

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

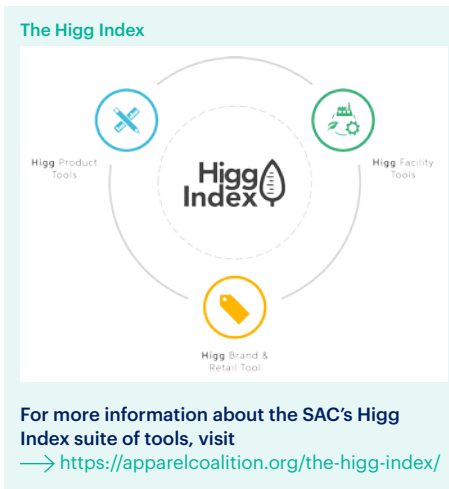
Our strategic Tier 1 factories and certain Tier 2 suppliers account for around 80% of our supply chain environmental impact. In 2018, we asked these factories to supply us with environmental performance data using the Sustainable Apparel Coalition's Higg Facility Environmental Module 3.0 (SAC's Higg 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.