all countries is a condition for success.

“All employees benefit from sound security work. It increases personal safety and profitability. It will never be possible to insure against everything, but we are well-prepared”, says Patrik Ripadal, Risk Manager at KappAhl, whose background is as an officer and head of security at other leading retail chains.

EQUALLY SAFE WHEREVER YOU WORK
In addition there is a security manager in every sales market and at all production offices as well as the distribution centre and head office in Mölndal. Their work informs the entire operations.

“KappAhl must be a secure workplace regardless of whether you work in a store in Poland or at our production office in Bangladesh”, says Patrik Ripadal.

SECURITY MANUAL IN EVERY STORE
As part of the work we have produced a new Security Manual. Many of the rules in the manual are principally to protect employees.

It covers the entire Group, but some things are adapted, mainly for legal reasons, to local rules. The manual must function as a reference. As a starting point all store managers are trained and they then pass on their knowledge to the store employees. All employees also have an emergency card with telephone numbers to the head of security and the HR and PR Vice President.

MAJOR THEFT RING UNCOVERED

Thanks to the company’s incident reporting system many tip-offs are received from the stores. For example, during the year a theft ring was discovered, thanks to a store reporting that new KappAhl garments were being sold on the Swedish auction site Tradera.

This was the start of intensive collaborative work with other retail companies. It turned out that the thieves had been making their living for many years from stealing from our stores and then selling the clothes on Tradera.

INVEST IN OUR OWN SECURITY TRAINING

An important part of security work is having trained and informed employees. Consequently we arrange internal training courses in security for new employees and when new stores open. We have also produced a DVD with interactive fire safety training that all employees go through. Twice a year there are fire drills in the stores and practical fire fighting exercises are also held.

HIGH EMERGENCY PREPAREDNESS

Security is largely about being well prepared. At our head office there is a Crisis Management Team and in every country there is a contingency group at hand for various incidents. Security is to work preventively, which is everyone’s responsibility.

CONTINUITY PROJECTS IN 2010

In 2009/2010 an extensive analysis was made in the KappAhl Group from a continuity perspective. Continuity work is aimed at being able to continue working even if difficult events occur. It is a matter of planning to avoid being affected by such things as floods, organised crime or becoming too dependent on individual key staff. Continuity work also has other advantages than purely preventive. “The lines of contact have been simplified in the organisation. This leads to better cooperation in other contexts too,” says Patrik Ripadal. Altogether 13 departments in the Group have been affected by the continuity work. These include purchasing, the distribution centre and the IT department.

WE HAVE FEW ACCIDENTS

KappAhl is a safe workplace from several perspectives. During the financial year there were no serious accidents or injuries with customers or employees. Historically statistics have been inadequate in this area. This has been improved thanks to the new incident reporting system. The ambition is that this will strengthen the company’s preventive work and prevent accidents and injuries to both customers and employees.

“Wow! Our employees gave us top marks again”

KappAhl has won top marks from its employees again this year, as shown by the year's employee survey conducted by Mercuri International. We were given an average mark of 4.2 on a five-point scale, which can be compared to 4.1 the previous year.

“This is a very high mark, well over the industry average. But it also reflects a long-term and conscious investment in training, employee performance reviews and good managers,” says Kajsa Räftegård, KappAhl's Human Resources and Public Relations Vice President.

The development was positive in all areas in this year's survey, and in 15 areas the set target was achieved. This can be compared with 11 areas in the previous year. Measures will be taken in the areas where the target was not met. One of these areas during the year was cooperation between different parts of the company.



97 PER CENT CAN RECOMMEND KAPPAHL

One reason that is often cited is the clear direction, in which goals, strategies and policies provide a good foundation for managers to take rapid and well-founded decisions, while employees are given considerable responsibility. The survey also shows that employees feel pride in working for the company. As many as 97 (97) per cent of

employees respond that they would recommend KappAhl as an employer. Nine out of ten responded to the survey, which shows great commitment. In addition the results do not differ appreciably between different positions or between countries.

“Staff turnover is low, we invest a lot in internal training as part of the KappAhl Academy and we have a steady stream of applicants for vacancies. Moreover 97 per cent

of our employees recommend us as an employer, that's a high figure”, says Kajsa Räftegård.

BETTER THAN THE REST OF THE INDUSTRY

We have been conducting the KappAhl Attitude Survey, KAS, since 1995. This is an online survey in which all employees in the Group reply to questions about their work,

Norway	2008/2009	2009/2010	Finland	2008/2009	2009/2010
Average number of full-time positions (restated)	603	634	Average number of full-time positions (restated)	337	351
Total number of employees	1,027	1,110	Total number of employees	450	480
Percentage of women	97	98	Percentage of women	98	99
Average age	32	31	Average age	34	33
Staff turnover (%)*	32	19	Staff turnover (%)*	0	9
Sickness absence (%) (total/short-term/long-term sick leave)	10,4/6,7/3,7	9,3/3,9/5,4	Sickness absence (%) (total/short-term/long-term sick leave)	3,7/2,8/0,9	3,5/3,0/0,5

*Staff turnover is defined as the number of employees who have started and left employment in relation to the average number of employees in the measurement period.



Facts

A total of about 4,800 employees work at KappAhl, including all those who help out for short periods in the high season. Statistics are given below for the countries where we have most employees: Sweden, Norway, Finland and Poland.

how they relate to their manager, workplace and the company as a whole. The result in all four areas was better than for the industry and the entire business sector both last year and this year according to Mercuri International, which conducts the survey.

Sweden's best workplace

The work to create a good workplace is bringing good results. In December 2010, for example, we were given the award "Sweden's best workplace" by the magazine *Veckans Affärer* for the second year in a row.

The assessment was made on the basis of such things as the gender distribution of managers, wage dispersion, percentage of women with permanent full time positions and gender equality goals.

Veckans Affärer wrote: "One of the best companies for women to work in, they

have the highest percentage of women at all managerial levels and the best wage dispersion. KappAhl has a parent-friendly meetings policy and gender equality goals." "This is fantastic and we are very proud. We have made a conscious effort, and our hard work has brought results," says Kajsa Räftegård, KappAhl's Human Resources and Public Relations Vice President.

KappAhl was the only fashion company among the award winners. A total of five companies receive the award, with no internal ranking.

Poland	2008/2009	2009/2010	Sweden	2008/2009	2009/2010
Average number of full-time positions (restated)	263	330	Average number of full-time positions (restated)	1,524	1,585
Total number of employees	308	400	Total number of employees	2,189	2,256
Percentage of women	92	91	Percentage of women	89	90
Average age	30	29	Average age	40	41
Staff turnover (%)*	31	25	Staff turnover (%)*	6	5
Sickness absence (%) (total/short-term/long-term sick leave)		4.07/1.06/3.1	Sickness absence (%) (total/short-term/long-term sick leave)	4.1/2.3/1.8	4.7/2.6/2.1

*Staff turnover is defined as the number of employees who have started and left employment in relation to the average number of employees in the measurement period.

“A work environment that develops and energises”

The work environment, development opportunities and health are three important factors enabling us to enjoy our work and thereby do a good job. During the year our major investments have included management development and training, but we also walked 1,500 kilometres in our pedometer competition.

Our international growth continues. This leads to an increased need for effective and inspiring spread of knowledge, cooperation and management between employees at the respective workplaces and between the different parts of the Group. Our 400 managers play an important part. During the financial year the company's regional managers completed a training programme in collaboration with the MiL Institute in Lund. The pro-

gramme was held in English and participants had the opportunity of coach meetings between sessions.

BROAD SPECTRUM OF TRAINING

Training needs at our head office and distribution centre vary considerably, as we have many qualified specialist services in varying occupational areas. Apart from meeting these specific training needs, development initiatives have been implemented in: project management, negotiation technique, coaching management, communication and presentation technique, languages, IT skills as well as fire safety and health and safety at work.

33,000 HOURS FOR TRAINING

A total of 2,800 people took part in the company's training programmes in 2009/2010. This is more than double the number from the year before. Altogether 33,000 hours were spent on training. This can be compared with 18,000 hours in 2008/2009. A considerable part of skills and employee development takes place locally. The line managers play a key role here. The respective manager receives assistance in the form of advice, guidelines and specific aids for development from the head office and country offices.

DIPLOMA FOR A GOOD WORK ENVIRONMENT AND HEALTH INITIATIVES

The work environment is a strategic issue for us. This is evident in the company's work environment policy. The aim is to create a physically, mentally and socially sound and fulfilling workplace for all employees, where preventive measures are taken against the risk of occupational injury and work-related

ill health. This determined work contributed to our receiving a health diploma from the Swedish Sport for All Association at the beginning of 2010.

