



# Annual Sustainability Report 2021

# Kappahl

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# Kappahl

Kappahl AB, P O Box 303, SE 431 24 Mölndal  
Telephone: + 46 31 771 55 00 [www.Kappahl.com](http://www.Kappahl.com)  
Please contact us via the form at [www.Kappahl.com/contact](http://www.Kappahl.com/contact) or via [info@Kappahl.com](mailto:info@Kappahl.com)

## About the sustainability report

2022-04-27

The Board of Directors and the President of Kappahl AB (publ), corporate identity number 556661-2312, with its registered office in Mölndal, hereby submit the sustainability report for the period January 2021 to December 2021. The previous sustainability report was published on 21 April 2020.

The sustainability report was prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core and the Swedish Annual Accounts Act. The contents are based on our sustainability strategy, risk assessment and materiality analysis. The report covers Kappahl AB and all its subsidiaries, see [page 53 for ownership structure](#).

The sustainability information presented in the annual sustainability report was prepared with the help of a GRI consultant but has not been reviewed by a third party. For the auditor's statement on the statutory sustainability report according to the Swedish Annual Accounts Act, please [see page 52](#).

This report was developed by Kappahl ©.  
Layout and edit by Malin Viola Wennberg.

[The report can also be found at our website.](#)

# This is Kappahl

Kappahl was founded in 1953 in Gothenburg and is today one of the leading fashion chains in the Nordic region. We promise our customers "Fashion fit for life". We meet our customers both online and in around 360 stores in Sweden, Norway, Finland, Poland and the United Kingdom under the brands of Kappahl and Newbie. Our Shop Online is available in all our sales markets, with the addition of Denmark in 2020.

At Kappahl we are about 4,000 colleagues at 400 workplaces in ten countries. Our business idea is to offer affordable and responsible fashion for our customers in an easy and inspiring way. Our sustainability strategy Responsible Fashion aims to take us to a point where we have a sustainable business model. Today 75 percent of our assortment is made of more sustainable materials.

In 2021 our sales were SEK 4.7 billion and profit after tax was SEK 414 million. The total capitalization was 4,341 million SEK, whereof total liabilities 2,440 million SEK and total equity 1,901 million SEK.

Kappahl is since 2019 fully owned by Mellby Gård AB, a family-owned, long term investor based in Malmö, Sweden, managed by Johan Andersson.



We exist to celebrate diversity in everyday life.

OUR VALUES

INCLUSIVE • COURAGEOUS • JOYFUL

## OUR PRESENCE

Last year's values are presented in parenthesis. Please note that last year's reporting period spanned over 16 months (1 September 2019 – 31 December 2020) and the values for the whole reporting period is given in footnote 5. The large difference compared to last year was due to the COVID pandemic, which led to that staff were put on furlough in 2019/2020.

## SALES COUNTRIES

### SWEDEN

Net sales, million SEK: 2,565 (2,278)  
Kappahl's presence: 159 (166) stores plus Shop Online  
Newbie's presence: 8 (9) stores  
Kappahl Kids presence: 1 (1) store  
Average number of full-time positions<sup>1</sup>: 1 423 (723)

### NORWAY

Net sales, million SEK: 1,310 (1,656/1,184)  
Kappahl's presence: 92 (92) stores plus Shop Online  
Newbie's presence: 6 (6) stores  
Average number of full-time positions<sup>1</sup>: 475 (154)

### FINLAND

Net sales, million SEK: 459 (673/465)  
Kappahl's presence: 50 (57) stores plus Shop Online  
Newbie's presence: 2 (2) stores  
Average number of full-time positions<sup>1</sup>: 175 (80)

### DENMARK

Net sales, million SEK: 3 (0.6/-)  
Kappahl's presence: Shop Online

### POLAND

Net sales, million SEK: 285 (380/259)  
Kappahl's presence: 29 (26) stores plus Shop Online  
Newbie's presence: 5 (5) stores  
Average number of full-time positions<sup>1</sup>: 190 (180)

### UNITED KINGDOM

Net sales, million SEK: 43 (58/38)  
Newbie's presence: 4 (4) Newbie Stores including newbiestore.com  
Average number of full-time positions<sup>1</sup>: 9 (25)

## PRODUCTION COUNTRIES

### BANGLADESH

Share of production<sup>3</sup>: 49 (44) %  
Number of employees<sup>4</sup>: 52 (50)

### CHINA

Share of production<sup>3</sup>: 34 (35) %  
Number of employees<sup>4</sup>: 49 (64)

### INDIA

Share of production<sup>3</sup>: 6 (4) %  
Number of employees<sup>4</sup>: 13 (14)

### TURKEY

Share of production<sup>3</sup>: 6 (7) %  
Number of employees<sup>4</sup>: 7 (7)

### MYANMAR

Share of production<sup>3</sup>: 5 (4) %  
Number of employees<sup>4</sup>: 3 (3)

### SRI LANKA

Share of production<sup>3</sup>: 3 (2) %

### ROMANIA

Share of production<sup>3</sup>: <1 (1) %

### BULGARIA

Share of production<sup>3</sup>: <1 (1) %

### PAKISTAN

Share of production<sup>3</sup>: <1 (<1) %

1) Total number of services restated as full-time positions.

2) Apart from store staff also includes all employees at Kappahl's head office and distribution centre in Mölndal, Sweden.

3) Based on order value. Excluding production at agents and importers.

4) Refers to employees of the Kappahl Group working at our production offices.

5) Million SEK for 1 September 2019 – 31 December 2020: Sweden 3,280, Norway 1,656, Finland 673, Poland 380, UK 58. Denmark opened in 2020.

# Year in summary

## **Conflict, COVID-19 & Climate change**

During 2021, the Russian government's attitude towards Ukraine, EU and NATO grew more and more aggressive. While writing this report, we watch a full-scale war by Russia on Ukraine. The world is unstable. Naturally, Kappahl is affected by these external events, possibly to a greater extent than ever before in our almost 70-year long history.

The COVID-19 pandemic continued during 2021 and caused harm on both a human and financial level all over the world. At Kappahl, the work with mitigating the consequences of the pandemic for customers, employees and suppliers has proven successful. We have continued our collaborations to all possible extents, finding constructive solutions that meet the needs of all parties involved. Throughout the pandemic, we have not cancelled any already approved order and we have made payments as agreed. We have continued our participation in the ILO's "Call to Action" initiative established in April 2020. The initiative accelerates access to credit and financial support for workers and employers in countries most vulnerable to the devastating impacts of the pandemic.

In August 2021, IPCC released a most distressing report highlighting the urgency to reduce our collective greenhouse gas emissions. The report also confirmed that the climate crisis is undoubtedly caused by humans. Kappahl's roadmap to mitigate

the greenhouse gas emissions in our value chain has been integrated with our growth plan during 2021 to ensure that we reach our goals, see the section on climate at [page 13 - 14](#).

The situation in Myanmar remains volatile following the military coup that took place there in February 2021. Following the recommendations of the local workers' association, Kappahl did not place any new orders in Myanmar during 2021. We have also taken the decision to shut down our production office in Myanmar.

In these turbulent times, we are grateful for the exceptional agility our employees have shown in changing their daily work routines. We are proud to see our brands Kappahl, Newbie, XLNT, kay/day and Minories being appreciated by the customers. We are proud that our Employee Survey Score shows that the loyalty to Kappahl keeps being at the high score of 83. Furthermore, during these challenging times, the score on Satisfaction and Motivation increased from 75 to 77. Despite these trying times, we look to 2022 with hope in mind.

**"In these turbulent times, we are grateful for the exceptional agility our employees have shown in changing their daily work routines."**



## Sales in numbers

4,665 million SEK  
in sales

414 million SEK  
profit after tax

---

# 27

Newbie stores in  
5 markets • Shop  
Online in 6 markets

---

# 3,777

employees in 10  
countries

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## Percentage of sale in 2020

Woman 43%,  
Men 8%, Kids 49%

# 335

Kappahl stores in 4  
markets • Shop Online  
in 5 markets

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## Selected important events

- New Kappahl logo & type released
  - Sandra Roos appointed Vice President Sustainability and new member of Kappahl's Executive Management Team
  - Kappahl launched its new playful and mindful childrenswear brand Minories
  - A Spring collection made of 50 percent Circulose® from recycled garments was released
  - New People Strategy launched
  - Decision to invest SEK 200 million into a comprehensive digital transformation with Microsoft Dynamics 365 and Azure as a strategic platform
- 

# 39.7

million products sold

# Year in summary

our new logo:

# Kappahl

# Our CEO in conversation

During 2021 Kappahl took several important steps towards becoming a more sustainable company. The position of Vice President Sustainability was added to our organization and was given a seat at the executive management table. The sustainability aspect is now an integrated part of all decision-making, from first idea to finished concept. Furthermore, we have opened up the conversation and gained insights from our customers in formulating our new greater purpose. At Kappahl, we exist to celebrate diversity in everyday life. Our CEO Elisabeth Peregi and our VP of Sustainability Sandra Roos converse about recent developments and future possibilities of Kappahl.

**In 2021 Kappahl has taken new measures to integrate the sustainability aspect into all parts of the operations. Tell us how?**

**Elisabeth:**

In 2021 we added the position of Vice President Sustainability to our executive management team. The decision to expand our executive management team ensures that the sustainability aspect is fully integrated across our entire operation. The sustainability aspect is an integral part of our decision-making process, from the very first idea to finished concept.

**Sandra:**

The question of sustainability must be understood from a systemic perspective. By placing the sustainability question at the same organizational level as for example executive finances and production decisions, we ensure a better systemic understanding throughout Kappahl.

**Elisabeth:**

This new arrangement is really a win-win situation. The executive management team has already gained new insights. We have been challenged in our way of thinking. At the same time, Sandra has gained a deeper understanding of the decision making process across all departments at Kappahl.

In addition, this change makes us a more efficient organization.

If we integrate the sustainability aspect already from the start, we don't have to go back and revise our decisions later on in the process. Sustainability should not be seen as an add-on made to fit an already started project; it should be a fundamental part of framing the project.

“The sustainability aspect is an integral part of our decision-making process, from the very first idea to finished concept.”





**“We decided that the sustainability work should not be performed in silos.”**

**Elisabeth Peregi, CEO together with Dr. Sandra Roos, VP Sustainability**

**Sandra:**  
To further ensure that sustainability is not seen as an add-on we actually don't have a staffed sustainability department at Kappahl. We decided that the sustainability work should not be performed in silos. The work should be integrated into all functions tailored to the specific expertise needed. For example, the entire design team is expected to work with a included sustainability focus; not rely on one single sustainability focused designer. Representatives from each department then meet on a regular basis to share experiences and challenges with one another. This way we hope to ensure a systemic understanding across the whole business.

**In 2021 you launched a renewed greater purpose for the company. How did this process come about?**

**Elisabeth:**  
There is only one way to find out how Kappahl needs to develop; by talking to our customers and obtain an outside-in perspective. Therefore, we've been having in-depth conversations with our customers over the past year, listening to what they love and what frustrates them about fashion in their everyday life.

One of our crucial findings in our customer conversations was their experience that fashion wanted them to fit in, but they wanted fashion fit for them.

Building on these insights, Kappahl will be a fashion brand that designs clothes for people's many different ways of life.

Kappahl's updated greater purpose stem from a lived frustration surrounding fashion and clothing which does not fit an everyday life. In addition, it is linked to Kappahl's heritage of catering to a diverse group of customers. We should be a fashion brand that truly wants to understand you and your versatile everyday life. We see diversity as the right to be who you are; the right to live life on your own terms. At Kappahl, we exist to celebrate diversity in everyday life.

**Sandra:**  
The most sustainable garment is the garment which is actually being used and loved. At Kappahl we want to offer you those pieces. Fashion that you can cherish for a long time and that fits into your everyday life.

**The COVID-19 pandemic continued during 2021. We've also seen additional turbulence in the world. How is Kappahl affected by these outside events?**

**Elisabeth:**  
These turbulent times are indeed challenging and continues to affect us all. We had to make changes in our stores due to the COVID regulations, and we have not been able to visit all of our production sites due to travel restrictions. Despite these trying times, I am tremendously grateful

for the strength and flexibility shown by all Kappahl employees.

Nonetheless, we've seen that our customers are loyal to Kappahl and stayed with us during times of uncertainty. During 2020, when our stores were closed, the online market grew significantly. Later on in 2021 when we could reopen our stores customers returned quickly. All in all, we've now seen an increase of 11% in sales compared to 2020, and a doubled total result.

**Sandra:**  
The COVID-19 pandemic made factory visits harder, and sometimes impossible. This affected our possibility to follow up on for example social sustainability with some of our production partners. Nonetheless, progress has been made, e.g. that Kappahl signed the new International Accord for workers' safety. Despite the challenges, the sustainability strategy remains and we will for example keep our shares of more sustainable materials in our assortment..

**Elisabeth:**  
At Kappahl we take responsibility for our actions and keep our promises. The notion to celebrate diversity is true for our customers and our employees. Despite these turbulent times, we are confident about the future of Kappahl.

# Key achievements responsible fashion



## New Sustainability Commitment

We have replaced and broadened our Code of Conduct covering Kappahl's entire supply chain

# 75%

of our assortment is made in more sustainable\* material

# 195 tonnes

of old textiles collected of which 85% for reuse

Strategic integration of Kappahl's climate roadmap with our growth plan

# 10 %

Factories representing 10% of our business volume report climate data via the STICA module

# 62%

Factories representing 62% of our business volume report environmental data via the Higg Facility Environmental Module

**Kappahl signed the new International Accord for workers safety**

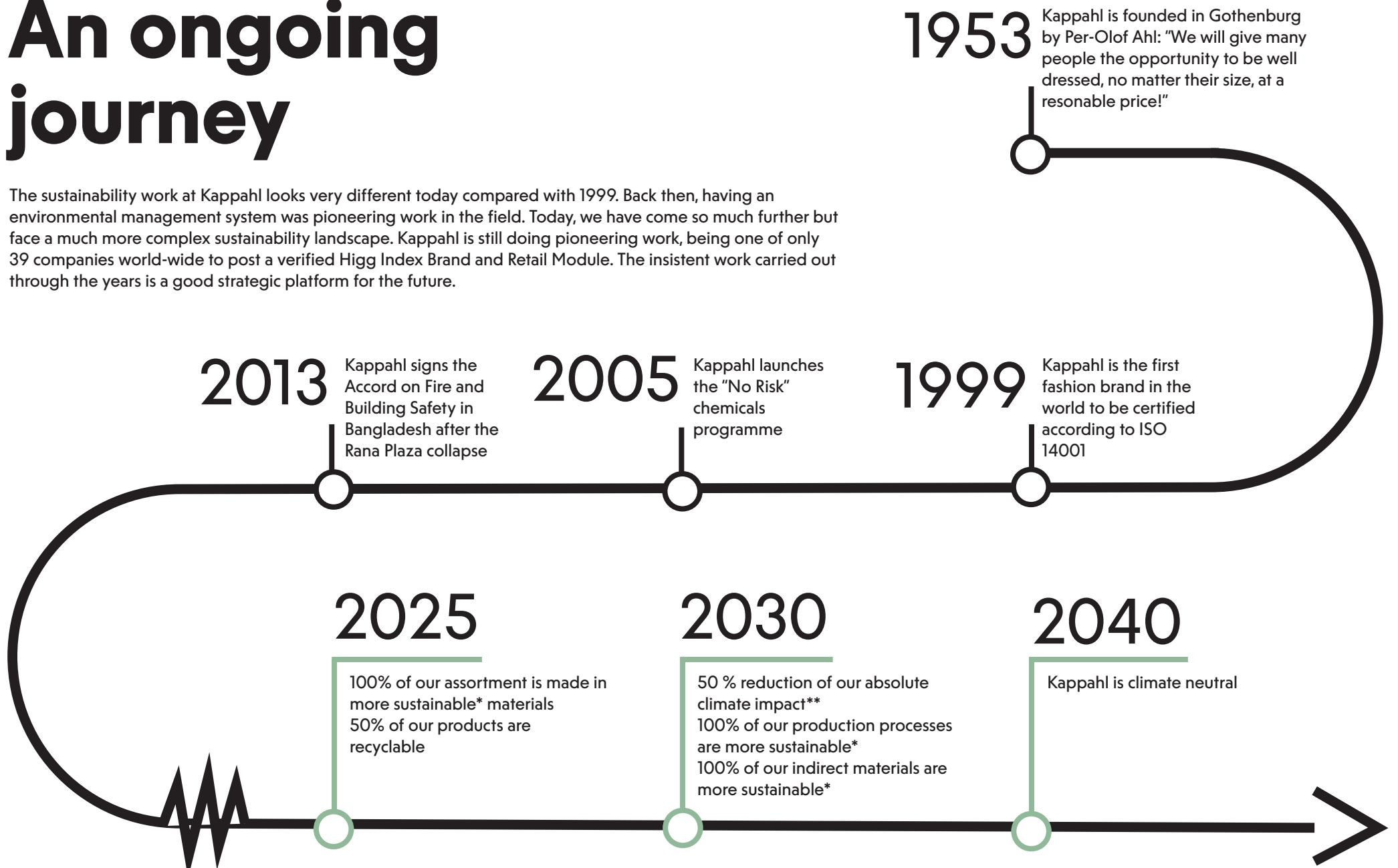


What does **more sustainable** mean? Until we can say for sure that a material or a process is in fact 100% sustainable, Kappahl uses the term "more sustainable". We only make promises we can keep! Presently, when we use the term "more sustainable" this means better than conventional. At our website you can find information on the materials that we currently list as more sustainable: [Kappahl.com/Our-sustainability-labels](https://www.kappahl.com/Our-sustainability-labels)



# An ongoing journey

The sustainability work at Kappahl looks very different today compared with 1999. Back then, having an environmental management system was pioneering work in the field. Today, we have come so much further but face a much more complex sustainability landscape. Kappahl is still doing pioneering work, being one of only 39 companies world-wide to post a verified Higg Index Brand and Retail Module. The insistent work carried out through the years is a good strategic platform for the future.



