

OUR APPROACH TO MANAGING OPERATIONS CONTINUED

Managing manufacturing environmental impacts

Supply chain manufacturing accounts for more than 80% of our overall environmental impacts. Our product Life Cycle Assessment (LCA) research shows us that most of the environmental impacts related to footwear are associated with manufacturing processes. For apparel, the impacts are associated with manufacturing processes, and washing while the products are in use.

We're committed to use our influence within our supply chain to help reduce these impacts. We seek to source from suppliers that share our commitment to operating in an environmentally responsible manner.

To achieve our new CO₂ emissions targets (see page 17), we will actively work with our suppliers to reduce energy use in Tier 1 supplier factories by 30% per product manufactured, and help them to switch to renewable energy where possible.

Higg FEM analysis

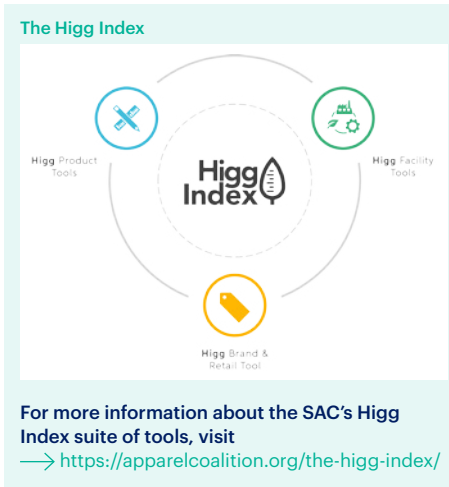
Our strategic Tier 1 factories and certain Tier 2 suppliers account for around 80% of our supply chain environmental impact. In 2018, we asked these factories to supply us with environmental performance data using the Sustainable Apparel Coalition's Higg Facility Environmental Module 3.0 (SAC's Higg FEM). The FEM module also helps us understand how suppliers are managing their environmental performance, as well as their overall sustainability strategy.

This information will allow us to:

- › track our indirect environmental impact,
- › focus on working with factories that have a lower environmental impact,
- › communicate the environmental impact of our products in more detail to our consumers.

We believe that the SAC's Higg FEM is the most efficient industry tool for this purpose. This is partly because suppliers only have to fill out the module once per year and share it with all the brands they work with, instead of answering separate questionnaires for each brand.

At the end of 2018, SAC launched the Facility Social and Labor Module (FSLM), a similar tool to track and measure the social performance of factories. We will use the FSLM to monitor social performance in our supply chain from 2019 onwards.



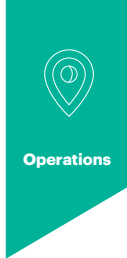
Reducing the environmental impact of Tier 1 suppliers

We work closely with our Tier 1 suppliers to help them reduce their impacts by improving our product designs. We also encourage our suppliers to implement best practice environmental management systems. In 2018, CO₂ emissions per pair of shoes manufactured in our footwear Tier 1 suppliers decreased 15.9%, compared to the 2015 baseline. In addition, water use and waste per pair of shoes decreased by 17.6% and waste emissions doubled respectively.

During the year we also created a new set of environmental guidelines to help our suppliers reduce their impacts. The new guidelines will be ready to share in 2019. In addition, we updated our auditing process and rating criteria to reflect our new science-based targets and insights from the Higg FEM analysis.

YEAR	UNIT	2015	2016	2017	2018
CO ₂ emissions	kg/pair	2.45	2.17	2.27	2.06
Water	m ³ /pair	0.034	0.030	0.030	0.028
Waste	kg/pair	0.02	0.03	0.03	0.04
Recycled or recovered waste	tonnes	12,606	9,324	3,658	4,125

The data in this table is based on 14 factories in China, Vietnam, Indonesia and Cambodia, which together produce over 95% of all our footwear. The 2017 data is restated due to updated data and improved estimates.



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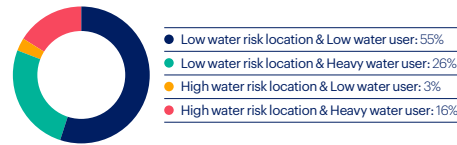
Water risk mapping in the supply chain

Our industry uses a significant amount of fresh water globally in its material sourcing and manufacturing activities. Many of the factories we work with are located in regions affected by water scarcity, with limited water infrastructure and regulations on water use and pollution. It's therefore important that we understand the water risks in these areas, as well as opportunities to improve water sustainability.

In 2017 we performed a water risk assessment focused on footwear and apparel Tier 1 and 2 suppliers. In 2018, we updated this assessment based on more recent information gathered from the Higg FEM modules.

The analysis found that many of our suppliers have good water management practices, and most are limited water users. For the few identified as heavy water users, we found that most have an effective water management system in place, including targets and strategies for improvement. Some facilities did not provide detail about water use in their FEM module, and we will focus more attention on their water management in our audits of these suppliers in future.

Water risk at our supplier*



*The analysis is based on the facilities that responded to our request to share their FEM module with us.

Based on the information provided in the FEM modules, we also added several topics related to water management to our factory rating criteria, which will be included in the next scheduled update of our rating system. This will enable us to include water use performance in the total score for the suppliers we work with, and reward those who are performing strongly in terms of water management.

Environmental compliance in our supply chain in China

By collaborating openly with partners, we gain valuable insights and feedback that helps bring compliance issues to light and help improve compliance across our supply chain.

In 2016, we began to comprehensively screen our suppliers in China using the Blue Map Database, a platform developed by the Institute of Public & Environmental Affairs (IPE). This investigation showed that speed of reaction, clear internal communication and risk prevention processes are key to improving compliance in our supply chain.

In 2018 we were ranked 13th out of 49 companies in the leather industry and 26th out of 81 companies in the textile industry in the Corporate Information Transparency Index (CITI) system. Jointly developed by IPE and the Natural Resources Defense Council (NRDC), the index evaluates brands' supply chain environmental performance based on information that is made public, such as government compliance data, online monitoring data and third-party environmental audits. This index is frequently updated when brands share more information publicly, and the ranking can therefore change regularly.

For more about supply chain compliance

→ see page 35

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