REDUCED SICKNESS ABSENCE AFTER INITIATIVES

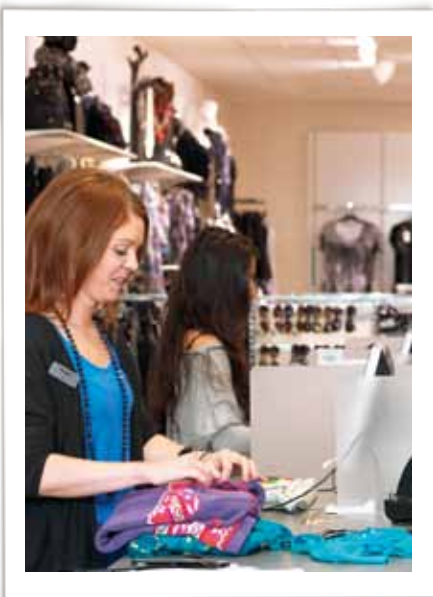
We encourage all employees to lead active lives, leading to good health. Consequently all employees are offered an exercise subsidy. We also cooperate with fitness centres, where our employees can exercise at a reduced price. In 2007/2008 the company started increased cooperation with the occupational health services, focusing on employees in the distribution centre. In connection with the activity, days of sickness absence decreased.

GENDER EQUALITY A CENTRAL ISSUE

We need diversity of employees as regards age, gender, language, geographical and religious background, since variation means that we avoid the risk of falling into a rut. Of the employees in Sweden, for example, every third has one or both parents born outside Sweden. This is good because it means our operations reflect the community and the customers.

LOW PERCENTAGE OF MEN IN THE COMPANY

However, we would like to see more men in the company. Currently nine out of ten of our employees are women. The percentage is even higher among sales assistants. Since we usually recruit internally for store manager jobs, candidates mainly consist of women. We therefore try to achieve a better balance when recruiting externally. Among other things by trying to have both sexes represented among





the final candidates, provided the qualification requirements are fulfilled. The gender equality issue is highlighted at every training initiative in management and at various managerial meetings.

FEW CASES OF VICTIMISATION

We are careful to show respect for and appreciate our differences, since that leads to a workplace in which more people can be happy. Despite this, we cannot shut our eyes to the fact that there are cases where individuals encounter difficulties. Measures are taken both to deal with the situation that arises and to prevent it happening again. The line manager has a key role to play here, with support from the head office. During the year 33 cases of victimisation were reported. This is equivalent to 0.06 per cent of the total number of employees.

DOCUMENTS THAT SUPPORT HR WORK

Apart from clear processes in the HR work, we have several policy documents that function as guidelines for our actions. These include policies for gender equality, diversity, sexual harassment, recruitment and practical work experience.

ENCOURAGES FURTHER DEVELOPMENT

We lay great emphasis on creating a workplace that encourages further development and independent initiatives – while the goals and direction follow a clear line. This creates a security in daily life and helps employees flourish. There are two foundations for HR work.

- Attract – attract more competent employees to us.

- Develop – ensure that our employees feel happy and are developing.

We really take care of our competent employees. Evidence of this is that most members of Group Management are internally recruited. In the business areas, three out of four business area managers were internally recruited and in the stores 70 per cent of the store managers are internally recruited. We try to move people around so that they develop and so we have the right people in the right place. When a purchasing position becomes vacant we usually promote an assistant and then employ a new assistant.

COOPERATION WITH SELECTED SCHOOLS

Cooperation with schools and universities is also something that the company attaches great importance to for identifying new ideas. The main focus is on education connected to trade and design. We have worked steadily for a long time receiving trainees and have a structured knowledge exchange with 20 selected schools and universities. These include the Swedish School of Textiles in Borås, which is our greatest recruitment base for the head office, KY ProTeko and the Nor-

dic Design School, which are also in Borås, as well as the Academy of Tailors and Cutters and the School of Business, Economics and Law at the University of Gothenburg, where KappAhl is a partner company. We also receive trainees from the Swedish Social Insurance Agency and the Swedish Public Employment Services who need work training in the Swedish language.

1,000 SPONTANEOUS APPLICATIONS PER MONTH

Many people want to work for us. When the company advertises for sales assistants there are hundreds of applications. The situation is the same at the company's distribution centre. Spontaneous applications are received every day via our website and the post. Since measurements started in January 2010 about 1,000 spontaneous job applications have come in via the website per month.

To facilitate the work of recruitment the selection process has been refined and further systematised. KappAhl uses a test as a complement to other parts of the process. We are careful when we recruit, for the sake of both parties. We want to attract employees who are happy, develop and do a good job.

A 1,500 kilometre walk

KappAhl rewards independent health initiatives at all levels of the company. It was therefore gratifying to see the pedometer competition initiated at KappAhl Norway in 2008/2009. The competition was a success and was repeated in 2009/2010. This time employees from the entire Group were welcome to take part. The objective was to walk a total of 630,000 steps per person in nine weeks. This is equivalent to the 1,500 kilometres between our distribution centre and the company's new market in the Czech Republic. The 400 teams from Sweden, Norway, Finland, Poland, the Czech Republic, China, Bangladesh, India, Turkey and Lithuania who participated in the competition proved that this was possible. The winning team made a study trip to KappAhl's store in the Czech Republic.

“The customers’ views are the most important”



Our customers are our all. So we listen to them carefully, not least as regards sustainability issues. We have noticed, for example, that many families with children want eco-labelled garments. This is a strong contributory reason why 18 per cent of our fashion is eco-labelled, making us second largest in Sweden in this area.

Our information is well in line with other surveys. A study from GfK in 2010, for example, shows that the proportion of households buying eco garments has increased from 13.6 per cent to 16.7 per cent in the space of one year. Second hand sales are also increasing. The study shows that eco garments that are worn close to the skin, such as t-shirts and underwear, are particularly popular and it is mainly highly educated people in urban areas and in small communities who want to buy eco garments, compared with the inhabitants of medium-sized towns.

CLEAR CONNECTION TO LIFESTYLE

Families with small children living in smaller communities are the most frequent purchasers of eco-labelled garments. The customers are deeply environmentally aware, university-educated and have community as a fundamental value in their consumer style.

Looking at the difference between the sexes you find that women between 30 and 50 willingly buy eco-labelled garments, unlike men.

RESPONSIBLE MARKETING

Listening to our customers also means that we are careful in how we market and behave in our relation with them. A sign that we are doing well is that we have never had a single case brought to the National Board for Consumer Complaints. In connection with campaigns, questions and views may be received from customers on how we present women, for example as regards underwear advertising. This is something we take seriously and have in mind for the next campaign. This does not mean that we can accommodate each and every view. The clearest confirmation that our marketing is well received, however, is that our sales increase year after year.

SUPPORTING DOCUMENTS IN OUR MARKETING

To help us we also have a number of policy documents that state how we should behave in our marketing and in what we offer. These include policies for military-inspired clothes, girls' clothes, furs and symbols. We are also careful to ensure that our photo models look healthy and well.

INVOLVED IN CREATING STANDARDS

We are often asked if we can join various co-operation projects in the fashion industry, partly due to our knowledge of what customers want, partly because we have also built up long-standing knowledge of how to deal with these questions in purely technical terms. We are part of the Swedish Standards Institute standardisation group, where we are involved in creating standards in such areas as child safety, washing, chemical and mechanical properties and size groups. Safety standards is an area of great importance to us, since we want all our customers to feel safe with our garments.



“18 years with eco fashion – now we are second largest”

We were early to offer eco-labelled garments. Our customers could buy them from us as far back as in 1993. Today over 10 million of our garments are eco-labelled. This corresponds to 18 per cent of all our products, to be compared with the target of 15 per cent. The success has made us second largest in the Swedish market.

Thanks to the fact that we listened to our customers' wishes concerning eco fashion at an early stage we have now become second largest in the area in Sweden, with 9.2 per cent of the market, after H&M which has 11.1 per cent, according to a survey by GfK in September 2010.

Our “green garments” have three labels: The human ecology label Öko-Text 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 exam-

ined. Detailed information can be found at www.oeko-tex.com. The EU Flower is a European eco-label that was started in 2002. The EU Flower entails a check of the entire chain from raw material to finished garment, which you can read more about at www.blomman.nu. 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 body that guarantees that the cotton we buy is organically grown. Examples

of these are GOTS, SKAL, IMO and Control Union (CU).

JUST AS GOOD AS ECO-LABELLED

All our garments meet the same high requirements, even those that are not eco-labelled must attain the Öko-Text level. The difference is that the goods are not checked by a third party. The reason that not all are certified is that it is expensive and the procedure is time-consuming.

“Guide paves our way to good production”

We are particular that the clothes we sell are as environmentally and human friendly as possible. To ensure this and also guarantee high quality of the garments and the production process in other respects we have prepared two production manuals, which our suppliers undertake to follow.

All products in our stores meet strict quality requirements. We have detailed instructions and directions that the suppliers must follow. This is an area in which we have worked for many years. We impose clear requirements for example regarding chemicals, both in the garments themselves and at the manufacturing stage. The requirements and subsequent controls also guarantee compliance with child safety and other physical requirements.

To help us we have two manuals which our suppliers undertake to follow: The Test and Manufacturing Guide (TMG) and the Production Assurance Instruction (PAI). The TMG includes a list of forbidden or regulated chemicals in our garments, physical requirements for the garments and safety of children's clothes. In addition, in 2010 we launched the PAI, which complements the TMG. The ambition is that both the TMG and the PAI should be simple to use, so they are instructional in design and all employees who work with quality monitoring at the production offices are trained in using the documents.