\*Until we can say for sure that a material or a process is in fact 100% sustainable, Kappahl uses the term "more sustainable". We only make promises we can keep!

\*\*The base year is 16/17 (Sept 1 2016 – Aug 31 2017)

# Insights from our operations

## Education centre for women in Bangladesh

We strive to be a fair and inspiring employer as well as a fair partner throughout our operations. One example of our efforts is the education centre for women in Dhaka, Bangladesh. Bangladesh is one of the most poverty-stricken countries in the world. Bangladeshi women are often at a disadvantage with few legal rights and a lack of education. To this end, we established an education centre especially for women. The centre is situated in the outskirts of Dhaka and run by the TCM Foundation. The purpose of the education is to give women the basic skills of reading and writing, as well as fundamental knowledge of women's rights issues, financial issues and worker's rights. In addition, the women are taught how to sew with the aim of getting a job in a factory. During the education period participants receive wage compensation, lunches and medical check-ups.

In the fall of 2021, a total of 1,000 women had completed our education program. In post-education evaluations, the women paint a picture of being on the path to providing for themselves and their family members. A common dream for these women is to be able to move back to their village and provide for their family. In many cases the dreams come true.





## Circular fashion consumption, new solutions & services

### A circular approach

Kappahl believes in responsible fashion and design for circularity. We are constantly looking for new assortment solutions and services to help us develop and futureproof our offer. By embracing a circular model, we create both new business value and move away from old unsustainable patterns. During 2021 we explored new circular design principles, established a circular business development group and started a collaboration with the rental service Hyber.

### Conditional design project for kay/day

Getting it right from the beginning is crucial in creating circularity via reuse and eventually recycling. In exploring the concepts of circularity Kappahl participated in a project hosted by Science Park Borås. The aim of the project was to investigate

and implement principles of circular design. The outcome of the experimental part of the project was a lounge wear set made in a soft & durable material made to last year after year, enabled for recirculation when outworn.

In implementing the circular principals onto our existing products, we chose to work with our womenswear brand kay/day. The goal was to maximize the product value by prolonging the use phase by finding design solutions for alterations of the garment. We applied the ideas of a flexible arm- and leg length and adjustable waistband for a more flexible size and fit. The entire garment was produced using only one material, in other words, a mono-material garment. Having a mono-material product enables fiber recycling at the end of the garments'

first lifecycle. In addition, a QR label was applied to the hang tag to communicate the story of the collection and project to our customers.

### Collaboration for rental service

In late spring of 2021, we launched our collaboration with the company Hyber. Hyber is a rental service specializing in kids and parental products with the aim of making your everyday life with kids a little easier. The collaboration is Kappahl's first pilot with a circular solution partner. The collaboration aims to maximize the life length of our products by enable them to circulate via multiple users. A very important outcome of this collaboration is the customer feedback we receive, such as quality and product satisfaction. This feedback makes it possible to create even

better and more durable products in the future. At the moment, the newborn kit from our brand Newbie is available via Hyber.

### A specialized working group

In the fall of 2021 Kappahl established a business development working group specializing in circular business solutions and services. The working group includes members from most of our departments with the aim of exploring, testing and adapting new circular business opportunities using insights from our entire operation. The working group is a direct response to a special need identified in the Responsible Fashion strategy and an important action on our journey to become climate neutral in 2040.

## A new Sustainability Commitment

At Kappahl we believe that we have an important role to play in the development of a sustainable society. We want to ensure respect of human rights in regards to the people whose work is contributing to our business; respect of the environment; and good governance. This is true for all our business relationships and throughout our entire value chain.

Kappahl is committed to work with transparent, responsible, and sustainable partners and to be a fair partner ourself. We strive to work with suppliers that share our values and ambition, so that by collaboration we can come further than what is required by law.

Kappahl launched its first Code of Conduct for Suppliers in 1997. In November 2021, the 'Kappahl Sustainability Commitment for All Business Partners' replaced our Code of Conduct and broadened the scope of cooperation to include all tiers in Kappahl's value chain. The Sustainability Commitment establishes mutual responsibility in the relationship with our business partners who commit to work proactively to meet these requirements within their own operations, but also in other business relationships and in their supply chain.



## The Transparency Pledge

The Transparency Pledge is a coalition of a large number of apparel and fashion retailers that together with global non-profit organizations like IndustriALL, Human Rights Watch and Clean Clothes Campaign work to improve transparency in the fashion industry's supply chains. Kappahl joined the Transparency Pledge in the fall of 2019 and follow their requirements for transparency linked to the supply chain.

Kappahl has published our supplier factory lists on our website since 2013 and are also working on a number of other initiatives for increased supply chain transparency. Since 2020 we publish information about processing factories used for e. g. washing, embroidery or printing of Kappahl garments.

### Processing Factories

In 2021 we began visiting also the process factories for assessment of social conditions and environmental impact.

It is clear that there can be significant differences between the same types of process factories within a production country. When we see that there is potential and willingness to make improvements, we work together with our supplier to ensure that changes are implemented. Otherwise, we demand another better alternative factory to be used for our orders.

### Experience from the field

We have seen some great examples of how working together can create change in the supply chain, and create a more fair work environment in the factories. Our sustainability developers at our Shanghai production office guided a factory from withholding a significant part of the employees' salary each month to paying full salary on an ongoing basis.

The easiest thing would have been to end the collaboration immediately. However, by being clear and patient with our partner, the factory workers concerned are now going to work everyday with fair payment and better conditions.

"At one of the factory visits we made during 2021, we found that this factory had made big improvements after our previous meeting discussing their issues, especially on the delayed payment. They send us the payroll records each month after last meeting, showing that workers were paid at least local minimum wage each month.

And during this time's visit, we found that they start to pay full wages to all workers monthly. They really did it as they promised: improved step by step to final full compliance. We were really happy to see their progress!"

- Michelle Zeng & Donnie Fan

## Responsible Actions

Kappahl's social sponsoring activities are gathered under the term Responsible Actions. We support long-term progress on diversity issues and sustainable development, both locally and globally. Some activities are performed locally in our own supply chain. The education center for disadvantaged women in Bangladesh is one example, and the participation in the Organic Cotton Accelerator (OCA) program is another.

Together with our customers, via the One Bag Habit and the "Fine as I am" campaigns, we donated SEK 4.7 (5.5) million during the financial year to local sustainability projects to support the civil society. The main part went to local children's rights organizations: BRIS (Children's Rights in Society) in Sweden, Kors på Halsen (part of the Red Cross) in Norway, the Mannerheim League for Child Welfare in Finland and the Empowering Children Foundation in Poland. We also supported The Hunger Project and Vaccine Forward on a global level.

Read more about all the organizations we support through Responsible Actions at our website: [Kappahl.com/Our-commitments](https://kappahl.com/Our-commitments)



# Climate Goal & Roadmap

## Climate Goal

The goal for our own operations is 80% reduction of climate emissions by 2030. These emissions (Scope 1 and 2 according to the Greenhouse Gas Protocol) currently represent seven percent of the emissions across the entire value chain. The largest part of our emissions lies in Scope 3 where our goal is to reduce 49 % by 2030. This will lead to a total reduction of 50% when calculating for all scopes combined.

An intermediate goal in Kappahl's climate roadmap is to halve emissions per product by 2026. The average level of emissions per product was 4.6 kg CO<sub>2</sub>-equivalents during 2021. Kappahl has also committed to set a long-term science-based target to reach net-zero value chain GHGs emissions by no later than 2040 in line with the Science-Based Targets initiative (SBTi) Net Zero Standard.

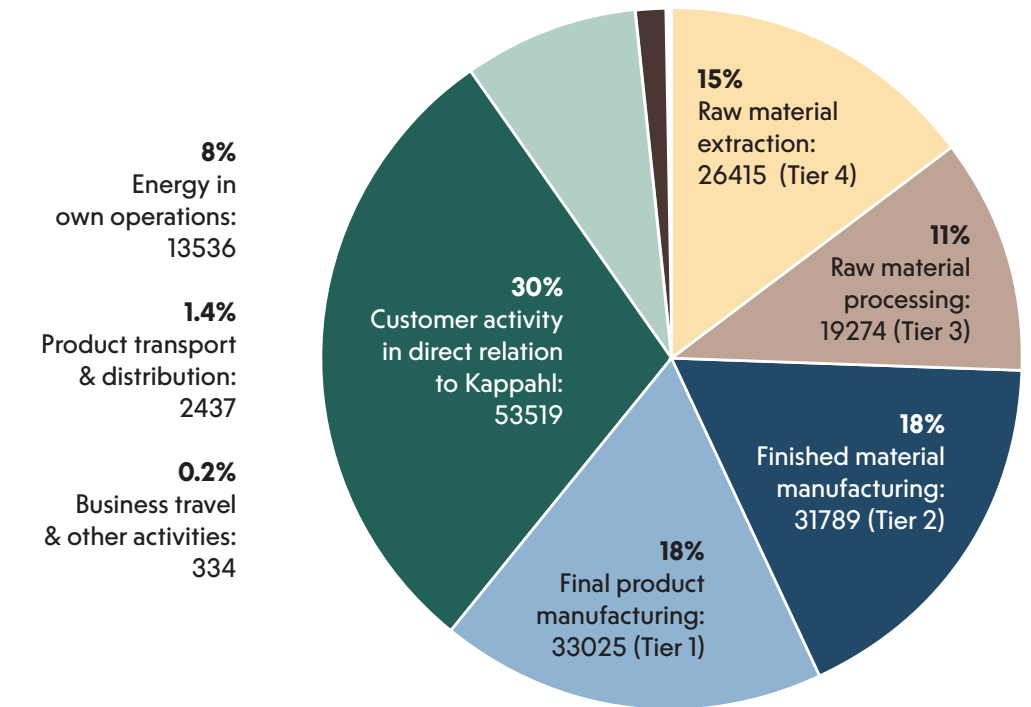
## Kappahl combines growth strategy with reduced climate impact

During 2021, Kappahl developed a climate roadmap that is commercially viable and anchored within our ambitious growth plan. It is also environmentally realistic, as it is in line with the 1.5 C warming pathway in the Paris Agreement.

Kappahl is to transition to a sustainable business model with a climate goal that has not been set relative to growth. An absolute goal means that Kappahl as a company has a climate budget that we have to keep within. Kappahl's climate goal also applies across our entire value chain – suppliers and customers alike – on top of emissions from its own operations. Our growth plan can now accommodate this. The roadmap involves actions such as improved energy efficiency, more renewable energy, increased use of sustainable materials, and a ban on air freights. It also includes means to support our customers to make sustainable choices and also provide efficient transport solutions.

## Collaboration & progress

Greenhouse gas emissions is considered a salient risk to both Kappahl's operations and value chain. It is likely that life on earth will not continue in the same way if we leave the Holocene. Climate change poses a fundamental threat to humanity and have impacts outside the direct control of any single company. We need to create partnerships with suppliers, governments, financial institutes, consumers and other brands if we are to make a difference.



Emission per category 2021, numbers in tonnes CO<sub>2</sub>

Kappahl is a member of the Swedish Textile Initiative for Climate Action (STICA). We have committed to reducing our absolute greenhouse gas emissions by 50% by 2030 from a 2017 base year. This commitment is aligned with what is required by scientific consensus regarding what is required to stay within the 1.5 C warming pathway. To learn more about our commitments and progress, visit [www.sustainablefashionacademy.org/STICA](http://www.sustainablefashionacademy.org/STICA).

Furhtermore, Kappahl is one of the founders of STICA and a present board member. We are actively participating in several of the STICA working groups to collaborate on issues from energy use in cotton cultivation, fabric production, clothing production and transportation, to developing supporting tools and data quality.

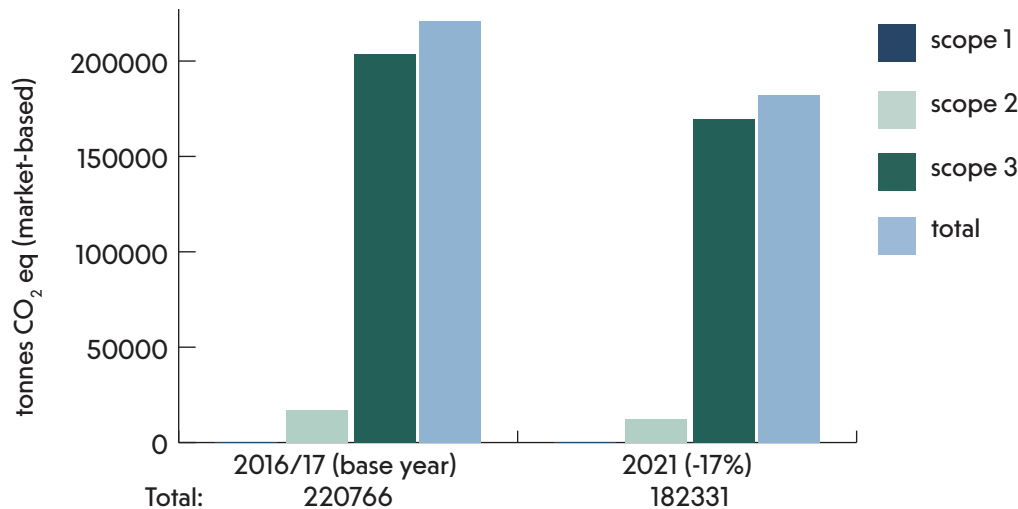
## Results for 2021

This year's climate calculation shows a reduction in Kappahl's total emissions of 17 percent, compared with the base year 16/17. Seven percent of our value chain emissions lie in Scope 1 and 2 according to the Greenhouse Gas Protocol, processes which we have a direct influence on. 93 percent stems from Scope 3 which is our supply chain and our customers' activities.

We are moving in the right direction, but still have a lot to do to reach our climate goal for 2030. Besides making reductions in reality, we need to increase our ability to measure our progress. In 2021, for the first time we were able to include primary data, i.e. actual measurements from our suppliers in Tier 1. Previous years, the climate impact result has been based on standard values on industry level. These standard values do not catch the improvements that are made from year to year. Therefore, we

will the coming years transition to actual measurements from our entire supply chain in our calculations. In 2021, 72% of our Tier 1 suppliers (based on business volume) reported climate data to us.

Transition to actual measurements instead of standard values has the consequence that we do not get comparable figures to previous years. Therefore, a recalculation of our base year was made. The value for the base year was corrected 8% from 204,052 to 220,766 tonnes CO<sub>2</sub>-equivalents. The comparable value for 2021 when actual measurements was used is 182,331 tonnes CO<sub>2</sub>-equivalents, a reduction in Kappahl's total emissions of 17 percent.



Emission per scope, base year and 2021, tonnes CO<sub>2</sub>

## In-depth information: climate calculation methodology

Every year Kappahl maps the climate impact in our value chain through a climate calculation covering the organization's total value chain emissions in one year ([see page 54](#)). We want to better understand how and where emissions of greenhouse gases occur to be able to take action to reduce them. Kappahl has reported our climate emissions since 2014/15 but we have set 2016/17 as the base year after some major changes in the methodology in 2017.

For 2021, we have made changes in the methodology, such as including actual measurements from our suppliers in Tier 1 as mentioned above. The other changes were due to updated standard values for cutting waste and supply chain transports, as well as a correction for garment samples which has previously been omitted. The new methodology gave an 8% higher emission level for the base year. Consequently, we

made a recalculation of the base year from 204,052 to 220,766 tonnes CO<sub>2</sub>-equivalents.

Calculation and reporting of emissions are made in accordance with the Greenhouse Gas Protocol's "Corporate Accounting and Reporting Standard" and "Corporate Value Chain (Scope 3) Accounting and Reporting Standard" as well as the guidelines of the Swedish Textile Initiative for Climate Action (STICA). Our emissions are reported broken down into scopes 1, 2 and 3 according to the Greenhouse Gas Protocol. We try as far as possible to use actual measurements from our operations as reference data for the calculation. Where there are data gaps we use generally accepted standard values. Kappahl does not purchase carbon offset credits for carbon emissions. Our focus lies on reducing emissions in line with the Paris Agreement and the 1.5 C warming pathway.

The Greenhouse Gas Protocol is the global standard for accounting and reporting emissions from private and public sector operations, value chains and climate actions. The standard is divided into three scopes:

**Scope 1:** Direct GHG emissions from sources that are operated by the company. Examples are company operated cars and refrigerant leakage.

**Scope 2:** Indirect GHG emissions from the generation of purchased electricity or heat by the company.

**Scope 3:** Indirect GHG emissions that occur in the value chain of the company. Examples are upstream production, transportation of goods and customer electricity usage for laundry.

## Higg Index

Kappahl has been a member of the Sustainable Apparel Coalition (SAC) since 2018. SAC has developed the Higg Index, a series of tools that measure and evaluate the sustainability performance of factories, brands and products. Kappahl uses the Higg Brand & Retail Module (BRM) and the Higg Product Tools to evaluate and develop our own business and we encourage our suppliers to adopt the Higg Facility Tools.