CONTROLS AT SEVERAL STAGES

We carry out careful production controls to discover faults as early as possible. The controls are made both by ourselves and by external independent laboratories at several stages. First and foremost, at least two inspections

per order are made by our quality organisation on site in the production countries. On these occasions we examine whether the garments are correctly manufactured in accordance with our instructions, before production can start. The garments are then tested by an external, independent laboratory, which ensures that the garments stand up to washing and wearing. If everything is in order thus far a random sample is taken, which is sent for external control for chemicals in accordance with our “No Risk” project.

THE NUMBER OF CONTROLS PER FACTORY VARIES

The number of quality controls per factory depends on how many orders we place with them. Since we carry out two inspections per order 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 complaint rate from customers is now less than 1 per cent. Garments that are not approved in the factory may not be delivered and must be dealt with by the supplier.

Pattern handling for reduced transport and lead times

In 2010 we started a project to increase the proportion of our own pattern construction. By moving the process home we ensure correct fitting and save a lot of time and transportation of samples between us and the supplier.

This is where our fashion is produced

We design all our garments ourselves, but we buy the production itself from about 250 suppliers. About 30 producers supply about 60 per cent of the total volume. Most purchases are made in Asia. Over 80 per cent of the garments come from there. The rest is produced in Europe. Purchases and deliveries are co-ordinated at our head office, which cooperates closely with the company's offices in the countries of production. We have a total of 8 production offices in Asia and Europe: one in Bangladesh, two in India, three in China and one each in Lithuania and Turkey.



“No risk – it’s about having the right chemistry”

Hardly a day goes by without our customers asking about the chemicals in our garments. We think it is positive that our customers are committed to environmental issues. They should not need to feel anxious, on the contrary. So we started the “No Risk” project, which means that we carry out careful tests at all our suppliers.

The work of reducing the risk of adverse effects of hazardous chemicals is important. Chemicals are a part of our everyday life. They are necessary, but there is a downside. The substances can be dangerous both to human health and the environment and the damage may go undetected for decades. Some chemical substances play a part in the origin of serious diseases and allergies.

EXTENSIVE TESTS FOR A PERIOD OF THREE YEARS

Three years ago a project called “No Risk” was started internally. It was done to prepare the company for Reach, a more stringent EU regulation for chemicals in products, in which most of the rules came into force in summer 2008. The premise was that the project would continue for two years. However, it was so good that the project continued.

“No Risk” means that we regularly test products for hazardous chemicals from all suppliers. Thousands of tests are conducted at independent laboratories.

The starting point is from the chemicals list in our Test and Manufacturing Guide. Every third month we test for new chemicals.

In that way we ensure that tests for all chemicals are carried out at all suppliers. At the end of the financial year we had tested about 6 per cent of all articles in the range – in addition to the ordinary quality tests.

SUPPLIERS CANNOT HIDE ANYTHING

The suppliers cannot prepare for our tests, since they do not know in advance what we intend to look for. The tests show that it is unusual for dangerous chemicals to be present. All cases in which they have been found have been dealt with. One example occurred in the first month, when we were looking for NPEO, a common softening agent, which has proved to be both environmentally hazardous and possibly lead to impaired reproduction capacity. We found it in the products and demanded a change. Subsequent tests show an improvement. The findings identified were below limit values.

WE ALSO EXAMINE ACCESSORIES

The “No Risk” project now also targets our accessories. Every third of our products is an accessory, and this is a product area that is growing. The types of raw material used for accessories, such as metals, are different than for garment production.

USEFUL KNOWLEDGE EXCHANGE

To stay updated in the chemicals field we participate in the Chemicals Group which is led by Swerea IVF, a research organisation owned by the Swedish Government and industry. Companies and experts meet in this group to discuss and learn more about textiles and chemicals.

PRAISE FROM THE AUTHORITIES

We are proud that our “No Risk” work has been given positive attention by the authorities. Among other things we have visited the Norwegian Climate and Pollution Agency to describe our work to minimise the presence of chemicals in our garments.

“We were open about the challenges we faced, how we worked and what we achieved.

They said they were impressed by our work. “I do not know of anyone else in our industry who has done anything similar,” says Eva Kindgren, who is responsible for quality-related issues in KappAhl’s production. An equivalent control was also carried out by the Swedish Chemicals Agency in Sweden. The SP Technical Research Institute of Sweden has also praised us at the annual environmental certification audit.

REACH

The REACH Regulation (Registration, Evaluation, Authorisation and Restriction of Chemicals) is to protect humans and the environment from chemical risks. Thanks to REACH professional users and consumers receive new and important information on the substances they use. Reach entails a considerably extended responsibility for manufacturers and importers of chemical substances to the EU. Manufacturers and importers must analyse and report on whether their substances imply any risk and the necessary safety measures. Most of the rules came into force in June 2008.

“Environmental Code for better water processes”

Most environmental forecasts indicate that the need for clean water will increase around the world. Since water is an important component in the production process, this is something we take seriously. The purpose of our Environmental Code is specifically focused on the use of chemicals and how water is cleaned before discharge.

The code is new, and we have gone through a learning process in 2009/2010. It is used exclusively for suppliers who have wet processes in their production – which can have considerable environmental impact. In this first phase the selection of supplier was based on the fact that other suppliers, who only sew, have a considerably smaller environmental impact. It can be said somewhat simply that they only use chemicals in the form of cleaning agents when they take away individual stains on the garments, which has a limited environmental impact.

SURVEY IN FOUR AREAS

The code means that we can examine the suppliers which have their own wet process, i.e. produce the entire garment, from yarn to finished garment. The need is great in Bangladesh and India. So we are starting the work there. The follow-up work is based on the document Environmental Requirements, which contains about 40 questions in four areas:

- Leadership and management of environmental work
- Hazardous waste
- Chemicals
- Water treatment

SUPPORT SUPPLIERS TO MAKE PROGRESS

Each supplier is mapped on the basis of results, and measures are taken to improve the process in case of deficiencies. We endeavour to be more of a cooperation partner that gives advice and support to achieve sustainable processes rather than an inspector.



“Our Code of Conduct and how we work with it”

We are convinced that KappAhl has an important role to play in developing a sustainable society, in which human rights are respected, so we developed a Code of Conduct for our suppliers. The Code of Conduct is part of our framework agreement with suppliers. By signing the 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 want only to sell garments that are manufactured under acceptable conditions. As early as in 1997 we drew up our first Code of Conduct for suppliers and the year after we started to monitor compliance.

We have almost 250 suppliers. Their production units are subject to the company's Code of Conduct, which covers areas such as safety at work, working hours, pay and freedom to join trade unions. Our suppliers and their production units are in different legal and cultural environments. We require them to follow their own country's laws and our Code of Conduct and that they work continually to improve working conditions.

AN EVALUATION MUST BE MADE BEFORE COOPERATION IS STARTED

Each production unit is covered by our inspection and monitoring system and is graded on four levels – from “unsatisfactory” to “fully satisfactory”. This is done before cooperation is started – no orders may be placed with a supplier before the evaluation is completed and it is clear that the supplier meets our basic requirements.

The four levels are as follows:

- Fully satisfactory: The production unit

meets all the requirements of our Code of Conduct.

- Satisfactory: The production unit meets most of the requirements of the Code of Conduct, but must make some improvements.
- Temporarily approved: The production unit must make considerable and permanent improvements within 12 months and undergo another inspection.
- Unsatisfactory: The production unit does not meet our basic requirements.
- All production units must undergo a follow-up meeting every year as long as they are manufacturing for KappAhl. This applies regardless of the level they are on.

Those who are classified as “unsatisfactory” have not reached the basic requirements in the following areas: no child labour, minimum wage, basic fire safety, no forced labour, no discrimination, freedom to join trade unions. At the close of the 2009/2010 financial year about 70 per cent of the company's suppliers were “temporarily approved” or “satisfactory”. When investigating new suppliers it is most common for them to be “temporarily approved”. Not necessarily because they do not meet the requirements, but because we want to make more visits to make sure that the status is permanent.

COOPERATION AND PERMANENT IMPROVEMENTS

So that we, together with our suppliers, can achieve permanent improvements there must be an open and transparent dialogue on terms and conditions in the production units. Unfortunately, however, at our initial inspections it is common for us to be presented with documentation that does not reflect reality. But methodical work and patience usually

lead to a solution that allows us to start cooperation and a process of improvement.

When there are deficiencies the supplier, together with the production unit, has to draw up a plan of action which becomes an important part of our follow-up. Our follow-up also includes a large proportion of advice, aimed at creating the long-term sustainable improvements we seek.

The reception by both potential and existing suppliers is usually positive – an increasing number realise that it is a competitive advantage to be able to offer customers a factory with good conditions.

MEMBER OF BSR – SOURCE OF USEFUL KNOWLEDGE

In 2010 yet another step was taken in sustainability work in relation to suppliers, when KappAhl became a member of Business for Social Responsibility (BSR). This is a global, non-profit organisation that contributes competence and helps member companies to do business with respect for ethical values, individuals, society in general and the environment. We were previously part of the Business Social Compliance Initiative (BSCI), which filled a function in the phase at which we then were. Since we have decided to take a further step towards an increased element of improvement and advice, in addition to regular inspections, BSR with its competence base suits us better. In our opinion, using external inspectors, which BSCI entails, does not create such a high degree of control and influence as our current system.

EMPLOYEES WITH SPECIALIST COMPETENCE

We have eleven specialists in the purchasing organisation who only work with our Code of Conduct for suppliers. Ten of them are social

SECTION 4 PRODUCTION

compliance officers. They are stationed at our production offices and work daily with our suppliers and their production units, with inspections, support and follow-up. The work is led by a social compliance manager, who is also stationed at one of the production offices, close to the operations. The emphasis of the work is on giving support and advice for improvements, since we aim to achieve improvements in our partnerships.

In addition managers are responsible, with the help of other employees at the production offices, for influencing suppliers towards improvements. Over 40 people work at the Hong Kong office alone. They have a clear incentive for helping. Even a very good production unit, in terms of the products themselves, can be classified as “unsatisfactory”. In that case the supplier may not use it for KappAhl production.

FOCUS ON THE MOST CRITICAL COUNTRIES

In the last financial year 653 inspections and follow-up visits were conducted. In addition there are all the visits from our quality organisation, which makes two inspections per order. Large suppliers may receive several visits a week. We produce in China, Bangla-

desh, India, Turkey, Romania, Italy, South Korea, Lithuania, Ukraine and Belarus. Up to now the focus in the follow-up work has concentrated on the countries that account for the greatest percentage of our purchases. These are China, Bangladesh, Turkey and India. Together they account for 92 per cent of our total purchase volume.

GREAT DIFFERENCES BETWEEN THE COUNTRIES

The structure of the factories varies between production countries. For example, in Bangladesh the factories often have more than 2,000 employees. In Turkey there may be fewer than 100 and the factory owners there often choose to subcontract production. This makes our work with the Code of Conduct more difficult.

DEVELOP COMPUTER SYSTEMS

We have started to develop a specially adapted computer program to enable us more easily to gain a full overview and regularly follow the work at our suppliers’ production units. It can be used, for example, to compile information on how well the Code of Conduct is followed by each production unit and achieve an even clearer picture of the most

critical deficiencies and how they manifest themselves. All in all it gives us better decision-support for future measures.

In addition a system of this kind provides increased opportunities to ensure that all employees involved in monitoring act in the same way and make the same assessments.

The Code of Conduct covers these areas

1. Compliance with laws and ordinances
2. Work
3. Work environment
4. Environment
5. Management system
6. Examination and measures for deficient conduct

The Work area covers the following: Forced labour; child labour; freedom of association and collective bargaining; human rights; discrimination; wages and other remuneration; working hours and employment contracts..

The following main areas are included in Work Environment: Employee health and safety.

The most common deficiencies at the factories

- Too much overtime
- Overtime pay too low
- Deficient procedures for fire safety

Examples of inspections by country

	China	Bangladesh	Turkey	India	Total
Number of inspections	212	36	30	23	301
Number of follow-up meetings	255	76	1	20	352

Code of Conduct – grading of production units

	Not inspected		Unsatisfactory		Approved		Total	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
China	0	0%	23	9%	231	91%	254	100%
Bangladesh	0	0%	3	7%	38	92%	41	99%
India	0	0%	7	20%	28	80%	35	100%
Turkey	18	39%	0	0%	28	61%	46	100%
Lithuania	0	0%	0	0%	2	100%	2	100%
Ukraine	0	0%	0	0%	18	100%	18	100%
Belarus	0	0%	0	0%	2	100%	2	100%

The Approved category in the table above covers production units that have been graded as Fully Satisfactory, Satisfactory and Temporarily Approved.

“Good CSR work creates competitive advantages”

– Interview with Arup Kumar Saha, team leader, social compliance, Bangladesh

WHY DID YOU DECIDE TO WORK WITH CSR?

It gives me a good feeling to contribute to society in my daily work. I started on this track when I was a trainee at the UN global development programme, UNDP, in Dhaka in 2005.

WHAT IS MOST REWARDING IN YOUR WORK?

When I can persuade people that it is in their interest to take an active part in CSR work. As a rule, suppliers undergo several audits from several different fashion companies and audit firms. It is easy for a sort of “audit weariness” to set in with them, which is understandable. I get a good feeling when a supplier realises that we want to contribute to their continual work of improvement with our CSR work.

HOW DO YOU THINK THE SUPPLIERS HAVE DEVELOPED IN CSR IN RECENT YEARS?

They have developed well. I think that some of them have the potential to lead the industry going forward. An important reason for this is that they consider that good CSR work creates competitive advantages that help them grow.

WHAT IS THE MOST COMMON CHALLENGE OF CSR WORK WITH SUPPLIERS?

Many of them have a short-term focus, and want their efforts to bring rapid financial results. This leads to their overall goal being to pass the audits, since they are directly linked to orders. We and a number of other fashion companies work hard to get the suppliers to think more long-term – past the immediate orders. We focus instead on

implementing an approach in the factories, which means that they themselves can work on the measures required. Here it is important for us to give good advice and support.

HOW DO SUPPLIERS NORMALLY REACT WHEN YOU VISIT THEM?

That has changed quite a lot since I started my career. To start with it was relatively common for suppliers to regard the CSR work as frightening. They were afraid of failing the audits, which meant that they did not dare to be open about their challenges. My perception is that this has changed, now most of them are very focused on problem-solving and have more openness towards us.

HOW MANY SOCIAL COMPLIANCE OFFICERS ARE THERE AT YOUR OFFICE?

Currently there are two in Bangladesh.

DO YOU EVER GET HELP FROM OTHER EMPLOYEES AT THE OFFICE?

We get a lot of support from our country manager and the rest of the organisation. This is important, since production and compliance with our Code of Conduct go hand in hand. We also get regular feedback from our quality controllers about the status at the factories. In that way I get a fairer picture of the suppliers, which means that we can work on the details that really bring results at each individual supplier.

WHAT WILL YOU FOCUS ON IN THE COMING YEAR?

Continuing to create commitment to systematic working methods for CSR issues at the suppliers. In that way they can carry out their own surveys, in which they identify the gap between the company policy, systems and implementation. This guarantees a positive environment for sustainable development at factory level.

Arup, how often do you visit the factories?

Normally we don't do more than one inspection a day. This is because we must prepare ourselves and have enough time for discussion and advice. An inspection can require anything from 6 hours to three days, depending on the size of the production unit and any questions and problems we face. A traditional follow-up visit takes less time.

We also make shorter surprise visits, since we are convinced that it is a good thing to be there often. We manage several of those in one day, depending on where the factory is. It takes from one to three hours to reach most suppliers. When it's raining or there are traffic jams it takes longer.

DO THE VISITS INVOLVE A LOT OF ADMINISTRATION?

It is important to keep a check on what has been done and what needs to be done in the future. All the results of our visits are registered in a database. We also compile reports to managers and colleagues in the production organisation and to the head office.

“In the best interests of the child at all times”

We are determined to prevent child labour at our suppliers – for example through careful age check procedures. This has brought good results. If it should occur, we have a clear plan of action, in which the goal is to achieve a positive solution for the child.

According to the UN, anyone under the age of 18 is a child. Since the school-leaving age is earlier than that in several of the countries where our suppliers operate it is not unusual to start work at the age of 14. In other countries at the age of 16. This group is designated “Young Workers” and can be employed in one of our suppliers’ factories as of their 14th or 16th birthday – in accordance with ILO Convention 138.

CLEAR PLAN OF ACTION IN PLACE

We have a clear plan of action to follow if we find under-age workers in a supplier’s production unit. Our focus is always to ensure his or her best interests and to cooperate to find the best solution. In such a situation we must,

under our plan of action, contact the parents or other custodian and have a dialogue concerning for example various education alter-

natives, while we require that wages are paid for the period until she or he reaches working age.



“Effective organisation to achieve the goals”

We have a clear structure for our sustainability work. The starting point is that everyone who works for the company participates in sustainability work. But the ultimate responsibility and overall control is determined by the Board and management, after which delegated responsibility and various specialist functions are allocated in various parts of the Group.

In our Group Management the HR Vice President is responsible for environmental management systems and the work environment. The Vice President of Purchasing is responsible for the Code of Conduct, quality control and environmental work in production and products.

UNITS WITH SPECIALISTS

Our quality control organisation consists of 30 specialists, called quality controllers, who

work at the production offices. They collaborate with colleagues who work with the Code of Conduct. Three of our quality controllers specialise in chemistry, which is a priority area for creating a high-level of garment safety.

SUPPORT FROM OTHERS AT THE PRODUCTION OFFICES

In addition we have a staff with a number of different purchasing-related positions at the

production offices, where there is a total of 170 employees. They have a large number of contacts with suppliers and collaborate with our quality controllers and social compliance officers to achieve improvements in accordance with the company’s codes and production manuals.

“The impact of fashion on the climate”

Our customers expect the right feeling for fashion, but also that we take responsibility for our operations from the point of view of sustainability. Here the environmental impact is central. We take this very seriously and regard it positively. To start with, it is important to have in-depth knowledge of the impact of fashion on the climate.

If you look more closely at what types of consumption have the greatest impact on the climate, fashion comes fairly far down on the list, according to Swedish Environmental Protection Agency report 5903.