### Higg Brand & Retail Tool

During 2021, the possibility for third-party verification of Higg BRM assessments was offered for the first time. The verification process has raised internal awareness of the Higg tools and been of high educational value for Kappahl. We have reviewed our entire work process and found both insufficient routines and documentation which we will update during 2022.

The total verified environmental score was 60.0 and the total verified social score was 69.3 in BRM for Kappahl. The Section

Scores show total points received in each section of the questionnaire for environmental respective social/labor performance: Management systems (66.7 resp. 69.2), Brand (44.8 resp. 48.6), Stores, (66.7 resp. 92.3) Operations & Logistics (61.9 resp. 67.1).

### Higg Facility Tools

The Higg Index Facility Environmental Module (FEM) tool measures the environmental performance of the factories and is now used at factories corresponding to 62 (51) percent of Kappahl's order value. During 2021, we continued to work towards having our suppliers also reporting in the Higg Index Facility Social and Labor Module (FSLM) tool. Being a member of the SAC means that we have to increase the share of our suppliers' production made in factories using the FEM as well as the FSLM tools for every year.

### Higg Product Tools

Transition to use more sustainable solutions and finding measurability in our improvements will be one of the keys for

our future progress in the fashion industry. Kappahl follows closely the development and progress of the two Higg modules for material- and product measurability. We see this as the tool for us to find the measurability we search, to use as a guidance in our product development and to create awareness about all the steps that affects a product's climate footprint.

To be able to learn and to evaluate the tools, Kappahl internally performed a pilot for ten existing products from our kids brand Minorities. The pilot used both modules and were based on manually collected data throughout the entire value chain, from product development to supply chain. The result is measurability on product level and a mapping of the workflow and processes that will be needed to reach this required measurability.

To reach a wider spread of our calculations for Kappahl's assortment, a second pilot were performed during late Winter 2021, where one product from each product group was selected.



Higg Index Performance	2021	2020	2018/2019
Share of factories (based on order value) reporting using the Higg FEM, %	62	51	51
Share of factories (based on order value) reporting using the Higg FSLM, %	25	1	1
Total Verified Environmental Score for Kappahl in BRM	2	60.0	3
Total Verified Social Score for Kappahl in BRM	2	69.3	3
Total Self-Assessment Environmental Score for Kappahl in BRM	2	76.2	79.4
Total Self-Assessment Environmental Score for Kappahl in BRM	2	88.6	88.9
Number of products assessed via the Higg Product Module	10+	-	-

<sup>1</sup> 2021 is the first year that Kappahl's suppliers were asked to share their FSLM modules. <sup>2</sup>The 2021 BRM results will be verified during 2022 and reported 2023. <sup>3</sup> 2020 is the first year BRM could be verified. . Kappahl is one of only 39 companies world-wide to post a verified Higg Index Brand and Retail Module.

"Many companies that have been verified have experienced deficiencies in their documentation of existing strategies, routines and action plans. Kappahl is one of the companies who has suffered a large drop in score during the verification due to documentation gaps."

Karin Ekberg, CEO Leadership & Sustainability GmbH



# Materials & Fibers

## More sustainable alternatives

The transition to using more sustainable materials is a crucial step in building a more sustainable and circular fashion industry. Kappahl's efforts to contribute to a circular fashion industry are showing good results. At present, 75 percent of our assortment is made of more sustainable materials. Five years ago, this figure was 19 percent, and the target of 100 percent by 2025 is within reach.

To make this happen we have identified the challenges and opportunities for each season and product group, to be able to take small but important steps towards the long-term goal. We are always looking for new innovative material solutions with less impact compared to conventional. Exploring new materials are also an important part of our design- and product development. After we reached the goal of only using more sustainable cotton we started the transition to more sustainable alternatives for viscose (wood-based fibers), where we proudly conclude an increase from 10% in 18/19 to 62% this year. We are also moving towards an increased use of recycled fibers with 31% of our synthetic fibers coming from a recycled source, which has a positive effect on our environmental impact by reducing waste and the need to produce new virgin fibers.

## Cotton fibers

Since 2020 Kappahl only uses more sustainable cotton, until this year either organically grown or grown according to Better Cotton Initiative's principles. New for 2021 is that we have open the possibility to buy cotton fibers that are certified and labeled "organic in conversion" GOTS. This supports increased availability of organically grown cotton together with Kappahl's ambition to support organic farming. This change will be visible for our customers during Spring 2022

## Organic in conversion by GOTS

Organic in conversion is a process for conversion of conventional to organic farming. This process is usually taking three years. Meantime the farmer is implementing organically growth, by building up the lands natural resources and refraining from using any harmful chemicals that are restricted in organic farming. By using organic in conversion fibers we at Kappahl can support the farmers during their transition to organic farming.

## OCA

The Organic Cotton Accelerator (OCA) is a multi-stakeholder organization fully dedicated to organic cotton. As a global platform, OCA is committed to bring integrity to, secure supply and measure social and environmental impact of organic cotton.

Kappahl has been a member since 2018. During 2021 we were a part of OCA's FED-program in India, the Farm Engagement and Development programme that has helped us gain visibility in our supply-chain down to the farmers. During this trial year,

OCA has helped us build a partnership with cotton farmers in India. We have booked cotton lint early in season directly with the farmers, thereby creating visibility at the source of our organic fiber. We have also made an additional payment directly to the farmers, to secure that they are paid a higher price for organic cotton.

## BCI

The Better Cotton Initiative (BCI) exist to make global cotton production better for the people who produce it, better for the environment it grows in and better for the sector's future.

Today Better Cotton is grown in 25 countries around the world and accounts for 23% of global cotton production. 2.4 million licensed farmers grew 6.2 million metric tonnes of Better Cotton in 2021.

Better Cotton contributes to increased farmer knowledge and skills, improved farming practices, creation of a global community to share best practice and encourages continuous improvement. The Better Cotton program consists of 7 principles:

- BCI Farmers minimize the harmful impact of crop protection practices.
- BCI Farmers promote water stewardship
- BCI Farmers care for the health of soil
- BCI Farmers enhance biodiversity and use land responsibly
- BCI Farmers care for and preserve fiber
- quality
- BCI Farmers promote decent work
- BCI Farmers operate an effective management system

## Viscose fibers

Over the past five years, Kappahl has partnered with Canopy, an organization that has helped transform more than half of the globally viscose supply chain, engaging more than 750 brands. Canopy's mission is to protect the world's forests, species, and climate, and to help advance indigenous communities' rights.

As a partner we follow Canopy's gentlemen's agreement and source our viscose from suppliers that are controlled and have received a 'green shirts' mark or is at low-risk of sourcing pulp from endangered forests.

## Circulose®

In 2021 we have used the fiber Circulose® by Re:newcell, with products in store launched during the Spring.

Circulose® is a material made entirely from textile waste. It is produced by dissolving used cotton fabrics – such as old jeans – and turning the cotton into a new raw material: Circulose® pulp. The pulp is then spun into fibers to produce new fabrics. Circulose® can be recycled.

Circulose® is an innovative product from the Swedish-based company Re:newcell. Kappahl has been a shareholder in Re:newcell since 2019.

Further information about our more sustainable materials on our website: [Kappahl.com/Our-sustainability-labels](https://kappahl.com/Our-sustainability-labels)



3,777  
employees

6  
sales  
markets

9  
production  
countries

# Inclusion at Kappahl

We are currently 3,777 employees employed by Kappahl, working for six sales markets and in nine production countries. The tables with in-depth information below show the estimated maximum number of employees on a given date during the financial year and include employees on fixed-term contracts. Data refers to headcounts and is not restated to the number of full-time equivalents.

Employee data has been collected through the payroll- and time reporting systems. There are some seasonal variations during

the year regarding needs for employees and hours in stores, for example during the Christmas season and the summer holiday period.

Today, Kappahl is not able to obtain figures for employees broken down in different categories, such as by employee type, seasonal employees, consultants etc. in accordance with the GRI requirements. During 2021, we have been working to introduce a new system support for HR which will be fully launched beginning 2023, enabling us to conform with the GRI

## In-depth information: diversity and gender equality

Gender breakdown of the Board, %	2021	2020/2019	2019/2018
Women	50	50	64
Men	50	50	36

Age breakdown of the Board, %	2021	2020/2019	2019/2018
Under 30 years	–	–	–
30–50 years	25	38	18
Over 50 years	75	62	82

## In-depth information: diversity and gender equality

Female managers, %	2021	2019/2020	2018/2019
Management team	75	71	71
Head office, Sweden	92	82	88
Stores, Sweden	94	95	91
Distribution centre, Sweden	50	37	44
Total, Norway	95	95	96
Total, Finland	93	93	93
Total, Poland	90	88	84
Total, United Kingdom	100	100	100
Total, production offices	61	87	87

Total number of employees by employment contract (permanent and temporary), region and gender	2021		2019/2020		2018/2019	
	Women	Men	Women	Men	Women	Men
Number of employees, Sweden (SE)	1367	126	2047	190	1834	159
of which temporary for SE	513	32	*	*	*	*
Number of employees, Norway (NO)	567	5	934	9	972	15
of which temporary for NO	414	6	*	*	*	*
Number of employees, Finland (FI)	246	5	366	4	448	5
of which temporary for FI	73	0	*	*	*	*
Number of employees, Poland (PL)	158	6	216	7	269	12
of which temporary for PL	80	4	*	*	*	*
Number of employees, United Kingdom (UK)	30	1	25	0	35	1
of which temporary for UK	0	0	*	*	*	*
Number of employees, production offices	65	61	116	19	81	64
Production offices, temporary	0	0	*	*	*	*
Total for Group	3534	243	3,705	229	3639	256

\* Not reported on for previous years



Total number of employees by employment contract and employment type, by gender	2021		2019/2020		2018/2019	
	Women	Men	Women	Men	Women	Men
Number of employees on full-time contracts, Group	937	177	1054	197	1110	180
Number of employees on part*time contracts, Group	2636	27	2652	32	2529	76
Number of employees on permanent contracts, Group	2435	201	*	*	*	*
Number of employees on temporary contracts, Group	1099	42	*	*	*	*

\* not reported for previous years

## In-depth information: employees

Age and staff turnover	2021	2019/2020	2018/2019
Average age, Group, years	37	40	38
Staff turnover, Group, %	29	10	14
Staff turnover, Sweden, %	33	3	9
Staff turnover, Norway, %	22	24	15
Staff turnover, Finland, %	19	16	18
Staff turnover, Poland, %	35	47	42
Staff turnover, United Kingdom, %	16	27	24
Staff turnover, production offices, %	24	6	8

Key ratios, employees	2021	2019/2020	2018/2019
Training hours per employee	4.7*	28.7	6.7
Sickness absence, %	6.6	6.2	5.2
Percentage covered by collective bargaining agreements	91	85	89

\* Training hours per employee by gender and employee category: Women: 4.3, Men: 12.0, Blue collar: 10.0, and White collar: 2.8



## In-depth information: employees

Percentage of employees by type of contract and region	2021	2019/2020	2018/2019
Employees on full-time contracts, Group, %	29	33	33
Employees on full-time contracts, Sweden, %	39	30	35
Employees on part-time contracts, Sweden, %	61	70	65
Employees on full-time contracts, Norway, %	16	17	17
Employees on part-time contracts, Norway, %	84	83	83
Employees on full-time contracts, Finland, %	22	28	23
Employees on part-time contracts, Finland, %	78	72	77
Employees on full-time contracts, Poland, %	66	80	81
Employees on part-time contracts, Poland, %	34	20	19
Employees on full-time contracts, United Kingdom, %	27	40	32
Employees on part-time contracts, United Kingdom, %	71	60	68
Employees on full-time contracts, production offices, %	100	98	98
Employees on part-time contracts, production offices, %	0	2	2

Discrimination stated in the annual Kappahl Attitude Survey	2021	2019/2020	2018/2019
Number of employees who state that they have been harassed at their workplace due to gender (sexual harassment)	8	0	0
Number of employees who state that they have been harassed at their workplace due to ethnicity, religion or other belief	0	0	0 <sup>4</sup>
Number of employees who state that they have been victimised (bullied) at their workplace, in word or deed, due to disability	0	0	0
Number of employees who state that they have been victimised (bullied) at their workplace, in word or deed, due to sexual orientation	0	0	0
Number of employees who state that they have been victimised (bullied) at their workplace, in word or deed, for other reasons	41 <sup>1</sup>	29 <sup>2</sup>	47 <sup>4</sup>
Number of employees who state that they have been exposed to discrimination at their workplace	29 <sup>5</sup>	50 <sup>3</sup>	96 <sup>4</sup>
Total	78	79	143 <sup>4</sup>

<sup>1</sup> 2 % answered yes, 2 % chose to not answer. 96 % answered no.

<sup>2</sup> 1 % answered yes, 2 % chose to not answer. 97 % answered no.

<sup>3</sup> 2 % answered yes, 2 % chose to not answer. 96 % answered no.

<sup>4</sup> Corrected figures from the 2018/2019 report.

<sup>5</sup> 1 % answered yes, 2 % chose to not answer. 97 % answered no.

# Inclusion at Kappahl

In 2021 Kappahl developed a new People Strategy. The People Strategy is based on insights from surveys, internal and external, as well as results from in-depth conversations and workshops with colleagues across Kappahls' operations. The strategy is well grounded in our core purpose: "We exist to celebrate diversity in everyday life". Kappahls vice president of HR and Communications Anna Andihh elaborates on inclusion at Kappahl.

## A place to belong

We are all different and in a large workplace like Kappahl, with 4,000 colleagues in 10 different countries, there is a need for a diverse set of opportunities and acceptance of individual journeys. During 2021 our new People Strategy was developed aiming at strengthening the relationship between our employees and Kappahl. The new People Strategy states that we promise you the right to always be yourself - Kappahl a Place to Belong.

Anna Andihh emphasizes that Kappahl should provide an inspiring workplace experience with tasks that promote the success of both you and of Kappahl. "We want to offer all our employees an opportunity to develop within Kappahl, on their own terms. You contribute with your professional expertise and commitment to the ongoing success of your team and Kappahl." This new strategy puts additional focus on wellbeing because, says Anna, Kappahl's success depends on

our employee's wellbeing. For example, we aim to offer fair, flexible and long-term employment where all contribution to the business is equally important and valued.

## Inclusive, courageous and joyful

Our values are the cornerstone of our corporate culture. They guide us in our daily decisions and long-term plans. The updated values have been developed alongside colleagues from our stores, offices and distribution centre. We focused on retaining what works well and updating ourselves where we felt this was necessary. Our old values were good, and we wanted to retain their core message, but we also needed to adapt them to achieve our new purpose and business idea. Each word in our core value retains a strong meaning. Inclusive: we work together and treat each other professionally. Courageous: we embrace change and strive for clarity and simplicity. Joyful: we are passionate and inspiring. Standing by these values in our everyday work, we move forwards together, creating

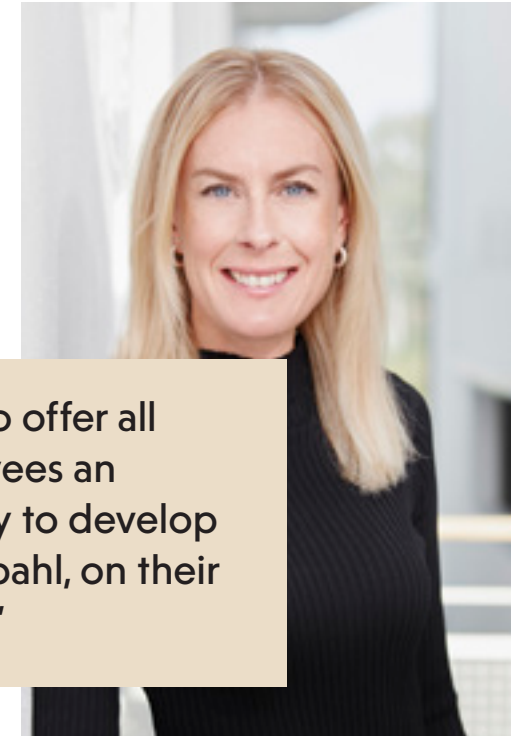
## Capable Leaders and Employees focus

Our new leadership training, Capable Leaders, features a special section on diversity and inclusion. In this section course participants get to discuss what could be perceived as harassment and how we can treat each other more inclusively. This section will also form a part of the future training program Capable Employees, which will be launched in 2022.

Anna Andihh further stresses that it isn't just a question of raising awareness; we also need to ensure simple ways of reporting and following up on reports made, both locally and at a group level. Therefore, a new and easier system for reporting workplace injuries, incidents and discrimination/harassment is in the making. A pilot version is ongoing, and our ambition is to start rolling this out throughout the entire company later in 2022.

## An ongoing dialogue

At Kappahl we seek to have an ongoing and open dialog with our employees. Every year Kappahl employees are given the chance to provide feedback on their experience of working at Kappahl in the Kappahl Attitude Survey (KAS). The survey is completely anonymous, and it is not possible to trace any individual's responses. To maintain anonymity, reports are only issued for teams in which at least 4 people have completed the survey.



"We want to offer all our employees an opportunity to develop within Kappahl, on their own terms."

## Anna Andihh, VP HR and Communication

In 2021, 77% of all employees at Kappahl answered the survey. We are very happy to see that engagement has increased from an already high level of 75 to 77 which is "Top in Class" compared to external benchmarks.

An important subject which is visible in the 2021 KAS results is discrimination and harassment. The number of employees who report that they have experienced one or both of these at Kappahl is relatively low but has increased some in regard to bullying and sexual harassment. We have a zero-tolerance for discrimination and harassment at Kappahl and we will therefore further address these issues in our employee training programs during 2022.

# Responsible Fashion Strategy

## Four focus areas

Our Sustainability Strategy is called Responsible Fashion and aims to take us to a point where we have a sustainable business model. It is based on guidelines and principles from international bodies such as the United Nations, Ethical Trading Initiative and the Science-Based Targets initiative. It is updated on a yearly basis with input from the insights we get from our value chain and our stakeholder dialogue. Kappahl applies the Precautionary Principle, works proactively and participates in industry collaborations to achieve long-term sustainable development. Kappahl is focusing on four different areas where our actions have the most impact.



## Design

Developing Fashion Fit For Life.

### Commitments

- Develop our products based on sustainability performance
- Transition to more sustainable\* materials
- Design for circularity
- Reduce absolute GHG-emissions in scope 3 with 49% by 2030

### Challenges

- Development of new, more sustainable fibers and production technologies
- Development of technology that enables fiber-to-fiber recycling
- Access to reliable data that shows sustainability performance for different Fibers And Processes

## Organization and stores

Social and environmental responsibility in all activities and operations.

### Commitments

- Work for diversity and equality
- Educate and support all coworkers on sustainability
- Create more sustainable\* store concepts
- Reduce absolute scope 1 and 2 GHG-emissions with 80% by 2030

### Challenges

- Our industry's lack of inclusive fashion with sound ideals
- Enable every employee's contribution to sustainability work

## Supply chain

Strategic and long-term cooperation with suppliers.

### Commitments

- Contributing to the promotion of human rights in communities within our supply chain
- Work with transparent, responsible, and sustainable partners
- Transition to more sustainable\* production processes
- Build a sustainable logistics setup

### Challenges

- Promote progress on human rights, living wages and gender equality
- Lack of transparency in the supply chain
- Dependency on fossil energy in the entire supply chain

## Consumption

Conscious choices made easy.

### Commitments

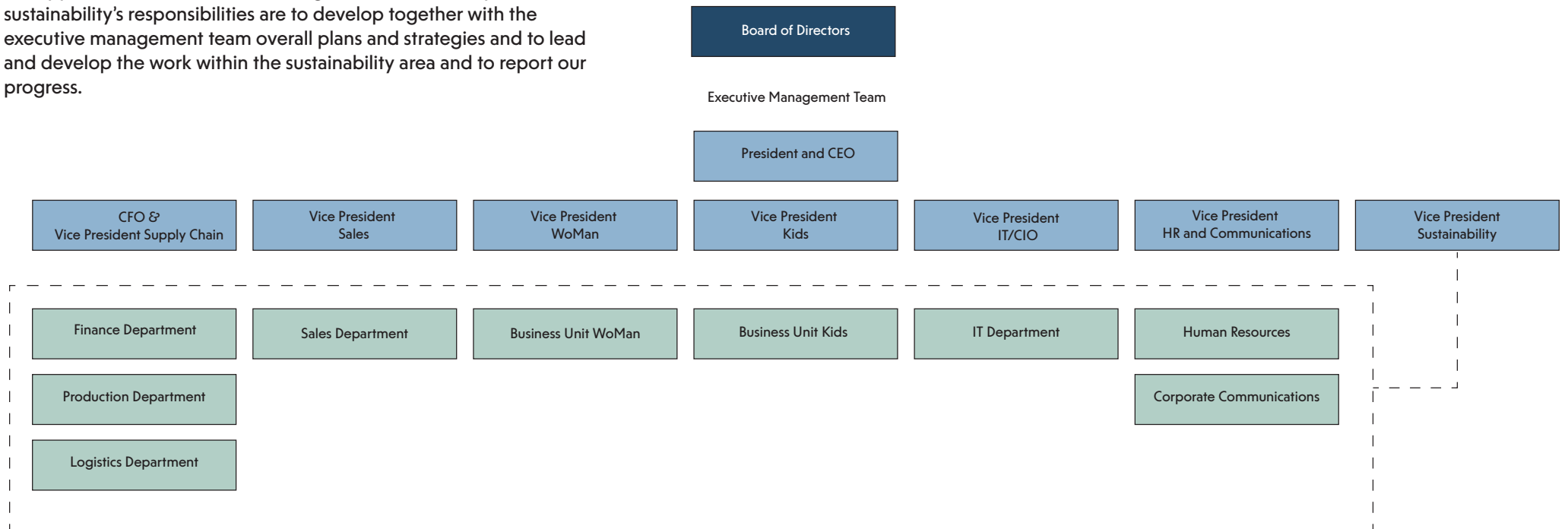
- Create solutions for a more sustainable\* consumption
- Be guiding and transparent in our sustainability communication

### Challenges

- Create simple and attractive solutions for more sustainable fashion consumption
- Easy and inspiring sustainability communication
- Extend the life of garments and ensure they are used more often

## Our sustainability organization

The president and CEO has the ultimate responsibility for Kappahl's sustainability work, but responsibility for people and planet is an integral part of all employees' daily work at Kappahl. Around a dozen employees work full time with a defined area of responsibility in the field of sustainability and are part of a matrix organization led by the vice president sustainability. Since september 2021, the vice president sustainability is part of the Kappahl executive management team and reports to the president and CEO, and also to Kappahl's Board of Directors on regular basis. The vice president sustainability's responsibilities are to develop together with the executive management team overall plans and strategies and to lead and develop the work within the sustainability area and to report our progress.





# Environmental & social sustainability

## 1. Design

### A trusted fashion destination

Kappahl's ambition to create more sustainable\* fashion for a sustainable and lasting wardrobe starts with developing the customer offer. For close to 70 years, Kappahl has been a trusted fashion destination for women of all shapes and ages. When designing our products and developing our customer offers, we affect every step of the production process and our customers' behaviour.

In early 2021, Kappahl started renting out childrens clothes via the company Hyber, as well as womens wear in December of 2021 via the company Hack Your Closet. This is an important step in the responsible fashion strategy aiming at building more sustainable business models.

Kappahl developed and sold about 40 million products in 2021. The total weight of materials that were used to produce and package Kappahl's primary products was 7,114 tonnes during the reporting period. 73 Percent were renewable materials and 27 percent were non-renewable. Today, 75 percent of our assortment is made of more sustainable\* materials. Our goal is to reach 100 percent more sustainable\* materials by 2025.

### Sound ideals

Kappahl's higher purpose is to celebrate diversity in everyday life. In 2021, we launched the Minories brand with gender equality and diversity in focus. But our assortment and customer offer have since the start in 1953 been based on inclusive and sound ideals, offering fashion to a wider range of customers both in terms of wallet and sizes. Our brand XLNT that honors all body shapes has been a part of Kappahl since 1997. Kappahl work in accordance with the Swedish Ethical Fashion Charter's guidelines for the fashion industry's ideal body image and diversity.

### Circular design

A great challenge in the fashion industry is the transition to a circular economy. Kappahl can contribute by designing clothes fit for circular business models. Prolonging the number of uses of each garment, thereby reducing the need for producing new garments, is the most effective way to reduce the environmental impact of the textile industry. Clothes need to be designed to have as long a life as possible via rent, resale and repair. When they cannot be used as a garment any longer, they should be able to be recycled into new materials or fibers.

In 2021, Kappahl released a kay/day circular design collection. Our goal is that 50

percent of our garments meet the criteria for circular design by 2025. At present we are limited by the lack of recycling technology, enabling only garments that mainly consist of one single fiber type to be recycled into new materials.

### More sustainable raw materials

Cotton is by far the raw material with the highest potentially negative environmental as well as social impacts in our assortment. Therefore, Kappahl has chosen to phase-out conventional cotton and only use certified cotton. In 2020, we reached our goal that 100 percent of the cotton we use is either certified organic cotton, or cotton sourced through the Better Cotton Initiative. The certifications ensure that the working conditions for the cotton farmers do as a minimum follow the ILO convention.

Organic cotton is grown entirely without the use of irrigation, chemical pesticides and artificial fertilizers. As a member of Organic Cotton Accelerator (oca), Kappahl promotes the increase in the share of organic cotton globally and the improvement of the living conditions of cotton farmers.

During the year we have also made substantial progress in the use of more sustainable\* synthetic fibers and wood-based fibers. The share of more sustainable\*

wood-based fibers increased from 58 to 62 percent. The share of synthetic fibers from recycled sources almost doubled from 16 to 31 percent.

An important aspect of circularity is the availability of recycled material, that pass the Kappahl's quality criteria to ensure a long life. To promote the increase in recycled fibers, Kappahl is a partner in the textile recycling company Re:newcell. Their recycling technology dissolves used cotton and other cellulose fibers and transforms them into a new raw material: Circulose® pulp. The pulp can then be used to make virgin quality viscose or lyocell textile fibers and be used to make new garments. In 2021, we also released a collection made of Circulose®.

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\* Until we can say for sure that a material or a process is in fact 100% sustainable, Kappahl uses the term "more sustainable". We only make promises we can keep! At our website you can find information on the materials that we currently list as more sustainable.

### Design for more sustainable production processes

Kappahl's goal is to use only more sustainable production processes by 2030. More sustainable means that the process can show a documented reduction in the use of water, energy and/or chemicals compared with a conventional process, for example in the Higg Material Sustainability Index (MSI). In 2019, we reached our goal that 100 percent of our denim was produced using an improved washing process that reduces water, energy and chemical consumption. Naturally, our More Sustainable Denim uses 100 percent more sustainable cotton.

### Sustainability product scorecard

Our designers are guided in the work to develop more sustainable garments by our Sustainability Product Scorecard (SPS) which is developed internally at Kappahl and implemented in the PLM system. It is based on five criteria: choice of more sustainable materials, circular design, design for longevity, efficient raw material use and more sustainable production processes. Implementation of the scorecard in all design and range departments has continued and this year we were able to measure sustainability performance for over 76 percent of our range. We are constantly evaluating different solutions for materials and processes that show a better sustainability performance compared to conventional methods.

Responsible fashion KPIs for product environmental performance	2021	2020	2018/2019*
100% more sustainable production processes by 2030, %	6	8	3
100% more sustainable denim by 2020, %	100	100	100
100% more sustainable materials by 2025, %	75	70	58
100% more sustainable cotton by 2020, %	100	100	93
50% of synthetic fibers from recycled sources by 2022, %	31	16	8
50% of products recyclable by 2025, %	10	12	11
50% of all wood-based fibers from more sustainable sources by 2022, %	62	58	10

\*The environmental performance reporting provides figures for calendar year 2020 (12 months) although the reporting period was 1 September 2019 – 31 December 2020 (16 months).



# 2. Supply chain

## The textile supply chain

Kappahl is committed to work with transparent, responsible, and sustainable partners and to be a fair partner ourself. We strive to work with suppliers that share our values and ambition, so that by collaboration we can come further than what is required by law.

Kappahl's activities have impact on people and the environment in all parts of our value chain, but the most significant actual and potential negative environmental as well as social impacts occur in our supply chain. The textile supply chain is generally divided into four tiers:

- Tier 1: final product manufacturing
- Tier 2: finished material manufacturing (fabric mills, dye houses etc.)
- Tier 3: raw material processing
- Tier 4: agriculture, ranching, forestry and extraction.

The most critical issues for Kappahl within social sustainability is human rights and decent work conditions ([see page 42](#)), and on the environmental side climate, energy, water pollution, chemical hazards and animal welfare. Both the risks and the lack of transparency are greatest early in the supply chain (tier 2-4).

Kappahl launched its first Code of Conduct (CoC) for suppliers in 1997. In november 2021, the 'Kappahl sustainability

commitment for all business partners' replaced our CoC and broadened the scope of cooperation to enable due diligence in all tiers in Kappahl's value chain. Just as the CoC before, the sustainability commitment is a binding document that prohibits violating social and human rights such as forced and child labor, and imposes ethical guidelines and requirements on environmental aspects throughout the supply chain.

## Partnership for a sustainable supply chain

Above all we see a need to work for greater transparency and partnership with our suppliers. We are since 2018 a member of the industry initiative Sustainable Apparel Coalition (SAC) where industry standards are set to facilitate transparent communication of environmental and social performance in the textile value chain. We use the higg index set of tools and encourage our suppliers to do that too.

The Ethical Trading Initiative (ETI) is a leading alliance for businesses, trade associations and NGOs campaigning for workers' rights. Kappahl has been a member since 2016. We comply with the ETI guidelines and engage within its network for joint action on supply chain challenges such as social dialogue, the right to collective bargaining and the rights of migrant workers.

Swedish Textile Initiative for Climate Action (STICA) is an initiative jointly launched by Peak Performance, H&M, Sustainable Fashion Academy, Elco and Kappahl in 2018. Today, STICA has more than 40 members

in the Nordic countries. All members commit to reducing their greenhouse gas emissions in line with the 1.5°C target and the paris agreement. In addition, Kappahl also contributes as a board member. At Kappahl, we have produced a roadmap for our strategy to reduce carbon emissions in our value chain by half by 2030. With the lion part of our emissions occurring in the supply chain, we need to cooperate with suppliers that have ambitious climate targets and can report on reductions.

The Swedish Chemicals Group at RISE is a knowledge-building network offering guidelines on chemicals restrictions and strategies. Kappahl follows the chemicals guidance, which lists unwanted substances in textile/leather products and production processes, with required limit values as agreed in the business sector.

The Transparency Pledge is a coalition of a number of large global organizations (Human Rights Watch, IndustriALL, Clean Clothes Campaign, etc.) To improve transparency in the fashion industry's supply chains. Kappahl has published our supplier lists on our website since 2013 and are also working on a number of different solutions for increased transparency. To be clear with our commitment, we joined the transparency pledge in autumn 2019 and follow their requirements for transparency linked to the supply chain.

Kappahl's policy for animal welfare is based on our collaboration with the Swedish Trade Federation and their animal welfare policy.

## Human rights

Kappahl publicly commits to respecting human rights in our [Human Rights Policy](#). We recognize our responsibility to protect human rights and our ability to contribute to the advancement of human rights in the world. We implement our human rights commitment through our ethical guidelines for our employees and through our sustainability commitment for Kappahl and all business partners and we engage with our business partners to address, prevent and remedy adverse impacts.

Kappahl's policy follows the International Bill on Human Rights (consisting of the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, and the International Covenant on Economic, Social and Cultural Rights) as well as the International Labor Organization's declaration on fundamental principles and rights at work. Our policy is also informed by the Ethical Trading Initiative's base code, which applies to Kappahl as a member of the organization. It also covers modern slavery, as defined in the UK Modern Slavery Act 2015. On our Newbie site for the UK, we have published our modern slavery statement.

A list of all our commitments can be found at our website: [Kappahl.com/ Our Commitment](#)

### Strategic selection of suppliers

To have a positive impact, we work to ensure that we collaborate with responsible suppliers. We see transparent dialogue with suppliers and factories as essential, and we will continue our close relationship with suppliers that also see such a future. Kappahl performs a Supplier Evaluations twice a year with all suppliers where sustainability performance is one part that is evaluated and used for decisions on continued partnership and new orders.

In 2018 Kappahl became a member of the Sustainable Apparel Coalition (SAC), an organisation working for a more sustainable and transparent fashion industry. The SAC has developed the Higg Index, a series of tools that measure and evaluate the sustainability performance of factories, brands and products. The Facility Environmental Module (FEM) tool

measures the environmental performance of the factories and is used at factories corresponding to 62 (51) percent of Kappahl's order value in 2021. During the past year, we continued to work towards having our suppliers also reporting in the Higg Index Facility Social and Labor Module (FSLM) tool. In 2021, factories corresponding to 25 percent of Kappahl's order value reports in the FSLM tool.

The situation in Myanmar remains volatile following the military coup that took place there in February 2021. Kappahl has been monitoring developments in Myanmar during the past year and regrettably see nothing to indicate that there will be any change in the situation such as would enable us to safely, securely and effectively place orders in Myanmar again in the foreseeable future. We have therefore taken the decision to shut down

our production office in Myanmar and no longer purchase garments from the country.

### Supply chain due diligence

Sustainability Developers at our Production Offices monitor compliance with Kappahl's Sustainability Commitment in three steps: 1) identify non-conformances, 2) initiate improvement measures, and 3) support the work of improvement. Another important task is to coordinate and cooperate with the purchasing organization to ensure production at factories that live up to our requirements.

We conduct an ongoing dialogue about sustainability with our suppliers and their factories, with the ambition that our factory reviews and follow-up visits will encourage suppliers and factory managements to take even more responsibility, for example for social conditions and environmental impact. We conduct regular reviews at the factories and suppliers we cooperate with. The COVID-19 pandemic has been a challenge in this work, which in certain countries and periods has hindered us from physical visits at the factories. During the year we carried out 234 (302) reviews and follow-up visits at suppliers' factories. The factories that are reviewed in the Agents and Importers category are in countries where the risk of deficiencies in the work environment and safety conditions are estimated to be higher.