The major sources of carbon dioxide emissions are: housing, 30 per cent; travel, 30 per cent; food, 25 per cent and shopping, which accounts for 5 per cent. In the Shopping category, clothing and shoes account for 2 per cent of emissions, which can be compared with the fact that households spend about 5 per cent of their money on these goods. A closer look shows that about half of the carbon dioxide emissions come from five activities:

1. How much we drive cars and the type of car we use
2. How we heat our homes
3. How much electricity is used in the home
4. The amount and type of meat we eat
5. How far and how often we fly

FASHION IS OFTEN SINGLED OUT

According to the Swedish Environmental Protection Agency report 5903 it is not possible to single out one product, such as clothes, or one service in the shopping category that has a particularly great environmental impact. This does not match the prevalent media picture very well, which influences consumers' perception of the fashion industry. We must take this seriously, since we share our consumers' values and want to be a good member of society.

There are two areas of our operations that have a major impact on the climate. One is transport and the other is production of yarn and fabrics, which use a lot of water and energy. To reduce our impact we have clear manuals for production in our Test and Manufacturing Guide and we conduct water projects in Bangladesh and India. In addition we have started cooperation with other companies in the industry regarding water management, called STWI.

“SOME EXAMPLES OF MEASURES IN THE ENVIRONMENT AREA”

- Climate neutralisation of air travel
- Recycled plastic in all our bags
- Reuse of hangers and our own production of transport crates from recycled plastic
- Member of Clean Shipping to reduce emissions from transportation
- “Wash right for the environment” – a brochure for our customers
- Climate analysis of garments all the way from growing to garment use
- Water and environment projects in India and Bangladesh
- 10 million eco-labelled garments

Climate analysis: “1.0 kg t-shirts better than 1.1 kg beef”

As far as we know we were first in the industry to carry out a comprehensive climate analysis of garments, from cotton growing via manufacture, transportation, sale to using the garment for two years. It turns out that our garments stand up well in comparison with many other products that we consume in a far shorter period.

The climate analysis, which was conducted in 2008, was on t-shirts and trousers throughout the supply chain to the end customer, who was assumed to use the garment for two years. The purpose was to find the greatest environmental impact. It turns out that a large part of the emissions; 22 per cent for t-shirts and 37 per cent for trousers, are from washing and drying the garments.

“WASH RIGHT” – A SIDE EFFECT

Consequently we produced a brochure “Wash right”, which gives specific advice on how to look after clothes to reduce emissions. Its advice includes how to wash and dry garments in an environmentally friendly way.

INTERESTING COMPARISONS WITH OTHER PRODUCTS

It may also be interesting to compare the climate effect with other products and services that we use every day. It is evident that 1 kg t-shirts, which is about three t-shirts, has a climate impact equivalent to 27 kg of carbon dioxide. This is the same environmental impact as 1.1 kg of beef, 6 kg of chicken and 120 kilometres driving in a car – over the entire lifecycle. One kg of trousers has a climate impact equivalent to 16 kg of carbon dioxide over its lifecycle. The same effect is achieved via 0.7 kg beef, 3.5 kg chicken and 80 km car driving. The tests show that customers have a greater influence over the

climate impact of the trousers seen over the entire lifetime. The production process plays an important role here – the factories where the trouser tests were carried out are modern

and have effective processes, which gives less climate impact from production.

The ambition is to go further with new climate analyses in coming years.





“We were the first fashion chain in the world to achieve environmental certification”

In 1999 we were the first fashion chain in the world to be certified under the environmental management standard ISO 14001. Today the environmental management system includes the entire supply chain: from design, manufacture, transportation to the distribution centre and out to stores, as well as operations at the head office, distribution centre and store operations in Sweden and Finland.

Environmental certification means an annual audit of operations. This is both internal and external. In the external audit we are helped by SP Certifiering. Every third year the operations are recertified. This means that we must prove that our environmental impact has decreased to a considerable degree. The last recertification was in spring 2009. The number of deviations was 8, including the fact that there were no information sheets for management of cleaning chemicals, that we had not registered an employee who had

completed environmental training and that there was no log in connection with removal of electronic waste for waste and recycling treatment. We had six weeks to rectify the deviations, which we did.

The goal is that certification in future will also include the sales organisations in all markets where we have stores. Now certification covers the stores in Sweden and Finland. In coming years the stores in Norway and Poland will be included in the certificate.

“Increased climate impact from transportation”

In goods transport we are working consciously to transfer goods when possible to modes of transport that have less environmental impact, such as ships and trains. Here the company cooperates with Green Cargo in Sweden and Norway, for distribution by train to our stores. Grouped shipments and effective route planning are also applied. Despite this, emissions increased in 2009/2010.

Shipments from the manufacturing country via the distribution centre in Mölndal to our stores account for a large proportion of the Group’s environmental impact. So we are trying to work methodically to reduce emissions.

RECYCLED PLASTIC CRATES

During the year we invested in our own recycling system and in tools for manufacturing transport crates of recycled plastic, which are filled all the way up. This brings both environmental and economic benefits compared with using cardboard cartons, which are often only half filled and thrown away when the shipment has been made.

ENVIRONMENTAL ACCOUNTING WHEN SELECTING FORWARDING AGENT

When we choose between different forwarding agents we look at their environmental accounting, for example. Calculations of emissions are made on the basis of templates from our carriers. No shipments are sent directly from our producers to the stores – everything is sent to our distribution centre. As of the turn of the year 2010/2011 we will require monthly reports in accordance with our templates.

INCREASED EMISSIONS IN 2009/2010

In 2009/2010 emissions from shipments to our centre and further distribution to stores increased by 104 per cent, according to calculations by an external, independent party, Tricorona. Total emissions were equivalent to 28,000 tonnes of carbon dioxide. In the three years before that emissions decreased by 41 per cent. The crucial factor behind the increase is that we were forced to use air transport to a greater extent, 6 (4) per cent of shipments were by air – an increase of more than 140 per cent. This is mainly because of logistical problems in the parts of Asia where we produce.

MORE GARMENTS SHIPPED THAN THE YEAR BEFORE

The total number of shipped garments in the period 2009–2010 was 57 million, which is an increase compared with previous years. Other changes include increased operations in Poland, and the inclusion of domestic shipments from Lahti to stores in Finland in this year’s report.

COMPARISON WITH SALES

It may also be of interest to make a comparison with the company’s sales. In the past year emissions per garment increased by 7 per cent in relation to when measurements started in 2005/2006.

INCREASED COMPARABILITY IN DISTRIBUTION

We receive statistics on distribution from our centre in Mölndal to stores from the forwarding agents Green Cargo and Itella. They report in different ways, which we will require them to change from next year. This will lead to increased comparability. Here too we will require monthly reporting in accordance with our templates.

Summary of KappAhl’s climate impact from transportation, 2005–2010, by mode of transport

Total per type of transport	Tonnes CO ₂ e* 2005–06	Tonnes CO ₂ e 2006–07	Tonnes CO ₂ e 2007–08	Tonnes CO ₂ e 2008–09	Tonnes CO ₂ e 2009–10	Change 2008–09/2009–10
Sea	2,366	2,602	2,360	2,183	2,277	4 %
Road	2,097	2,144	2,079	1,563	1,625	4 %
Air	18,733	15,240	13,129	10,042	24,293	142 %
Rail	14	13	56	9	12	45 %
Total	23,210	19,999	17,623	13,797	28,207	104 %

*CO₂-equivalents are a general measurement making it possible to compare the climate impact of various greenhouse gases, which also makes comparison between different foods possible, presenting their climate impact in the same measurement.

Total emissions and tonne kilometres* from KappAhl's distribution from centre to stores in 2009–2010, by mode of transport

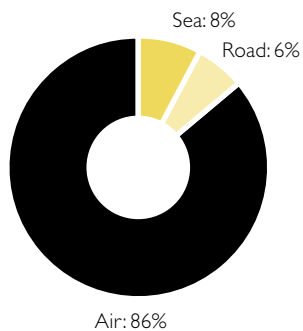
Total distribution 2009–2010	Tonnes CO ₂ e 2009–2010	% of tonnes CO ₂ e
Sea	28	2 %
Road	1,418	98 %
Air	0	0 %
Rail	3	0 %
Total	1,449	100 %

* A measurement often used in transport calculations. The measurement is obtained by multiplying the number of tonnes of goods shipped by the number of kilometres transported.

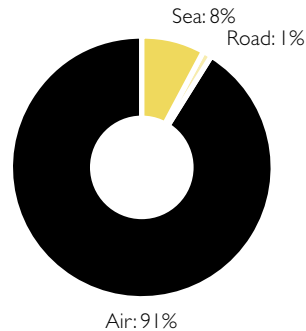
Key figures for KappAhl's logistics operations in 2009–2010

Key figure	Unit	2005–2006	2006–2007	2007–2008	2008–2009	2009–2010
Number of tonnes	tonnes CO ₂ e	23,210	19,999	17,623	13,797	28,207
Number of garments shipped	millions of garments	50	51	53	54	57
Climate impact per garment	kg CO ₂ e/shipped garment	0.46	0.39	0.33	0.26	0.49

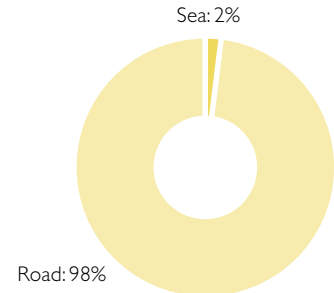
Total emissions 2009–2010



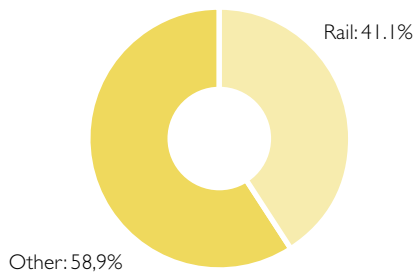
Emissions from KappAhl's imports to distribution centre 2009–2010



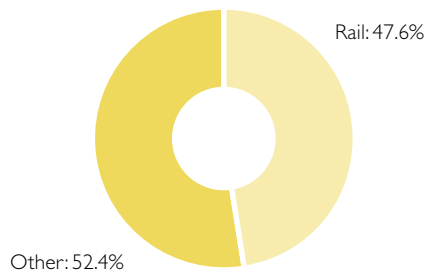
Emissions from KappAhl's distribution to stores 2009–2010



Percentage of rail freight in distribution, Sweden (tonne kilometres)



Percentage of rail freight in distribution, Norway (tonne kilometres)



“On the right road with rail transport and clean shipping”

As regards our goods transport we work actively to obtain increased knowledge, so that we can thereby contribute to improved shipping services and better transportation from an environmental perspective. That is why we are a member of Clean Shipping and use the Swedish Transport Administration platform for better road transport.

To ship our fashion from the producer countries to our distribution centre and then to the stores is a necessary process in our operations. It is important that it is dealt with effectively, both for the environment and the economy. Consequently we have for a long time been holding discussions with forwarding agents concerning new fuels and engines, grouped shipments with other companies in the garment industry and we are working on effective route planning.

MEMBER OF CLEAN SHIPPING.

Sea transport clearly decreases emissions per tonne and kilometre compared with air transport, which is one reason why we ship a considerable majority of our fashion from Asia by sea. Another reason is that it is also far more cost-effective than by air. However, even in the world of shipping there are considerable differences between different shipping companies, vessel types and methods of navigation, in terms of environmental impact.

Slow steaming leads, for example, to considerably lower fuel consumption – which is of great importance for both environment and economy. This is an area where we want to exert an influence. Consequently we have participated in the Clean Shipping project since 2008. This is a joint project between

purchasers of transportation aimed at exerting pressure on shipping companies to reduce their environmental impact. Clean Shipping requirements are part of our goods transport procurement.

SHIPPING ACCOUNTS FOR A RELATIVELY SMALL SHARE OF EMISSIONS

Our efforts as regards shipping have brought good results. In 2009/2010 sea transport accounted for 91 per cent of our shipments from the producer countries, counted in tonne kilometres. This should be set in relation to sea transport only accounting for 8 per cent of all carbon dioxide emissions from our shipments. Almost the opposite is true of air transport, which accounted for 91 per cent of emissions but only 7 per cent of the shipments, counted in tonne kilometres.

ROAD TRANSPORT HAS DECREASED

We use the Swedish Transport Administration platform for sports and fashion companies as a basis for procurement of road transport. This has contributed to more effective transportation. A closer examination of road freight from the producer countries shows a decrease from 8.6 to 4.9 million tonne kilometres in the last five-year period.

Clean Shipping in brief

The Clean Shipping Project was started for the purpose of increasing focus on environmental issues in shipping. More than 20 of Sweden's largest cargo owners are involved in Clean Shipping. One of the results of the project is the Clean Shipping Index, which ranks shipping companies on the basis of their environmental actions. The index takes into account the shipping companies' emissions to air and water and the use of chemicals. The index is designed so that individual vessels or shipping companies cannot obtain a high overall ranking if they only show good results in one of the categories investigated.

“Responsible business travel”

We were the first Nordic fashion company to purchase carbon offsets for our most frequent travellers as regards business travel by air. We have compensated for emissions of 2,504 tonnes of carbon dioxide since the start in 2007, which corresponds to an allocation of almost SEK 650,000. The money goes to a UN certified wind power project for the textile industry in India.

We have a policy that gives clear instructions on how we should travel, which everyone in the company must follow. For example, we must choose green hire cars and travel by train unless there are special reasons. For a long time we have tried to minimise air travel for our employees. Of course we use video and telephone meetings when possible. At the same time there are some journeys we must make in our work, such as visiting suppliers and to give our designers and buyers inspiration and to identify major fashion trends. To compensate for this, as the first Nordic fashion company, we decided to purchase carbon offsets as early as in 2007. Since then we have compensated to the tune of about SEK 650,000.

UN CERTIFIED WIND TURBINES IN INDIA

Climate compensation is the funding of a measure outside one's own organisation, which leads to a reduction of emissions that is equivalent to the emission being compensated for.

The money for our climate compensation goes to wind power projects that provide electricity for 250 small companies in the textile industry in Tamil Nadu, India. The project is a CDM project (Clean Development Mechanism) and thereby certified by the UN under the Kyoto Protocol. To identify the very best

CDM projects from an overall sustainability perspective the environmental movement, led by WWF International and Greenpeace International, created the Gold Standard, a quality label for climate compensation projects. The project in Tamil Nadu has this label.

CALCULATIONS BASED ON TEMPLATES

In 2009/2010 we offset 889 tonnes, with the women's department of the purchasing office accounting for just over 200 tonnes. The calculations are based on our most frequent travellers, just over 60 people in senior management and the purchasing department. The calculation of carbon dioxide emissions is based on a weighting of actual figures and standardised templates.

The system is based on information supplied by the person travelling. There is some

drop-out here; about three quarters of the information material is supplied every year. The rest is derived from the respective departments' travel budgets, with a generous margin, in accordance with subsequent controls.

GOTHENBURG-LONDON RETURN GIVES 0.5 TONNES

Calculations of what each journey entails in the form of climate impact are based on standardised templates. For example, a return purchasing trip to China, via Helsinki, gives 5 tonnes of carbon dioxide emissions. A return journey for a designer to London or Barcelona is equivalent to 0.5 tonnes of carbon dioxide. The same amount is calculated for a return trip to the Czech Republic, while a return journey from Gothenburg to Stockholm gives a carbon dioxide emission of just over 0.2 tonnes.

Major environmental savings thanks to the train

	Train	Car	Train *	Air *
Total kilometres	658,938.00	658,938.00	336,887.00	278,793.00
Carbon dioxide, kg	1.38	125,857.16	0.71	43,212.92

Emissions of CO₂ (carbon dioxide) from the train journeys above are equivalent to the emissions from 0.586 litres of petrol.

* The figures only refer to journeys where air travel is an alternative.

Read more on the key figures and their significance (in Swedish) at sj.se/miljokalkyl.



“New projects to save energy”



We endeavour to reduce energy consumption in all parts of our operations. Running the stores themselves constitutes a considerable part of our operations and during the year we carried out a pilot project that brought great savings. And of course we use “green electricity” – with a guarantee of origin for electricity from hydropower. We have done this since 1999.

Part of our energy savings effort is to analyse each store’s potential for making its lighting more efficient, which can contribute large savings. During the year a pilot project was implemented in two stores in Norway, which cut power consumption by half. During the

financial year about 70 per cent of our electricity consumption in Sweden had a guarantee of origin from hydropower facilities on the River Ljusnan. The objective is to implement energy savings programmes and use green electricity throughout our operations. In the Swedish stores with their own meters, electricity consumption amounted to 140.9 kWh/m² and year, a reduction of 5.9 per cent compared to the previous year.

UPDATING THAT USES LESS ENERGY
During the financial year several stores were updated with a new store concept, in accordance with an established plan. The new concept includes better lighting, which apart from a more attractive setting, also contrib-

utes to almost 30 per cent lower energy consumption. An important factor in the choice of lighting is how much heat is generated. If the production of heat can be reduced then no cooling system will be needed to create a good indoor climate, which will also contribute to cutting costs and energy consumption.

COOPERATION WITH STEEN & STRÖM
In August 2010 a pilot project was also started with the property company Steen & Ström to improve the conditions for more environmentally friendly operation of stores as regards such things as energy use, lighting, waste management and transportation to and from each store.

“Training for women in Bangladesh”



In Bangladesh we have a training centre for women aged between 18 and 40 who are from poor circumstances and have no formal education. The project is run together with some suppliers and a local interest organisation.

The project offers the women three months training. Alongside normal sewing and dress-making, instruction includes rights and obligations relating to women's health and safety.

FIRST STUDENTS GRADUATED

The first training programme ended during the year and the project was highly successful. All the women who wanted found a job after

the programme, which has made it very popular.

“A young woman on the training programme came one day with her father. He wondered if his wife could also attend the course. That is gratifying. We are open to everyone,” says Eva Kindgren, who is in charge of CSR issues in relation to suppliers.

UNDERSTANDING FOR WOMEN'S EVERYDAY LIFE

At the same time it is not entirely uncontroversial to contribute to women's training in this way. We have also encountered some problems, which illustrate women's vulnerable position in some parts of the world. We

want to change this by contributing to their individual development.

“It feels good to be able to help them build their own skills, which makes them less dependent,” says Eva Kindgren.