Responsible fashion KPIs for value chain social performance	2021	2020 <sup>3</sup>	2018/2019 <sup>1</sup>
Share of supplier factories approved for social conditions, % <sup>1</sup>	100	100	100
Number of factories	241	312	330
Number of reviews	159	127	199
Number of follow-up visits	75	175	166
Approved, %	78	51	54
Temporarily approved, %	25	28	31
Not approved %	1	0	0
Not reviewed, % <sup>2</sup>	4	21	15
Number of reviewed, new factories	24	12	50

<sup>1</sup> Supplier factories do not include agents/importers.

<sup>2</sup> Constitutes factories in the category of agents/importers that have not reached a certain order value or are not in a country described as a high risk.

<sup>3</sup> The reporting period was 16 months (1 September 2019 – 31 December 2020)

### **Control of new production markets & sites**

Before we enter new production markets, we evaluate the situation concerning human rights, legislation on working conditions and terms of employment, as well as ownership structures for factories and country. This evaluation is conducted to identifying and assess the greatest risks.

All new factories are reviewed by our own staff at the production offices and need to be approved before orders can be placed there. If a new factory meets our requirements at the first review it is classed as temporarily approved. To ensure that the factory meets our requirements, follow-up visits and subsequent new reviews are made after 12 months. Only then can the factory be graded as approved.

If we discover non-conformances at our reviews, our default position is to bring about change instead of terminating the collaboration. In these cases, the factory draws up an action plan to correct the non-conformances. If a supplier does not cooperate, or a factory does not carry out agreed improvements, we limit or stop the order placement.

### **Climate impact**

In august 2021, IPCC released a report telling us that climate risks are appearing faster and will get more severe sooner than previously predicted. It also confirmed that there is no uncertainty any longer, that the climate crisis is caused by us humans.

Kappahl's climate target is to reduce our absolute carbon emissions, in our entire value chain, by 50 percent by 2030. The target refers to scope 1–3 with 2016/2017 as the base year. We have set a mid-term

target to halve our emissions per product by 2026. In 2040 we aim to be climate neutral.

Kappahl's roadmap to mitigate the greenhouse gas emissions in our value chain has been integrated with our growth plan during 2021 to ensure that we reach our goals, see the section on climate. Kappahl monitors progress via the Higg Facility Environmental Module and the STICA questionnaire.

### **Water consumption**

The water consumption in the textile supply chain is dominated by cotton cultivation. Kappahl has chosen to phase-out conventional cotton and use either certified organic cotton, or cotton sourced through the Better Cotton Initiative. However, the manufacturing processes in factories do also consume water. Kappahl's transition to more sustainable\* production processes means documented water savings, and we are only working with suppliers that have water purification and environmental management systems in place. Kappahl monitors progress via the Higg Facility Environmental Module and via supplier factory visits.

### **Biodiversity**

The fashion industry impacts animal life and biodiversity, particularly in the production of fiber. Our work with Organic Cotton Accelerator (oca) promotes the increase of organic cotton cultivation, which excludes gene-modified crops, use of chemical pesticides and artificial fertilizers. Biodiversity is also affected by for example climate change, water scarcity and emissions of toxic substances. Therefore, the work at Kappahl to select

more sustainable\* materials and produce at factories that use more sustainable\* processes is also vital to reduce the pressure on endangered species.

### **Chemicals, quality and safety**

Securing that no harmful chemicals are present in our products is the sustainability topic that has highest priority by our customers. Kappahl aim for continuous improvement and always apply the precautionary principle in our chemicals program "No Risk" that started already in 2005. We participate in the Swedish Chemicals Group at RISE to be proactive in our work with chemicals and set stricter demands than legislation. We proactively include chemicals in our restricted substance list to give our suppliers the means to phase them out in good time before they are restricted. In 2021 we carried out 2,256 (911) chemicals tests and 99.5 (98.4) Percent of the garments were approved according to the Kappahl requirements. No garments had restricted chemicals present above legal limits.

When it comes to quality and child safety, Kappahl sets high demands via the Kappahl product quality standard. We carry out regular quality and safety tests throughout the production process. In 2021, we had one case of non-compliance concerning the disinfectant gels that were temporarily sold during the COVID-19 pandemic. The gels had insufficient tactile labeling, which resulted in a fine. A total of 2,250 (2,641) products were returned, which is less than 0.01 Percent of our total sales. For the products that are deemed to be potentially harmful to humans or the environment, we have no other option than incineration with energy recovery. During 2021, we sent

11,392 (18,277) products for incineration for health, safety or environmental reasons. Products that have non-hazardous faults, such as incorrect sewing, are sent to our partner Fretex International/Myrorna for reuse at other markets. 58,092 (7,811) Products were sent for reuse via Myrorna in 2021. This is an abnormally high number and an effect of COVID-19 which hindered our quality controllers to visit the factories and prevent mistakes.

### **Microplastics**

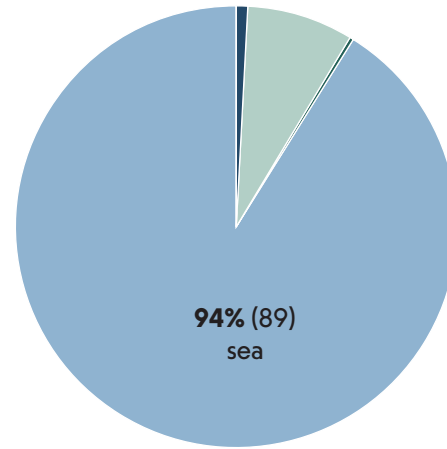
Microplastics are very small pieces of plastic, some even too small for our eyes to see. Microplastics have been observed in the environment worldwide and are considered a concern as they are suspected to transfer toxic substances to plants and animals, especially in oceans, lakes and watercourses. The current knowledge of the scale of the impact is very low. It is likely that any content of toxic substances increases the risk of damage but there might also be particle effects. Microplastics in the oceans originate for example from the breakdown of larger plastic litter, but synthetic textiles are also a source. In addition, research has shown that cellulosic and protein fibers are found to generate micro-sized particles. Kappahl follows the latest findings to act accordingly. Although the data gaps are huge, we see that our work with preventing harmful chemicals from occurrence in our products is one action that is important. We always apply the precautionary principle in relation to chemicals and safety and carry out regular quality and safety tests throughout the production process, in our chemicals program "No Risk".

## Transportation

In contrast to what many people think, transportation accounts for a relatively small proportion of climate emissions in a garment's life cycle, provided that air freight is avoided. Kappahl has a ban on air freight for in-bound transports since 2020 and in 2021, only 0.1% of our freights were granted exceptions.

Kappahl has no online markets to which we send products via air freight. Deliveries from the distribution center to physical stores are done by road or sea. We also impose environmental and social requirements on all carriers, regardless of mode of transport.

In 2021, transportation contributed greenhouse gas emissions of 109 (121) grammes per garment, which is a decrease of 10 percent compared with the previous year and 13 percent compared with the base year 2016/17.



0.1% (1) air  
1% (2) rail  
5% (8) road: production - DC  
0.03% (new) road: DC - store

Responsible fashion KPIs for value chain environmental performance	2021	2020 <sup>1</sup>	2018/2019
Share of factories (based on order value) reporting using the Higg FEM, %	62	51	51
Reduction in climate emissions compared to base year <sup>2</sup> , %	13	14	6
Annual reduction of climate emissions from our transportation, %	10	3 <sup>3</sup>	0 <sup>3</sup>

<sup>1</sup> The environmental performance reporting provides figures for calendar year 2020.

<sup>2</sup> Base year is 2016/17, refers to scope 1–3.

<sup>3</sup> Corrected figures from last year's report.



# 3. Organisation & stores

## Good work environment

Our employees in offices, stores and the distribution centre play a big part in creating responsible fashion. We are a diverse group and take pride in using this strength as a tool towards reaching sustainability.

At Kappahl, employees take responsibility for their jobs and to create a good work environment where we reach our common goals together. Kappahl is a popular workplace, and our annual employee survey shows a high Loyalty score of 83 (83), and an increase in the score on Satisfaction and Motivation from 75 to 77.

In 2021, Kappahl launched a new People Strategy where responsibility for people and planet is an integral part. Our aim is that all employees should feel that they contribute to Kappahl's sustainability work, which is something we measure in our annual employee survey. This year the figure was 87 (87) percent. Employees are regularly informed of our Ethical Guidelines and our leaders work continually to promote a good working climate that creates commitment, job satisfaction and power of initiative. We promote good work environment in several ways, including offering occupational health services and where possible flexible working hours.

Kappahl works to maintain an open business climate and good business

ethics. Employees can anonymously report on grievances or misgivings about circumstances that violate our values and ethical principles through our whistleblowing service that is handled by an external party. During the year there has been one incident of violation of our Ethical Guidelines which led to dismissal of one employee.

In Sweden, Finland and Norway all employees are covered by collective agreements, representing 91 (85) percent of Kappahl's employees. Sickness absence was 6.8 (6.2) percent during the year. We conduct safety inspections twice a year, and any incidents and/or occupational injuries are reported and dealt with. In other countries, national legislation is applied, where in some cases we augment terms of employment beyond legislation. Work environment aspects are also reported in our annual employee survey, an important channel for early indications of need for action.

Ahead of operational changes risk assessments are made concerning work environment issues. Each manager is responsible for ensuring that their employees have knowledge about a good work environment. Work environment issues are discussed regularly at performance reviews between employees and managers and at quarterly workplace meetings.

## Training & education

One of Kappahl's strategic initiatives for the years 2021-2023 is the development and implementation of Capable Leaders

and Capable Employees, two educational modules. New employees are offered an on-boarding training about Kappahl, our customers, values and sustainability work. All our employees receive continuous education and training for professional development, for example a digital course tailored to store employees on the topic of guiding customers to more sustainable fashion choices. In total, all employees have participated in skills development during the year; on average 5 (29) training hours per employee. The large difference compared to last year is due to that the data collection of training hours has been made manually to follow the reporting purpose and distinguish between different types of employees ([see table on page 19](#)).

## Safety

We work continuously to ensure a safe work environment. We carry out regular safety audits in stores, provide regular training in security in accordance with the training plan in our security manual, we perform internal fire drills, and report and follow up incidents on an ongoing basis. No incidents have been reported during the year.

## Shop Online

The most important environmental aspect of online shopping is the return rates and routines for returned goods. Kappahl works to keep the return rate low via good fitting and collecting feedback on sizes from the online customers. All our garments are designed at Kappahl and tried on by live models. We have deliberately chosen to only offer free returns in our stores. If the customer returns the garments to the store they are put for sale there.

## Packaging

Kappahl's shopping bags are made from recycled plastic, which gives a lower climate impact than paper bags. A life cycle assessment in which we compared recycled plastic bags with bags made from virgin plastic, recycled paper and virgin paper respectively, guided us when we selected the option with lowest footprint. The growing online shopping is a challenge that not only entails more transportation but also more packaging. It is important that we reduce the amount of packaging and ensure it does not end up in nature. The packaging we use is made from recycled plastics and can be reused and recycled many times. Today we have come a long way in terms of labels, hangers and customer bags, which are all in more sustainable material, such as recycled plastic or FSC labelled paper. In Sweden we have a fully circular flow for our plastic hangers, which are mended or recycled in cooperation with our supplier in Lidköping.

## Waste

We try to minimize our own waste, for example by using only indirect materials for stores that can be reused or recycled. We have reusable boxes for the transport from our distribution center to the stores. All packaging materials are recyclable. During the financial year (16 months) a total of 1,015 (892) tonnes of waste was generated, of which 94 (94) percent was sent for recycling, 5 (6) percent for energy recycling and 0.75 (<0.1) percent for landfill via our waste disposal contractor. In addition, 1.8 (1.6) tonnes of hazardous waste was generated, in the form of electronics and fluorescent tubes, which was either handled by the landlords or via our waste disposal contractor.

## More sustainable stores

In 2020 we reached our goal that 100 percent of the energy purchased under own agreements should be renewable. We continuously develop our store concepts in terms of sustainability, both in terms of energy use and use of more sustainable materials in our store fittings and other indirect materials. In 2021, we reduced our electricity consumption by 11 percent compared with 2020.



Responsible Fashion KPIs for organization and stores environmental performance	2021	2020 <sup>1</sup>	2018/2019
Share of energy under own agreements from renewable sources, %	100	100	96
Yearly reduction in electricity consumption, %	11	18	13
Share of indirect material, including packaging, circular by 2030, %	-2	-2	-2
Share of packaging material in more sustainable* and recyclable materials, %	100	100	100
Share of store base & campaign material in more sustainable and recyclable materials, %	78	88	89
Share of store fittings in more sustainable and recyclable materials, %	40	42	42
Share of visual merchandising material in more sustainable and recyclable materials, %	60	55	47
All employees feel they contribute to Kappahl's sustainability work, %	87	87	88

<sup>1</sup> The environmental performance reporting provides figures for calendar year 2020.

<sup>2</sup> No method available for monitoring this goal yet. The criteria are (1) produced in more sustainable\* materials, (2) can be recycled, and (3) is produced with renewable energy. The last criterium has not been able to be measured.

Internal energy consumption <sup>1</sup>	2021	2020 <sup>2</sup>	2018/2019	Change
Electricity, kWh	15,958,440	17,580,322	21,348,911	-9 %
Heating, kWh	1,651,922	1,350,222	1,324,659	+18 %
Fuel <sup>3</sup> , MJ	2,389,754	2,414,533	3,010,710	-30 %
Energy per square meter/open hour in stores and warehouses, Wh	0.053	0.055	0.099	-5%

<sup>1</sup> See page 54 for details on energy and climate calculations

<sup>2</sup> The environmental performance reporting provides figures for calendar year 2020.

<sup>3</sup> Fuel refers to diesel for Kappahl's company cars



# 4. Consumption

## Inspiration & nudging for sustainable choices

With our marketing, we aim to give our customers inspiration and guidance towards more sustainable choices. We continuously check to what extent the Kappahl customers has confidence in our sustainability work, feel inspired to make sustainable choices and agree that we show diversity in terms of variation in ethnicity, body shape and age in our marketing.

## 50 Years of environmental systems thinking

50 years ago, in 1972, B. Commoner, P.R. Ehrlich and J.P. Holdren presented the I=PAT formula where the unwanted environmental Impact (I) depends on Population size (P), Affluence (A; the consumption of goods and services per person) and Technology (T; the environmental impact per the amount of goods and services). The formula explains in an elegant way a core part of environmental systems analysis. The global population has passed eight billion and is projected to continue to grow. Clothes is a basic universal human need offering not only protection but also creativity, identity and freedom. For example, clothing can be used to fulfil the need for signaling identity, either by contributing to group belonging or to the feeling of self-uniqueness. In the sustainable future people will still have a need for clothing.

An important learning that the IPAT formula gives is that environmental impact of the fashion industry can be lowered either by decreasing consumption per person or by decreasing the environmental impact per garment. The most efficient way to reduce climate impact from fashion is to combine the two: consume only the garments that have been produced with the lowest impact.

Our job at Kappahl is to create a customer offer with as low environmental impact as possible. We design garments for a long life, both in terms of style and quality. We work to reduce the impact per produced garment. We work with new business models to enable several users for each garment. We work to measure and communicate the climate impact so that the customers can make a conscious choice in an easy and inspiring way.

## Reuse & rent

To make it simple for customers to do their part, all Kappahl's stores offer textile collection. For 2021, we did not meet our target of collecting 250 tonnes of textiles per year in our stores. We landed at 182 tonnes which is explained by the fact that several of our stores were in lock-down due to the COVID-19 pandemic. The textiles collected are sent to our partner Myrorna, to optimize their life through primarily reuse at the local markets.

During 2021, we expanded our offer in launching new business models for Kappahl's customers: rental and subscription. Part of newbie's assortment

was made available to rent via rental service Hyber. In February 2022, we further developed the possibility to subscribe to women's wear via the clothing rental service Hack Your Closet.

## One Bag Habit

Using the method of life cycle assessment we can tell that our recycled plastic bag - produced using post-consumer material in Spain - has a lower impact in a series of environmental impact categories, compared to a recycled paper bag. However, even more environmental burden is avoided if fewer bags are used. Through the One Bag Habit initiative, launched together with Lindex and H&M in 2017 we want to increase awareness of this. Consequently, Kappahl charge for all bags in our stores and the surplus from these sales goes to sustainable development projects. Originally, our target was to reduce bag use by 50 percent by 2020. The reduction occurred at a higher rate than we expected and we are down at a 78 (78) percent reduction in 2021.

### Customer communication

It is important to us at Kappahl to be both inspiring and transparent in our sustainability communication. On the sustainability pages at our website we publish information about everything from our sustainability labelling to the factories we buy from. Kappahl has published our supplier lists on our website since 2013 and we joined the Transparency Pledge in Autumn 2019. We are eager to start using the Higg Index Product Module developed by the Sustainable Apparel Coalition as soon as it's available. The results of the calculation will be used as on-product communications.

In the annual customer survey, there is scale between 1-7 (1 = strongly disagree, 7 = strongly agree), and if the score is 6 or 7 we have assumed that the respondent agree with the statement.

The results from February 2022 were: 45 (47) percent of our customers agree

that Kappahl shows variation in ethnicity, body shape and age in the marketing. 26 (26) percent of our customers answered that they have great confidence in our sustainability work and 18 (16) percent feel that Kappahl inspires them to make more sustainable choices. Our goal is that by transparent and courageous reporting, where we also show the challenges that we stand before, we will improve so that by 2025 70 percent of our customers will answer 6 or 7 on these questions.