INFORMATION A SUCCESS FACTOR

Informing women and their families about the purpose of the training and what it leads to is very important.

“We have had one person managing this communication. This played an important part in achieving good results. We will take that into account now as we prepare the next class of students,” says Eva Kindgren.



“Collaboration with the World Bank and International Council of Swedish Industry”

In 2009/2010 we collaborated with the World Bank on an important project in Bangladesh to improve the production process from the perspective of water, chemicals and energy consumption. In India we collaborated with the International Council of Swedish Industry on a project to identify the level of knowledge, any deficiencies and best practice for some selected suppliers.

Environmental legislation and compliance often vary between the countries where we have production facilities. We are therefore working to raise the level of knowledge. We work together with consultants from the International Finance Corporation’s South Asia Enterprise Development Facility, IFC-SEDF, in the World Bank and a number of selected suppliers.

SURVEY OF THE PRODUCTION PROCESS

In India we work together with the International Council of Swedish Industry to identify the knowledge level, any deficiencies and best practice at our suppliers. Three of our suppliers’ production processes are being surveyed from this perspective. The purpose is to create a working method leading to more effective use of water, chemicals and energy from an environmental perspective.

WATER PROJECT WITH GOOD RESULTS

Apart from these initiatives we have implemented several successful environmentally related improvement projects in the past. In 2008, for example, we carried out a pilot project in water purification at four suppliers in Bangladesh, linked to yarn and fabric manufacture. The yarn manufacturing process

itself, for example, can entail major environmental impact due to emissions of chemicals to soil and watercourses. That is why we attached great importance to creating environmentally effective processes. The project gave good results and since 2009 suppliers using wet processes are subject to our requirements.

Clear guidelines for sustainable water use

In 2010 KappAhl and 24 other Swedish companies in the textile and leather industry established the Swedish Textile Water Initiative, STWI. The aim is to develop guidelines for sustainable water use in production.

“Better cotton via BCI”

Only one per cent of the world's cotton is organically cultivated, or ecological as it is sometimes called. We want the proportion of sustainably cultivated cotton to increase. That is why we belong to the Better Cotton Initiative, BCI.

Cotton is one of the most commonly cultivated crops in the world. The International Cotton Advisory Committee estimates that about 300 million people work in the cotton industry.

2.5 PER CENT OF THE WORLD'S ARABLE LAND

Almost 35 million hectares are used for cotton cultivation, which is equivalent to about 2.5 per cent of the world's arable land. About 80 countries produce cotton on a commercial scale and more than 90 per cent of cotton farmers live in developing countries, on farms of less than 2 hectares. In these countries cotton is an important crop for farmers and its cultivation accounts for a considerable contribution to each country's total economy.

UNSUSTAINABLE CULTIVATION SYSTEMS

Many of the farms are run using ineffective irrigation systems and cultivation methods. Incorrect use of pesticides and fertilisers threatens the supply of clean water and puts land, biological diversity and human health at risk. In addition there are reports of tough working conditions and financial difficulties for farmers, partly as a consequence of high prices for input goods and crop failure.

BCI WORKS TO SAFEGUARD SUPPLY

In 2007 KappAhl joined the Better Cotton Initiative (BCI), which works to secure the supply of sustainably cultivated cotton. This is done by improving conditions for cultivation and thereby also for the environment and long-term cotton supply. Via the BCI farmers learn to use less water, fewer chemicals and pesticides even in conventional cotton cultivation.

The aim is to achieve more environmentally adapted cotton cultivation and improve the social situation of the farmers. The first BCI cotton is expected to reach the shops in 2010.

IMPORTANT TO INVOLVE THE FARMERS

A central point is to create an interest among farmers in choosing sustainable cotton farming instead of current cultivation methods. The BCI therefore attaches great importance to spreading information on the advantages, as well as contributing knowledge in the form of training and specific advice.



“From BSCI to BSR – a new step in our sustainability work”



In 2010 we joined Business for Social Responsibility (BSR). At the same time we left the Business Social Compliance Initiative (BSCI). The reason is that BSR, with its broad competence base, is more suited to the new phase we have entered – in which we lay great emphasis on advice and support to our suppliers.

BSR is a global, non-profit organisation that contributes competence and helps member companies to do business with respect for ethical values, individuals, society in general and the environment. Membership means that we are taking another important step in our sustainability work, since BSR contributes considerable competence to our organisation, from which we derive great benefit in our

relations to suppliers in our production countries.

INVOLVED IN DRAWING UP THE BSCI CODE

We were previously part of the Business Social Compliance Initiative (BSCI), which filled a function in the phase at which we were then. We joined the BSCI in 2004 and

were involved in drawing up the BSCI Code of Conduct at the time.

Since we have decided to take a further step towards an increased element of improvement and advice, in addition to regular inspections, BSR suits us better – thanks to its broad competence base. This will have great significance above all in our relations to our suppliers.

“Ethical Trading Initiative”



In 2002 we joined the Norwegian Ethical Trading Initiative (IEH), which works to increase corporate and public knowledge, understanding and commitment to ethical trading.

The IEH was established in 2000 and aims to promote good working and environmental conditions in its supply chains and to

strengthen support for ethical trading. The IEH is open to companies, organisations and government agencies.

CONSTANT IMPROVEMENTS

IEH membership requires methodical endeavours to manage ethical challenges in the value chain and open reporting of the result of these endeavours. At the same time mem-

bership provides access to training, seminars, advisory services and a broad network.

IEH's values are based on central UN and ILO Conventions. The principles are based on the UN Universal Declaration of Human Rights, the ILO Fundamental Conventions on Human Rights at Work, the Rio Declaration and the UN Convention against Corruption.

“Some of our sponsoring projects”

We sponsor and contribute advice and work to a number of selected organisations that provide great benefit to long-term positive development of humans and the environment. The support goes to both large, national projects and local initiatives in the places where we operate.

We have a long history of contributing actively to the community in which we operate. When we decide which initiatives we want to be involved in we give priority to long-term projects with clear and explicit goals. Our sponsoring is governed by our sponsoring policy. Below you can read about some of the projects we support.

CHILDREN'S RIGHTS IN SOCIETY, BRIS
We are one of the principal sponsors of the non-profit organisation, BRIS, which gives advice and support to vulnerable children and young people in Sweden. Read more at www.bris.se

VACUUM SWEDEN
In 2009/2010 we collected 50-öre coins for BRIS, Childhood and SOS Barnbyar in the “Vacuum Sweden” campaign. Read more at www.dammsugsverige.se

“GO RED” - SWEDISH HEART-LUNG FOUNDATION
Almost 4,500 women die every year from heart attacks. The goal of the Swedish Heart-Lung Foundation is to halve that figure by 2017 so that we can save the lives of more than 2,000 women every year. We contribute actively to spread knowledge and generate revenue by selling “Go Red” products in our stores. In the 2009/2010 financial year we collected over SEK 1.4 million for Go Red in

Finland, Norway and Sweden. Read more at www.hjart-lungfonden.se

1.6 MILLION CLUB
We have supported the 1.6 Million Club since 2007. The organisation spreads objective information on women’s health issues and to introduce the female perspective into medical research and medical training, thereby promoting better care and knowledge of preventive care. Read more at www.1.6miljonerklubben.com

SAVETHE CHILDREN NORWAY
We have supported Save the Children Norway for several years. A recurring activity is to contribute to the Red Nose Day in November, when special products are sold in our Norwegian stores. In November 2009, 50,000 special reflector tags were sold, giving a total contribution of NOK 1 million to Save the Children Norway. Read more at www.redd-barna.no

MAYFLOWERS – A PRIZED INITIATIVE
We support the Mayflower Charity Foundation in fighting child poverty in Sweden. We are a “blossoming company” that allows children to sell mayflowers in our stores and we contribute to the Mayflower camp at Galtarö. In the 2009/2010 financial year we received the “Blossoming Company of the Year” award from the Mayflower Charity Founda-

tion for our commitment to improve children’s lives and combat child poverty. The award was presented by HM Queen Silvia. Read more at www.majblomman.se

SPONSORING THE HUNGER PROJECT SINCE 2004

We have sponsored the Hunger Project organisation since 2004. Its goal is to reduce hunger in the world by helping vulnerable people in developing countries to improve their own situation. The Hunger Project is a global network of non-profit organisations with no party political or religious affiliation. Read more at www.hungerprojektet.se

IMPORTANT FOR US TO GIVE LOCAL SUPPORT

We believe in the importance of giving support to good causes at local level, since we want to be an active member of the communities in which we operate. For example, KappAhl is a corporate subscriber to street newspapers in Stockholm, Gothenburg and Malmö and supports the Gothenburg City Mission. Our stores and country offices donate surplus clothes to local charities. In Sweden most go to Erikshjälpen.

Targeted support to organisations and projects in our production countries is also given. For example in Bangladesh we donate to a school for street children and in Lithuania we support a home for children.

“Principal sponsor of Sustainable Fashion Academy”



We are one of the principal sponsors of the Sustainable Fashion Academy (SFA), a knowledge-oriented organisation that addresses the Scandinavian fashion market. The SFA offers training programmes with a sustainability focus in design and business development.

The SFA is a non-profit, independent organisation that aims to speed up development towards more sustainability in the Scandinavian fashion industry.

TRAINING IN DESIGN AND BUSINESS DEVELOPMENT

The SFA offers training with a focus on sustainable development in design. The

programme is intended for designers, product developers, quality managers and buyers – as well as for CSR managers needing skills in development of sustainable fashion. In addition the SFA provides training in sustainable business development, which focuses on the economic and brand-building dimensions of sustainable fashion.

Dialogue with stakeholders on several levels

Taking notice of the rest of the world is important for all companies. For a consumer-oriented company like ours it is particularly important, since otherwise we risk missing essential trends, challenges and opportunities that have a great impact on our operations and the sustainable development we aim for. The following groups of our stakeholders are particularly important: customers, employees, suppliers, shareholders, interest organisations, trade organisations, government agencies and organisations. The media is also of course an important stakeholder, but should be seen as an interpreter between the com-

pany and the other stakeholders rather than an individual stakeholder with its own agenda.

ANSWER QUESTIONS AND HELP WITH ESSAYS

People ask us questions about sustainability in our stores every day. Apart from the answers they receive directly from the store staff, visitors can read our brochures that describe our sustainability work and give tips on how customers can make a positive contribution – for example through the “Wash Right” brochure. In addition, those in charge

of our sustainability work receive questions to their mailboxes daily. The questions concern anything from the work environment in production countries or animal rights to chemicals and garment safety. There were 537 questions and signatures from the Clean Clothes network alone. Everyone with an email address received a reply. They thought we did our work well and were satisfied that we had replied. And when it's time to write an essay in school or at university we help with anything from giving interviews to supplying facts. During some periods there may be 2–3 interviews a day.

	Key questions	How KappAhl deals with the questions
Existing and potential employees	<ul style="list-style-type: none"> • Opportunities for skills and career development • Good leadership • Good work environment 	<ul style="list-style-type: none"> • Annual employee survey, the KappAhl Attitude Survey, KAS • Development and employee performance review • Training • Values-based leadership • Health, preventive health care, work environment and safety • Receive a large number of trainees every year. • Well-developed cooperation with selected schools
Shareholders	<ul style="list-style-type: none"> • Integrated and strategic sustainability work • Governance, for example business ethics and responsibility in the value chain 	<ul style="list-style-type: none"> • Meetings and lectures on sustainability • Respond to investor surveys • Increased focus on sustainable value chain • Risk analysis • Awards
Customers	<ul style="list-style-type: none"> • Climate changes • Quality of products • Environmentally adapted range • Range that does not contain dangerous chemicals • Environmentally adapted production • Work environment in producer countries 	<ul style="list-style-type: none"> • Regular dialogue with customers • Customer survey • Information via www.kappahl.com • Customer information for sustainable use, “Wash Right” • No Risk project to minimise the risk of hazardous chemicals in the range • Environmentally adapted range • An organisation with quality managers for testing and controls

	Key questions	How KappAhl deals with the questions
Suppliers	<ul style="list-style-type: none"> • Responsibility for environmental and climate impact at the production stage • Social responsibility in the producer countries 	<ul style="list-style-type: none"> • Code of Conduct • Code of Ethics in relation to the suppliers • Cooperation with BSR • Application of manuals in production • Inspection and advice on environmental issues and social responsibility • Training project for vulnerable women in Bangladesh • Clean production project in Bangladesh • Better Cotton Initiative
Agencies	<ul style="list-style-type: none"> • Safety of range • Environment and climate • Work environment • Laws and guidelines 	<ul style="list-style-type: none"> • Collaboration with agencies, such as the Swedish Chemicals Agency, the Norwegian Climate and Pollution Agency and SIS, the Swedish Standards Institute standardisation group • Compliance with laws and guidelines • Lectures and participation in seminars
Trade organisations	<ul style="list-style-type: none"> • Environment and climate • Quality and standards in the range • Chemicals in products • Legislation • Accessibility issues • Questions concerning corruption 	<ul style="list-style-type: none"> • Participation in industry initiatives and standardisation • Regular meetings with trade organisations • Economic support and competence contributions to relevant initiatives, such as the Sustainable Fashion Academy • KappAhl's Code of Ethics for dealing with corruption risk
Interest organisations	<ul style="list-style-type: none"> • Sustainable fashion • Responsible purchasing and social responsibility • Climate, such as reduced emissions associated with transportation and reduced energy consumption • Chemicals, for example reducing chemicals in production and the products • Animal welfare 	<ul style="list-style-type: none"> • Regular meetings with cooperation partners and other organisations • Interest organisations and speaking partners • Initiatives to reduce energy consumption in stores • Measures to reduce emissions associated with transportation • Initiatives for animal protection – including prohibiting fur products

Interview with Ulrika Danielson, Head of Communications & HR and coordinator of Corporate Governance at the Second Swedish National Pension Fund

“What do you think of our sustainability work?”

HOW DO YOU REGARD THE FASHION COMPANIES' SUSTAINABILITY CHALLENGES?

There are four major challenges. Access to and management of water in the production process is one of them. A lot of water is needed in the dyeing process. Production and supply of raw materials such as cotton is another, as are energy consumption and working conditions. The four challenges are to some extent linked. For instance, a lot of water is used in cultivating cotton.

A shortage of cotton may be a problem in the future. The supply and the price are affected by the need to grow food on the land instead of cotton. This becomes particularly apparent in years of crop failure.

The Swedish fashion companies are good at ensuring good working conditions. They have been engaged in these questions for a long time and know that it is not sufficient to go round and look at a factory. You have to dig deeper than that to be sure that everything is done by the rules, for example as regards overtime.

THESE ARE IMPORTANT ISSUES, HOW DO YOU THINK THEY AFFECT DEVELOPMENTS IN THE FASHION INDUSTRY?

The question is what the customer will be willing to pay for sustainable fashion in

future. Today clothes prices are relatively low but resources are, after all, limited and the wages we see in Asia today will not stay that low for ever. The question is whether the current vintage trend, with recycling of fashion, will grow in strength.

At the same time we must remember that historically the fashion industry has been good at adapting quickly to new challenges. This is probably because the companies are close to their customers and exposed to competition. This has forced them to be good at identifying and managing changes in the business environment.

IS SUSTAINABILITY IN FASHION COMPANIES IMPORTANT TO INVESTORS?

Yes, it is important from several perspectives that all stem from the fact that long-term sustainable operations contribute to increased value for both employees and customers.

It leads in turn to increased value creation from a financial perspective, which benefits long-term shareholders like the Second AP Fund. We as investors therefore see sustainability as an increasingly integrated part of the investment process.

BUT DOES SUSTAINABILITY REALLY CREATE PROFITABILITY?

We are convinced that it does. After all,

sustainable enterprise is the same as running your business wisely as regards fundamental parts such as finances, environmental and social issues – factors that affect the company's potential for doing business. It goes without saying that a company that is well-managed on these points has better prospects than competitors who miss out some part. At least in the long-term, and we are long-term investors.

Take for example the ability to recruit. Attracting the right employees is a key issue. Here the company's image is of great importance and that is largely affected by the company's sustainability work. This is especially clear among the younger talents who will shape the future fashion industry. If you miss them then it will be difficult to compete in the long term.

WHAT DO YOU THINK OF KAPPAHL'S EFFORTS?

I think you are doing a good job. Historically I think you could have been more open about your sustainability activities. That is not unique. Many companies are a bit afraid that they may suffer by being too open. But history shows that that is not the case. Rather the opposite. Being clear removes the question marks. And KappAhl has worked for a long time professionally on these issues.

“Other voices about us”

REASONS FOR ENVIRONMENTAL CERTIFICATION

“Environmental thinking is a natural part of KappAhl’s activities. The environmental perspective informs the entire production and sales chain, for example the product (clothes), transportation, the store fittings, the electricity bought and the staff’s coffee. The commitment of the store staff is generally high and the staff contribute to reduced negative environmental impact through their own active choices, for example of transportation to and from the workplace.”

Kerstin Ekebon Lindblom, audit leader at SP Certifiering

THE SWEDISH SPORT FOR ALL ASSOCIATION’S STATEMENT OF REASONS FOR OUR HEALTH AWARD IN 2010

“We know from experience that integrating health with work environment measures is a success factor. You have done this well. You have written an easily understood and clear work environment policy. One major plus is that you also describe the purpose of the policy and who is responsible for day-to-day work environment measures.

You also spread information about the company’s policies well by going through them with all new employees. Good that they are also available on the intranet. You have set clear and measurable goals that run for several years with regular follow-up, which is good. Employee performance reviews are conducted regularly, interesting questions that encourage discussion and it is a major plus that some issues are linked to the work environment policy. You work widely in physical, mental and social areas of health.”

KAPPAHL INCLUDED IN SUSTAINABILITY INDEX

Since 2010 KappAhl has been part of the OMX GES Ethical Sweden Index. The index covers the 40 leading companies in sustainability on the Stockholm stock exchange. Companies are selected on the basis of how well they meet criteria for environmental issues, social responsibility and corporate governance.







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. You can find our contact details at www.kappahl.com. Questions about this report can be answered by Ann-Marie Heinonen, Environmental Manager or Eva Kindgren, Head of Social Responsibility and Environment in production. They can be reached via miljo@kappahl.com or csr@kappahl.com.



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