We continue to develop our customer guidance towards more sustainable choices. For the garments that have the "Responsible Fashion" label, we approve only more sustainable solutions that can demonstrate documented sustainability improvements, which usually also have been certified by a third party. A green label means a more sustainable raw material, a white label means a more sustainable production process. We sincerely aim for this to be a clear guide for customers who want to

We are eager to start using the Higg Index Product Module developed by the Sustainable Apparel Coalition as soon as it's available. The results of the calculation will be used as on-product communications.



Responsible Fashion KPIs for consumption	2021	2020 <sup>1</sup>	2018/2019
Annually collect 250 tonnes of textiles by 2020, tonnes	195	347	309
Reduction of bag use compared to 2016/2017, %	78	78	67
Share of customers that agree Kappahl shows diversity in marketing <sup>1</sup>	45	47	43
Share of customers that have great trust in Kappahl's sustainability work <sup>1</sup>	26	26	22
Share of customers that feel that Kappahl inspires them to make more sustainable choices <sup>1</sup>	18	16	15

<sup>1</sup>Average share of customers on all markets who reply 6 OR 7 on the statement

# Economic sustainability

## Affordable and responsible fashion

Kappahl's business idea is to offer affordable and responsible fashion for our customers in an easy and inspiring way. Kappahl's vision of a sustainable future is one in which people's clothing needs are in balance with their environmental impact. For Kappahl to be able to dress as many people as possible with as sustainable clothes as possible we primarily need to lower our climate footprint and improve the wage levels at the factories.

## Our business plan

Kappahl has integrated the sustainability strategy Responsible Fashion with the business plan for 2021-2023. Our business plan is based on five overall goals: 1. A business model based on our target groups, 2. A customer centric culture, 3. An easy and inspiring customer experience, 4. An accessible and optimized sales network and 5. Efficient and scalable processes.

For each of the five overall goals, Strategic Initiatives implement business focused as well as sustainability focused targets. Since the Responsible Fashion strategy goes beyond 2023, it is divided into Strategic Initiatives (prioritized actions for 2021-2023), Key Performance Indicators (KPIs) and Long-Term Commitments (for example our net-zero climate goal for 2040).

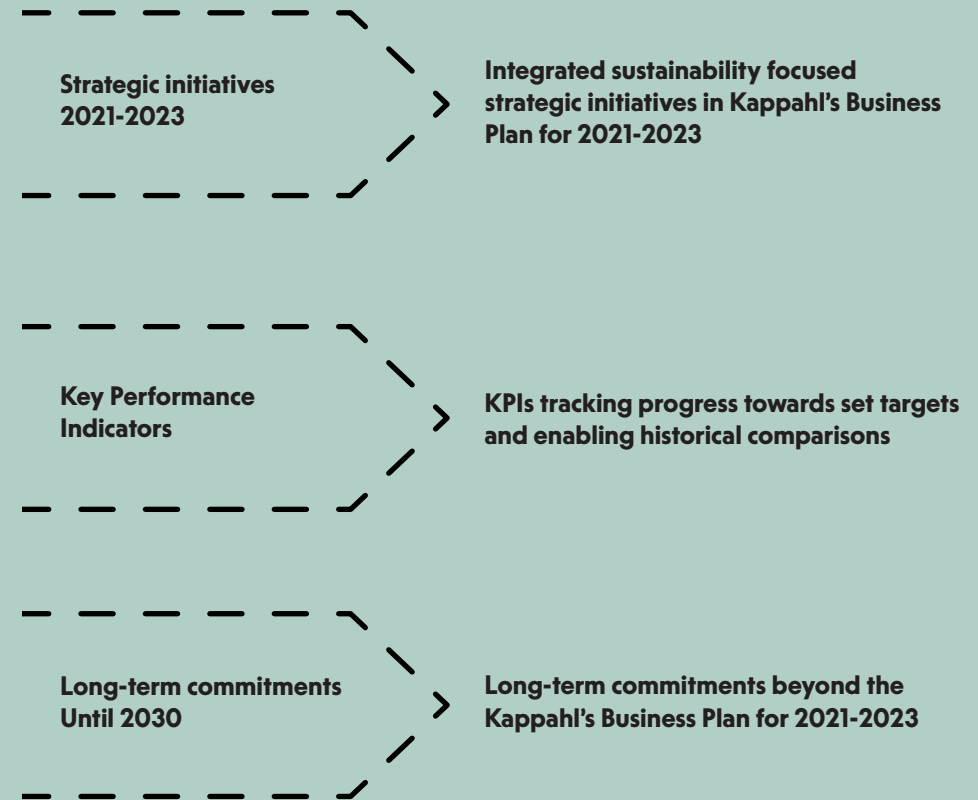
## Kappahl combines growth strategy with reduced climate impact

Kappahl has ensured that our future ambitions aligned with our climate goals. During 2021 we developed a climate reduction roadmap that is commercially viable and anchored within our ambitious growth plan. It is also environmentally realistic, as it is in line with The Paris Agreement.

## Anti-corruption

We have zero tolerance of any type of corruption and have a high level of internal control in all our operations. It is highly unusual for us to identify cases of corruption among employees or suppliers. During 2021, one incident of corruption was confirmed which led to than an employee was dismissed.

Kappahl informs about our anti-corruption policy in our ethical guidelines that are signed by all employees and all suppliers. They are reviewed annually and implemented and followed-up via our Sustainability Commitment which is mandatory for our business partners to sign. Kappahl performs regularly education about anti-corruption for all our employees.



# Financing the transition

**Changes in our operations, in an effort to become a more sustainable company, requires changed investments. Kappahl's CFO & VP Supply chain Peter Andersson sees a company in the forefront ready to deliver. The fashion industry is experiencing a paradigm shift with companies placing their focus on sustainable supply chains and climate based targets. Kappahl is a part of the change and is ready to step up, but mindful of potential risks.**

## **A changing supply chain**

New and improved technical solutions is an important step in building a more sustainable supply chain. Nonetheless, these new techniques might not be available at present production sites. This poses a challenge in either moving production to sites with updated technical advancements, or investing in building new production sites. Peter Andersson, CFO, emphasizes that the entire fashion industry is standing in front of a giant technical paradigm shift. "The possibilities are out there, but the stakes are high and any move needs to be fully anchored in our business plan".

Furthermore, there is an ongoing shift in geographical location of clothing production. With shorter lead times and a need for flexibility many companies are moving production closer to home. Peter says that we want to avoid a situation where stocks are piling up and products are forced to go on sale simply because of miscalculated quantities. A way of avoiding this situation is moving production closer to home giving additional flexibility on any order.

## **Risks & investments**

Though Peter sees an overall trend to move production closer to home, he stresses the need to risk assess before investing. "In a new investment, you can never know exactly what you are getting before it is up and running", says Peter. New techniques demand large investments up-front, with a long-term goal of paying off. Nonetheless, being a part of a new development already from the beginning means we can tailor the possibilities in accordance with our specific needs.

Presently, Kappahl does not own any factories. "There's always a risk in not owning all parts of your supply chain, however, at Kappahl we work with a few selected suppliers in mutual beneficial partnership agreements. These partnerships are very important to us, and we wish to continue and deepen our relationships moving forward", says Peter. Kappahl strives to be a fair and trusted actor in all parts of our operations, as partner to the garment maker in Dhaka, and employer to the store assistant in Oslo.

Another risk in relocating would be the potential of breaking any of these established connections. Kappahl is a trusted employer providing not only salaries, but a place to belong. In Bangladesh, Kappahl have established an education centre for women on the outskirts of Dhaka, daily run by the TCM Foundation. Here women are taught to sew, reading and writing, financial issues as well as woman's rights issues. During their month-long training they receive wage compensation from us.

## **A fast moving market**

The fashion industry is not only experiencing a paradigm shift in technical advancements, we are also seeing a very fast moving consumer culture. "As a fashion company today, you are constantly on the brink of losing your customer" says Peter. The market is very sensitive, consisting of global influences and rapid changes.

For Kappahl this means that customer conversations and insights need to be prioritized. The development process of our new higher purpose, listening to what our customers want and need, helps us stay relevant. Sometimes that means being bold in our investments.



**Peter Andersson, CFO & VP Supply chain**

# Key impacts, risks & opportunities

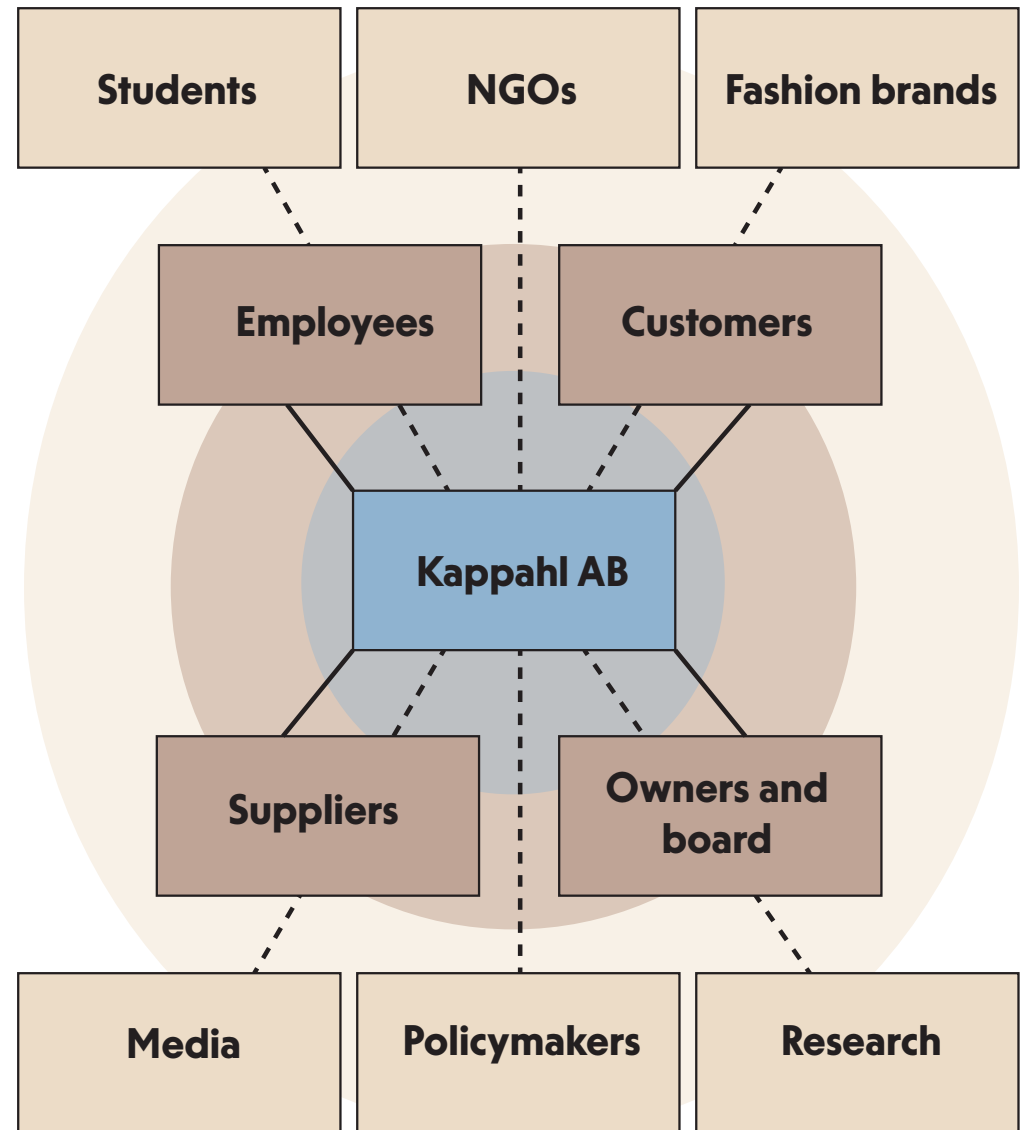
## Yearly materiality analysis

Our sustainability reporting is based on Kappahl's strategy, risk assessment, dialogue with key stakeholders, external analysis of our business environment and international guidelines and standards. We perform a yearly materiality analysis to determine which sustainability topics that are essential to report on in accordance with the GRI set of standards.

## Stakeholder identification and dialogue

Kappahl has an ongoing dialogue with the stakeholders that to a large extent have impact on or are impacted by our business. The list of key stakeholders is reviewed on an annual basis to reflect the current reality. Today, the key stakeholders to whom we consider ourselves accountable are: customers; employees; suppliers; our owners Mellby Gård AB and the Kappahl AB Board. We also continue the valuable dialogue with other stakeholders such as students, non-governmental organizations (NGOs), other fashion brands, policymakers, media and researchers.

The stakeholder dialogue has the form of anything from daily contact to annual surveys to provide an insight into our stakeholders' prioritization of sustainability issues, their confidence in our sustainability work and what they see as our opportunities and challenges for our future work.



Key stakeholder	Dialogue and frequency	Important questions for the stakeholder groups (top four issues marked in bold)
<b>Customer</b>	<p>Customer club survey in Sweden, Norway, Finland and Poland, once per year.</p> <p>Continuous dialogue with customers through customer services, stores, social media.</p> <p>Consumer survey Sustainable Brand Index in Sweden, Norway and Finland once a year.</p> <p>Kappahl's Brand Tracker</p>	<p>Provide guidance on clothing care for prolonged lifelength</p> <p>Product development and new technology with better environmental performance</p> <p><b>More sustainable materials</b></p> <p><b>Reduced use of chemicals</b></p> <p>Reduce microplastics emissions</p> <p>Collect used clothes for reuse and recycling</p> <p><b>Good working conditions in the company</b></p> <p>Good working conditions at suppliers</p> <p>Promote diversity and gender equality in the company and actively combat discrimination</p> <p><b>Supply safe, good quality products</b></p>
<b>Employees</b>	<p>Kappahl attitude survey, once a year.</p> <p>Employee survey on sustainability, every other year.</p>	<p><b>Good working conditions in the company</b></p> <p><b>Supply safe, good quality products</b></p> <p>Responsible action by management and board</p> <p>Promote diversity and gender equality in the company and actively combat discrimination</p> <p>Good working conditions at suppliers</p> <p><b>Reduce our use of resources in production</b></p> <p><b>Reduce our climate impact</b></p> <p>Reduce the amount of waste and increase the percentage of reuse and recycling</p> <p>Use materials sustainably</p> <p>Contribute to increased reuse and recycling of clothes</p>
<b>Suppliers</b>	<p>Continuous dialogue in the daily work.</p> <p>Seasonal Supplier Evaluation</p> <p>Annual Sustainability Dialogue started in 2021.</p>	<p>Fair partnership</p> <p>Good working conditions in the company</p> <p>Human rights in the supply chain</p> <p><b>Fair wages</b></p> <p><b>Transparency</b></p> <p><b>Anti-corruption</b></p> <p>Support local communities</p> <p>Animal welfare</p> <p><b>Product quality and safety</b></p>
<b>Owners Mellby gård AB &amp; Kappahl's board of directors</b>	<p>Continuous dialogue in the daily work via the Kappahl executive management team.</p> <p>Direct dialogue at Board meetings between the Head of Sustainability and Kappahl's Board of Directors.</p> <p>Yearly overview of the sustainability strategy, policy documents and progress</p>	<p>No quantitative survey has been conducted.</p>

## Risk Assessment

Under the UN Guiding Principles, companies are expected to prioritize and address salient risks first instead of addressing all risks at the same time. Salience in the OECD Due Diligence context does not include harm to the business (reputation, revenue, etc.) itself. However, since this is a requirement for the Swedish Annual Accounts Act reporting, the Kappahl risk assessment process also includes harm to the business.

Both actual and potential impacts are considered on environmental and social issues defined in Higg guidance documents. Salience is determined based on the severity of harm that the risk poses to people and the likelihood of the event occurring. The assessment of severity and likelihood is based on the current state, i.e. taken into consideration which risk management measures that Kappahl are already conducting today. Each risk area is reported and then a summary of the salient risks is provided.

The risk assessment is informed by a number of guiding documents and tools from GRI, SAC, OECD, UN, WEF, WWF and Canopy. Requirements from the Task Force on Climate-related Financial Disclosures (TCFD) and the Norwegian Due Diligence Act were also considered.



Salient issue	Assessment of risks and opportunities	How the Responsible Fashion strategy addresses this issue
<p data-bbox="98 178 483 204"><b>Greenhouse Gas (GHG) Emissions</b></p> <p data-bbox="98 244 241 269"><b>Description:</b></p> <p data-bbox="98 276 524 592">The most recent data from the IPCC shows we will likely experience catastrophic effects of climate change within our lifetimes. If GHG emissions continue at the current rate, the atmosphere will warm by as much as 1.5 to 4 degrees Celsius by 2040, inundating coastlines, intensifying droughts, storms, heat waves, and poverty.</p>	<p data-bbox="539 178 757 204"><b>Sector risk factors:</b></p> <p data-bbox="539 210 1361 236">Greenhouse gas emissions is one of the sector risk factors listed by OECD.</p> <p data-bbox="539 276 772 301"><b>Product risk factors:</b></p> <p data-bbox="539 308 562 333">-</p> <p data-bbox="539 339 857 365"><b>Business model risk factors:</b></p> <p data-bbox="539 371 1666 592">Our business idea is to offer affordable and responsible fashion, which brings a risk of contribution to overconsumption. At the same time, offering a sustainable alternative in our price segment gives also people with weak economy a possibility to fulfil their needs for clothing in a more sustainable way. The full-assortment business model implies a vast number of product lines compared to specialized brands. High number of product lines &amp; margin pressure increases the risks while Kappahl has few (two) seasons per year.</p> <p data-bbox="539 632 775 657"><b>Country risk factors:</b></p> <p data-bbox="539 663 562 689">-</p> <p data-bbox="539 695 864 721"><b>Sourcing model risk factors:</b></p> <p data-bbox="539 727 1666 785">High number of product lines &amp; margin pressure gives less attention for each supplier which increase the risk that excess energy is used and energy from fossil fuels.</p> <p data-bbox="539 825 826 850"><b>Risk of harm to Kappahl:</b></p> <p data-bbox="539 857 1697 914">The main risk for Kappahl is changed customer preferences in case of bad reputation, and policy-related risks as climate-related legislation increases.</p> <p data-bbox="539 920 1626 978">In the longer sight Kappahl faces a risk of not having access to the same supply chains if these are heavily affected by climate change.</p> <p data-bbox="539 1018 810 1043"><b>Risk mitigation actions:</b></p> <p data-bbox="539 1050 1496 1075">We are working with the Higg Index tools to follow-up on greenhouse gas emissions.</p> <p data-bbox="539 1082 1615 1107">We are a founder and board member of the Swedish Textile Initiative for Climate Action (STICA).</p> <p data-bbox="539 1114 1666 1171">We have a climate reduction roadmap that is commercially viable and anchored within our ambitious growth plan.</p> <p data-bbox="539 1177 1615 1267">We have committed to set a long-term science-based target to reach net-zero value chain GHGs emissions by no later than 2040 in line with the Science-Based Targets initiative (SBTi) Net Zero Standard.</p> <p data-bbox="539 1307 719 1332"><b>Opportunities:</b></p> <p data-bbox="539 1339 1444 1364">Closer collaboration with the Swedish Textile Initiative for Climate Action (STICA).</p> <p data-bbox="539 1370 1680 1428">Opportunities include: changed customer behaviour/product care guidelines, sustainable offers in our customer segment, new revenue streams from increased resale/rent/repair opportunities.</p>	<p data-bbox="1711 178 1917 204"><b>Climate roadmap</b></p> <p data-bbox="1711 244 2136 301">We commit to reduce absolute climate emissions with 50% by 2030.</p> <ul data-bbox="1711 308 2119 525" style="list-style-type: none"> <li data-bbox="1711 308 2096 365">• 80% reduction of scope 1 and 2 climate emissions</li> <li data-bbox="1711 371 2119 429">• 49% reduction of scope 3 climate emissions</li> <li data-bbox="1711 435 2107 461">• 50% reduction per unit by 2026</li> <li data-bbox="1711 467 2119 525">• We will reach climate neutrality in 2040</li> </ul>



Salient issue	Assessment of risks and opportunities	How the Responsible Fashion strategy addresses this issue
<p><b>Energy/Fuel Use / Fossil Fuel Depletion</b></p> <p><b>Description:</b> Energy/Fuel Use (or Fossil Fuel Depletion) impacts are relative to the fuel or energy source. Renewable energy generation does not produce GHG emissions, grid electricity can have different GHG emissions depending on the energy mix of the country or region. Fossil fuel sources create GHG emissions when burned – higher or lower amounts depending on the fuel source. Biofuels usually release as much GHG as they have captured during cultivation, but there is high variability in the sustainability of biofuel sources.</p>	<p><b>Sector risk factors:</b> Energy use is not one of the sector risk factors listed by OECD though the list is not claimed to be complete.</p> <p><b>Product risk factors:</b> -</p> <p><b>Business model risk factors:</b> Same as for GHG emissions.</p> <p><b>Country risk factors:</b> -</p> <p><b>Sourcing model risk factors:</b> High number of product lines &amp; margin pressure gives less attention for each supplier which increase the risk that excess energy is used and energy from fossil fuels.</p> <p><b>Risk of harm to Kappahl:</b> Same as for GHG emissions but lower severity and likelihood as it is not given the same media attention.</p> <p><b>Risk mitigation actions:</b> We are working with the Higg Index tools to follow-up on fuels and electricity.</p> <p><b>Opportunities:</b> Closer collaboration with STICA.</p>	<p><b>Energy roadmap</b></p> <p>20% decrease of own energy use 2021-2025.</p> <p>Electricity and district heating that we purchase under own agreements are from renewable sources (goal reached 2020).</p> <p>Certificates for renewable energy for all stores not included in Kappahl's energy deal.</p>

Salient issue	Assessment of risks and opportunities	How the Responsible Fashion strategy addresses this issue
<p data-bbox="98 177 533 240"><b>Wastewater/Water Pollution/Eutrophication</b></p> <p data-bbox="98 272 533 691"><b>Description:</b> Industrial and domestic wastewater, runoff from agricultural production and extractive industries can all pollute and contaminate natural systems, rivers, lakes, and groundwater. Pollutants (toxicants, oxygen depleting substances, microplastics) can end up in drinking water, can damage aquatic ecosystems, and can ultimately be passed into the sea to affect marine ecosystems.</p> <p data-bbox="98 722 533 978">The social rights connected to water emissions are found in the OECD issue 'Access to Water and Sanitation' which is also included here. Industrial agriculture and factory waste can affect the water quality for local residents due to pollutions and other contaminants linked to their practices.</p>	<p data-bbox="539 177 1709 240"><b>Sector risk factors:</b> Water pollution is one of the sector risk factors listed by OECD.</p> <p data-bbox="539 272 1709 336"><b>Product risk factors:</b> -</p> <p data-bbox="539 336 1709 400"><b>Business model risk factors:</b> -</p> <p data-bbox="539 400 1709 496"><b>Country risk factors:</b> High risk in countries where on-site boilers and generators are used to compensate for electricity short-ages.</p> <p data-bbox="539 528 1709 624"><b>Sourcing model risk factors:</b> High number of product lines &amp; margin pressure gives less attention for each supplier which increase the risk that excess water is used and wastewater released untreated.</p> <p data-bbox="539 655 1709 751"><b>Risk of harm to Kappahl:</b> Microplastics/fiber fragmentation is important to customers. Inadequate risk management may harm Kappahl's reputation and lead to a decrease in sales.</p> <p data-bbox="539 783 1709 978"><b>Risk mitigation actions:</b> We are working with the Higg Index tools to follow-up on wastewater emissions. Kappahl has a Sustainability Commitment that all suppliers are committed to follow. Kappahl will follow research and the media debate on microplastics/fiber fragmentation to learn more. Kappahl needs more knowledge about its contribution for risk management to be viewed as adequate today.</p> <p data-bbox="539 1010 1709 1072"><b>Opportunities:</b> -</p>	<p data-bbox="1715 177 2145 209"><b>Production and supplier strategy</b></p> <p data-bbox="1715 240 2145 368">Working with transparent, responsible, and sustainable partners All production processes more sustainable* by 2030</p>

Salient issue	Assessment of risks and opportunities	How the Responsible Fashion strategy addresses this issue
<p data-bbox="98 175 535 212"><b>Human Rights and Decent Work</b></p> <p data-bbox="98 244 535 467"><b>Description:</b> Due to low visibility in the supply chain tiers beyond Tier 1, the following issues that are components of Human Rights and Decent Work have been collectively considered as salient:</p> <ul data-bbox="98 499 535 1074" style="list-style-type: none"> <li>• Forced Labor or Human Trafficking</li> <li>• Child Labor</li> <li>• Wages and Benefits</li> <li>• Working Hours</li> <li>• Freedom of Association and Collective Bargaining</li> <li>• Health and Safety</li> <li>• Decent Work</li> <li>• Discrimination, Harassment and Abuse</li> <li>• Sexual Harassment and Gender-Based Violence</li> <li>• Right to Health</li> <li>• Right to Privacy</li> <li>• Right to Security of the Person</li> <li>• Minorities' and Communities' Rights</li> <li>• Responsible Sourcing from Homeworkers</li> </ul>	<p data-bbox="539 175 1709 244"><b>Sector risk factors:</b> Human rights and decent work is one of the sector risk factors listed by OECD.</p> <p data-bbox="539 276 1709 339"><b>Product risk factors:</b> -</p> <p data-bbox="539 339 1709 403"><b>Business model risk factors:</b> -</p> <p data-bbox="539 403 1709 467"><b>Country risk factors:</b> -</p> <p data-bbox="539 467 1709 531"><b>Sourcing model risk factors:</b> -</p> <p data-bbox="539 531 1709 627"><b>Risk of harm to Kappahl:</b> Human rights and decent work is important to customers. Inadequate risk management may harm Kappahl's reputation and lead to a decrease in sales.</p> <p data-bbox="539 659 1709 882"><b>Risk mitigation actions:</b> We are working with supplier consolidation. We visit all our Tier 1 factories with own staff from production offices in the main production countries before business relationship is started. Only if the factories are approved by us, orders can be placed. We are working with Supplier Evaluation after every season to follow-up on respect for human rights. The result of the evaluation leads to consequences in e.g. supplier relation and new order placements. Kappahl has a Sustainability Commitment that all suppliers are committed to follow.</p> <p data-bbox="539 914 1709 978"><b>Opportunities:</b> Good performance will be important for customers to have trust in Kappahl's sustainability work</p>	<p data-bbox="1713 175 2145 212"><b>Production and supplier strategy</b></p> <p data-bbox="1713 244 2145 339">Contributing to the promotion of human rights in communities within our supply chain</p> <p data-bbox="1713 371 2145 435">Working with transparent, responsible, and sustainable partners</p>

Salient issue	Assessment of risks and opportunities	How the Responsible Fashion strategy addresses this issue
<p><b>Animal Welfare</b></p> <p><b>Description:</b> Animal Welfare is defined as the care and protection of the health and well-being of animals.</p>	<p><b>Sector risk factors:</b> Animal welfare is not one of the garment sector risk factors listed by OECD though the list is not claimed to be complete.</p> <p><b>Product risk factors:</b> Products with animal origin materials.</p> <p><b>Business model risk factors:</b> Kappahl has a very limited number of product lines containing material of animal origin.</p> <p><b>Country risk factors:</b> For countries with low visibility the risk is high that Kappahl cannot prove that our supply chain respects our animal welfare policy.</p> <p><b>Sourcing model risk factors:</b> The limited traceability in the supply chain brings low visibility which increases the risk.</p> <p><b>Risk of harm to Kappahl:</b> Animal welfare is important to customers. Inadequate risk management may harm Kappahl's reputation and lead to a decrease in sales. Risk that new discoveries are made of mistreatment of animals.</p> <p><b>Risk mitigation actions:</b> Kappahl has an Animal Welfare Policy that all suppliers are committed to follow. For high-risk materials, Kappahl accepts only certified raw materials.</p> <p><b>Opportunities:</b> Good performance will be important for customers to have trust in Kappahl's sustainability work.</p>	<p><b>Transition to more sustainable* materials (fiber s, processes and function)</b></p> <p>All materials more sustainable* by 2025</p>

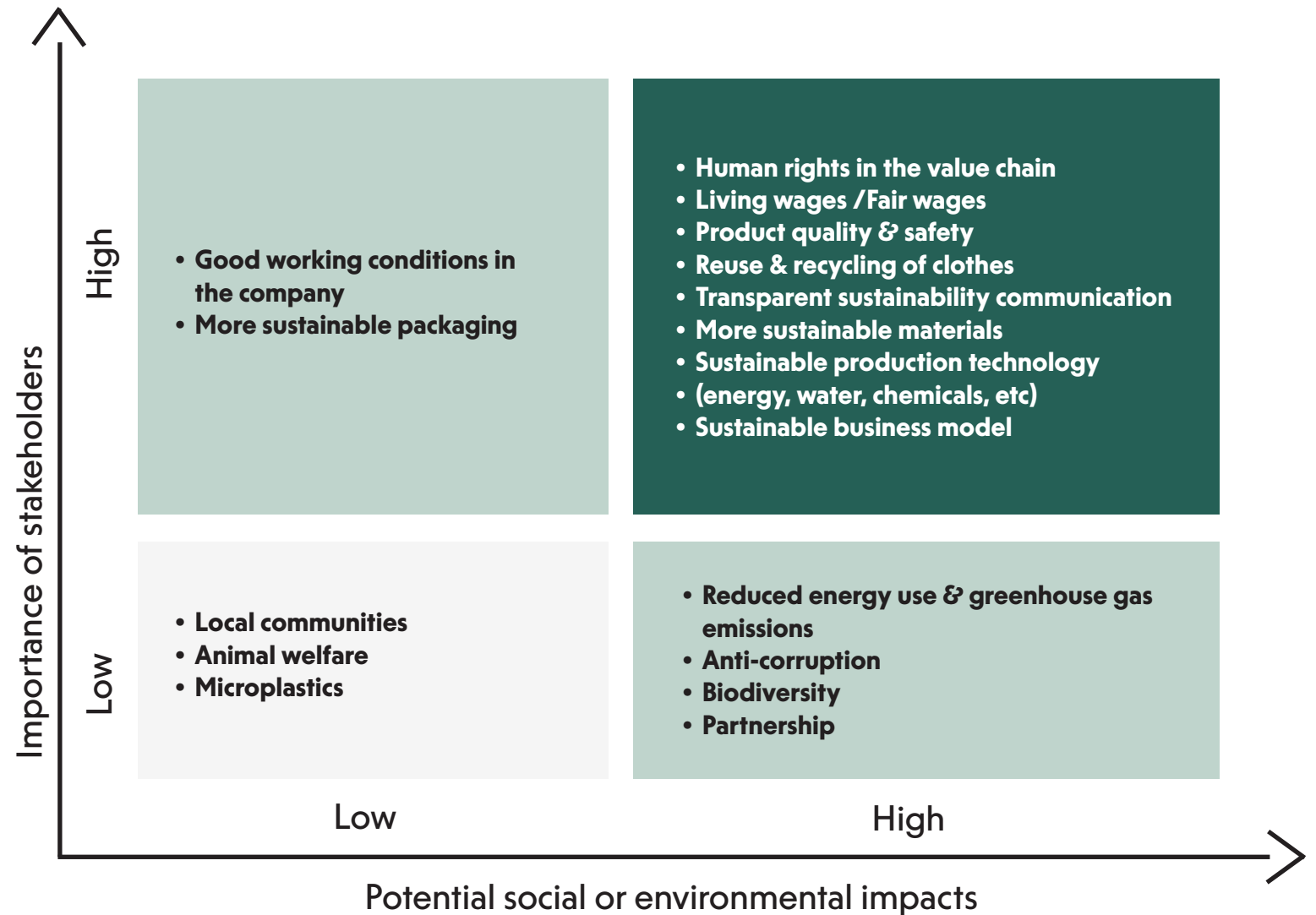
Salient issue	Assessment of risks and opportunities	How the Responsible Fashion strategy addresses this issue
<p><b>Chemical Hazards</b></p> <p><b>Description:</b> Use of toxic or other chemicals can create human health problems and damage ecosystem services.</p>	<p><b>Sector risk factors:</b> Chemical hazards are one of the sector risk factors listed by OECD. It is also a risk that many consumers associate with clothes and textiles.</p> <p><b>Product risk factors:</b> Main risk with accessories and trims. Also indirect materials such as store fitting materials have low visibility.</p> <p><b>Business model risk factors:</b> -</p> <p><b>Country risk factors:</b> High risk in countries with weak legislation and supervision of legislation in terms of hazardous chemicals.</p> <p><b>Sourcing model risk factors:</b> High number of product lines &amp; margin pressure gives less attention for each supplier which increase the risk that hazardous chemicals are used.</p> <p><b>Risk of harm to Kappahl:</b> Chemicals is important to customers. Inadequate risk management may harm Kappahl's reputation and lead to a decrease in sales. Risk that new discoveries are made of content of hazardous chemicals in Kappahl's products.</p> <p><b>Risk mitigation actions:</b> Kappahl runs the No Risk Program since 2005. We are working with the Higg Index tools to follow-up on hazardous chemicals. Kappahl has a Sustainability Commitment that all suppliers are committed to follow. We participate in the Swedish Chemicals Group at RISE to be proactive in our work with chemicals and set stricter demands than legislation in many cases.</p> <p><b>Opportunities:</b> Good performance will be important for customers to have trust in Kappahl's sustainability work.</p>	<p><b>No Risk' chemicals program</b></p> <p>Our chemicals program "No Risk" started already in 2005 with requirements on our suppliers and follow-up via supplier dialogue and laboratory testing.</p>

Issues where more information is needed	Assessment of risks and opportunities	How the Responsible Fashion strategy addresses this issue
<p><b>Biodiversity</b></p> <p><b>Description:</b> Biodiversity impacts are defined as the degradation of important habitats and species which can lead to irredeemable loss of biodiversity or damage ecosystem service functions. Land use is a physical process that can cause habitat loss while irresponsible use of water or pollution are other causes to biodiversity impacts</p>	<p><b>Sector risk factors:</b> Biodiversity/Land Use/Habitat Loss is not one of the sector risk factors listed by OECD though the list is not claimed to be complete. Biodiversity is one of the most urgent environmental issues according to UN, EU and several NGOs.</p> <p><b>Product risk factors:</b> Products with tree and/or plant origin materials: cotton and wood-based textile fiber s. Packaging material. Wood hangers and store fitting materials in wood.</p> <p><b>Business model risk factors:</b> Kappahl has a vast number of product lines containing material of tree/plant origin. The phase-out of fossil fuel in the value chain brings a risk that biobased energy sources have a negative impact on biodiversity. Exploitation of land areas for e.g. new shopping malls where Kappahl establishes itself may lead to habitat loss.</p> <p><b>Country risk factors:</b> -</p> <p><b>Sourcing model risk factors:</b> The limited traceability in the supply chain brings low visibility which increase the risk.</p> <p><b>Risk of harm to Kappahl:</b> Biodiversity is increasingly important to customers, but awareness is still low. Media attention in case it is revealed that a Kappahl product or operation contributes to e.g. habitat loss may harm Kappahl's reputation and lead to a decrease in sales.</p> <p><b>Risk mitigation actions:</b> For cotton, Kappahl accepts only certified raw materials. We are working to increase the percentage of certified wood-based materials.</p> <p><b>Opportunities:</b> Closer collaboration with Textile Exchange, Canopy.</p>	<p><b>Transition to more sustainable* materials (fiber s, processes and function)</b> All materials more sustainable* by 2025</p>
<p><b>Microplastics (part of the water pollution issue, see above)</b></p>	<p>Kappahl will follow research and the media debate on microplastics/fiber fragmentation to learn more. Kappahl needs more knowledge about its contribution for risk management to be viewed as adequate today.</p>	

## Materiality analysis

Kappahl's ambition is that the sustainability report will provide a full and honest picture of our important economic, environmental and social sustainability issues to external stakeholders. Based on our stakeholder dialogue and external monitoring we therefore review our materiality analysis every year to identify our key impacts, risks and opportunities. No new material topics were added for this year's reporting but several topics have extended the focus to include the entire value chain.

The issues raised by the stakeholders summarizes rather well the key impacts, risks and opportunities for Kappahl. The Responsible Fashion strategy and our risk assessment, together with external guidelines and standards from at first hand the United Nations' Sustainable Development Goals (SDGs), the Framework for Strategic Sustainability Development (FSSD) and the Ethical Trading Initiative (ETI), adds a focus on transparency in the entire value chain, partnership, climate impact reduction, sustainable business models and fair wages. Both the risks and the lack of transparency are greatest early in Kappahl's supply chain.



# Future Outlook

A selection of sustainability activities at Kappahl during 2021 which has been launched during 2022.



## Subscription to Kappahl clothes via Hack Your Closet

Selected sections of Kappahl's popular kay/day and Kappahl Woman brands are available to subscribers to the clothing rental service Hack Your Closet from February 2022.

The new collaborative initiative aims to extend the life of the garments and is a step towards reducing our environmental impacts via circular business models.



## Kay/day collection with spindyed fabrics

Conventional dyeing stands out as the individual step that is the most resource-intensive and polluting in the garment's life cycle.

During 2022, we will launch a kay/day collection with spindyed fabrics. Since colour is added already during fiber production, the entire dyeing step can be omitted. According to the Higg Index database, the climate emission savings are 97% compared to conventional dyeing.



## Newbie Rescued Fabric Collection

Sustainability is important for Newbie. A longterm approach with timeless garments crafted from more sustainable fabrics, made to last and be passed on. And making use of all the materials already produced. As part of this commitment, we have launched Rescued fabrics. A brand new collection designed with left-over fabrics from previous collections.



# GRI

# index

The Sustainability Report has been prepared in accordance with the GRI Standards at core level. The sustainability report covers the same companies as the Kappahl Group's financial statements.

Our GRI index presented below provides an overview of our general disclosures under the GRI Guidelines and disclosures for the topics that we have decided to disclose on the basis of our materiality analysis that you can read about on [page 46](#).

The page references below specify where information about the respective disclosure can be read. Further information on the GRI and a full description of guidelines and disclosures can be found at [www.globalreporting.org](http://www.globalreporting.org).

GRI standard	Disclosure	Page reference	Omitted information
<b>GRI 101: foundation 2016</b>			
<b>GRI 102: general disclosures 2016</b>			
	Organizational profile		
	102-1 Name of the organization	1	
	102-2 Activities, brands, products, and services	2,4	
	102-3 Location of headquarters	1	
	102-4 Location of operations	2	
	102-5 Ownership and legal form	2, 53	
	102-6 Markets served	2, 4	
	102-7 Scale of the organization	2, 4	
	102-8 Information on employees and other workers	2, 17-21	
	102-9 Supply chain	2, 11, 26-29	
	102-10 Significant changes to the organization and its supply chain	2-4, 6, 27	
	102-11 Precautionary principle or approach	22	
	102-12 External initiatives	12, 22	
	102-13 Membership of associations	3, 12-13, 15-16, 26	
	<b>Strategy</b>		
	102-14 Statement from senior decision-maker	5-6	
	102-15 Key impacts, risks and opportunities	36-46	
	<b>Ethics and inteGRItY</b>		
	102-16 Values, principles, standards, and norms of behavior	2, 6, 21-22, 26, 34	
	<b>Governance</b>		
	102-18 Governance structure	23, 53	
	<b>Stakeholder engagement</b>		
	102-40 List of stakeholder groups	37	
	102-41 Collective bargaining agreements	19	
	102-42 Identifying and selecting stakeholders	36	

<b>GRI standard</b>	<b>Disclosure</b>	<b>Page reference</b>	<b>Omitted information</b>
	102-43 Approach to stakeholder engagement	36-37	
	102-44 Key topics and concerns raised	46	
	Reporting practice		
	102-45 Entities included in the consolidated financial statements	1, 53	
	102-46 Defining report content and topic Boundaries	36, 37	
	102-47 List of material topics	46	
	102-48 Restatements of information	2, 17	
	102-49 Changes in reporting	46	
	102-50 Reporting period	1	
	102-51 Date of most recent report	1	
	102-52 Reporting cycle	1	
	102-53 Contact point for questions regarding the report	1	
	102-54 Claims of reporting in accordance with the GRI Standards	1	
	102-55 GRI content index	48	
	102-56 External assurance	1, 52	
<b>GRI 200 economic</b>			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	13, 22, 34, 46	
	103-2 The management approach and its components	22	
	103-3 Evaluation of the management approach	24-33	
	205-2 Communication and training about anti-corruption policies and procedures	34	
	205-3 Confirmed incidents of corruption and actions taken	34	
<b>GRI 300 environmental</b>			
GRI 103: management approach 2016	103-1 Explanation of the material topic and its boundary	13, 22, 24-33, 46	



GRI standard	Disclosure	Page reference	Omitted information
GRI 301: materials 2016	301-1 Materials used by weight or volume	24	
GRI 302: energy 2016	302-3 Energy intensity	31	
GRI 303: water and effluents 2018	303-1 Water withdrawal by source	25, 28	Data for topic-specific disclosures is omitted since Kappahl has no own production facilities
	303-2 Water sources significantly affected by withdrawal of water	16, 25, 28, 41	
GRI 305: Emissions 2016	305-1 Direct (Scope 1) Ghg Emissions	13, 14	
	305-2 Energy Indirect (Scope 2) Ghg Emissions	13, 14	Kappahl reports market-based emissions to align with STICA requirements
	305-3 Other Indirect (Scope 3) Ghg Emissions	13, 14	
	305-5 Reduction Of Ghg Emissions	13-14	
<b>GRI 400 Social</b>			
GRI 103: Management Approach 2016	103-1 Explanation Of The Material Topic And Its Boundary	17, 21-22, 27-29, 46	
GRI 401: Employment 2016	401-1 New Employee Hires And Employee Turnover	19	Information on total numbers of gender and age will be reported in 2022
GRI 403: Occupational Health And Safety 2018	403-1 Occupational Health And Safety Management System	17	
	403-2 Hazard Identification, Risk Assessment, And Incident Investigation	21, 30	
	403-3 Occupational Health Services	30	
	403-4 Worker Participation, Consultation, And Communication On Occupational Health And Safety	21, 30	
	403-5 Worker Training On Occupational Health And Safety	21, 30	
	403-6 Promotion Of Worker Health	21, 30	
	403-7 Prevention And Mitigation Of Occupational Health And Safety Impacts Directly Linked By Business Relationships	26-28, 35, 42	
GRI 404: Training And Education 2016	404-1 Average Hours Of Training Per Year Per Employee	19, 30	

<b>GRI standard</b>	<b>Disclosure</b>	<b>Page reference</b>	<b>Omitted information</b>
GRI 405: Diversity And Equal Opportunity 2016	405-1 Diversity Of Governance Bodies And Employees	17-18	Percentage of employees per employee category omitted. Minority groups are excepted since it is not appropriate to report this under Swedish law.
GRI 406: Non-Discrimination 2016	406-1 Incidents Of Discrimination And Corrective Actions Taken	20-21	
GRI 407: Freedom Of Association And Collective Bargaining 2016	407-1 Operations And Suppliers In Which The Right To Freedom Of Association And Collective Bargaining May Be At Risk	26, 30, 42	
GRI 408: Child Labor 2016	408-1 Operations And Suppliers At Significant Risk For Incidents Of Child Labor	26, 42	
GRI 409: forced or compulsory labor 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	26, 42	
GRI 412: human rights assessment 2016	412-1 Operations that have been subject to human rights reviews or impact assessments	27, 38	
GRI 413: local communities 2016	413-2 Operations with significant actual and potential negative impacts on local communities	26, 38-45	
GRI 414: supplier social assessment 2016	414-1 New suppliers that were screened using social criteria	27	
	414-2 Negative social impacts in the supply chain and actions taken	26-28	
GRI 416: customer health and safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	28	
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	28	
GRI 417: marketing and labeling 2016	417-3 Incidents of non-compliance concerning marketing communications	33	

# Auditor's Statement

This is a literal translation of the Swedish original

## **The auditor's statement on the statutory sustainability report**

To the General Meeting of Shareholders of Kappahl AB (publ), corporate identity number 556661-2312

## **Engagement and responsibility**

It is the board of directors who is responsible for the statutory sustainability report for the year and that it has been prepared in accordance with the Annual Accounts Act.

## **The scope of the audit**

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 the auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

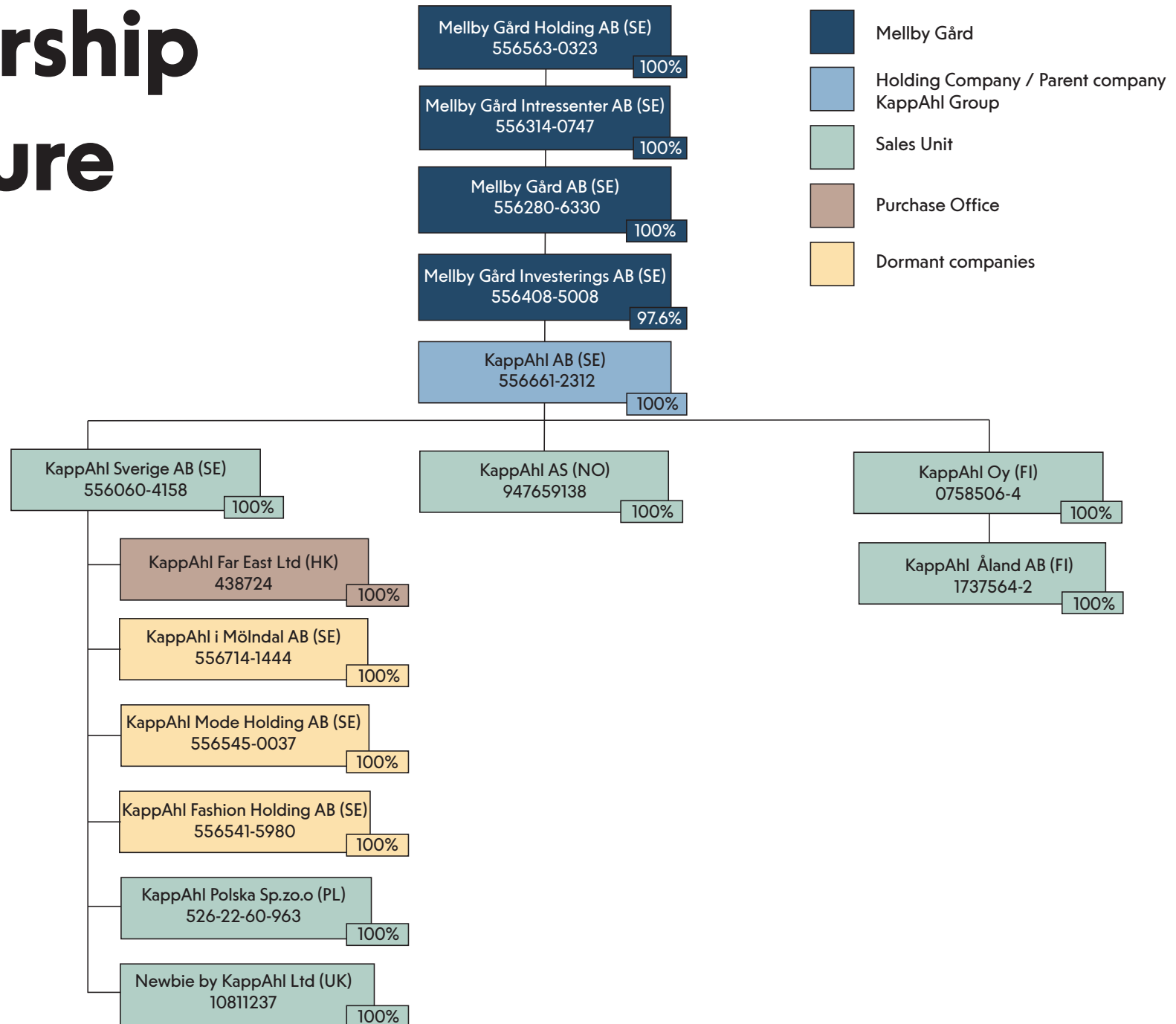
## **Opinion**

A statutory sustainability report has been prepared.

Malmö, 2022, date as indicated by my signature  
PricewaterhouseCoopers AB  
Eva Carlsvi  
Authorized Public Accountant



# Ownership Structure



# Terms & Abbreviations

<b>FSC</b>	Forest Stewardship Council
<b>GOTS</b>	Global Organic Textile Standard
<b>Higg Index</b>	A suite of sustainability performance tools developed by the Sustainable Apparel Coalition.
<b>ILO</b>	International Labour Organization
<b>ISO</b>	International Organization for Standardization
<b>ISO 14001</b>	ISO 14001 is the international standard that specifies requirements for an effective environmental management system.
<b>More Sustainable</b>	Until we can say for sure that a material or a process is in fact 100% sustainable, Kappahl uses the term "more sustainable". At our website you can find information on the materials that we currently list as more sustainable.
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>Paris Agreement</b>	The Paris Agreement is a legally binding international treaty on climate change, adopted by 196 Parties at COP 21 in Paris, 2015.
<b>Shop Online</b>	Kappahl's webshop at <a href="https://www.Kappahl.com/">https://www.Kappahl.com/</a>

## Definitions for energy and climate calculations

**Energy per square meter/open hour in stores and warehouses:** Electricity and district heating: measured or estimated consumption in offices and stores. Divided with number of open hours and area in square meter for each facility.

**Direct Greenhouse Gas Emissions (Scope 1):** Company cars and private cars used for business: calculation based on mileage in service. Emissions include carbon dioxide, nitrous oxide and methane. Emission factor for Swedish cars 1–3 years old.

**Energy Indirect Greenhouse Gas Emissions (Scope 2):** Electricity consumption: measured or estimated consumption in offices and stores. Emissions include carbon dioxide, nitrous oxide and methane.

**District heating:** Measured for head office and distribution centre. Emissions include carbon dioxide, nitrous oxide and methane.

**Other Indirect Greenhouse Gas Emissions (Scope 3):** Categories assessed as material for Kappahl:

Category 1 Purchased goods and services: Cultivation or production of raw materials and manufacture. The distribution of total raw material consumption was calculated on the basis of data on distribution of garments sold and on raw materials used per garment. Emission factors are taken from the MSI/Higg Index. Emissions for manufacture are estimated on the basis of a number of studies made. Emissions include carbon dioxide, nitrous oxide and methane.

Category 3 Fuel and energy related activities: Emissions on extracting, refining and distribution of the fuels used in company cars and private cars used for business as well as electricity and district heating production plants from which Kappahl purchases its electricity and district heating. Emissions include carbon dioxide, nitrous oxide and methane.

Category 4 Purchased transportation and distribution (upstream): Emissions include both emissions from the vehicle and on extraction, refining and distribution of used fuel for goods transportation purchased by Kappahl. RFI 2,7 is used for air transport. Emissions include carbon dioxide, nitrous oxide and methane.

Category 6 Business travel (excluding reporting in scope 1): Sources of emissions included are air travel, taxi travel, hotel nights and train travel on business. Air travel and train travel are based on data from the travel agency, while taxi travel and hotel nights are estimated. Emissions include carbon dioxide, nitrous oxide and methane.

Category 8 Leased assets (upstream, lessee): Refrigerant leakage from landlords' cooling system. The leakage is estimated on the basis of key figures for a number of large property companies and restated as carbon dioxide equivalents.

Category 9 Purchased transportation and distribution (downstream): Covers travel to and from the store for visitors to Kappahl's stores. Based on measured number of visitors and distribution of typical journeys for urban areas and small towns. Emissions include carbon dioxide, nitrous oxide and methane.

Category 11 Use of sold products: Covers washing, drying and ironing. The temperature at which the garment should be washed is taken into account. Emissions for energy use for these activities take into account the country to which the garment is sold. Emissions include carbon dioxide, nitrous oxide and methane.



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**Kappahl**