

etisk handel norge

Report on

# Responsible Business Conduct 2019

for Varner AS

VARNER




# To Readers Of The Report

Business is key for the achievement of the Sustainable Development Goals (SDGs). A well-functioning and responsible business community contributes to sustainable development through job creation and innovative solutions to global challenges. However, business operations can also have a negative impact on people, the planet and the society. Members of Ethical Trade Norway have committed themselves to work with due diligence for a more sustainable business practice.

The basis of this work is Ethical Trade Norway's Declaration of Principles, which covers the decent work agenda, human rights, environment/climate, anti-corruption and animal welfare. Members are obliged to report annually on challenges they face and on measures carried out to address these. The reporting template is this year for the first time based on the OECD due diligence model. It is new for us and new for our members. It is this report you are currently holding in your hands. The report is publicly available on our website.

The template seeks to respond to the expectations concerning due diligence for responsible business conduct as described in the UN Guiding Principles on Business and Human Rights and OECD Guidelines for Multinational Enterprises. Ethical Trade Norway's report covers essential elements of the Global Report Initiative (GRI) reporting framework and can be used as a progress report for the Global Compact.

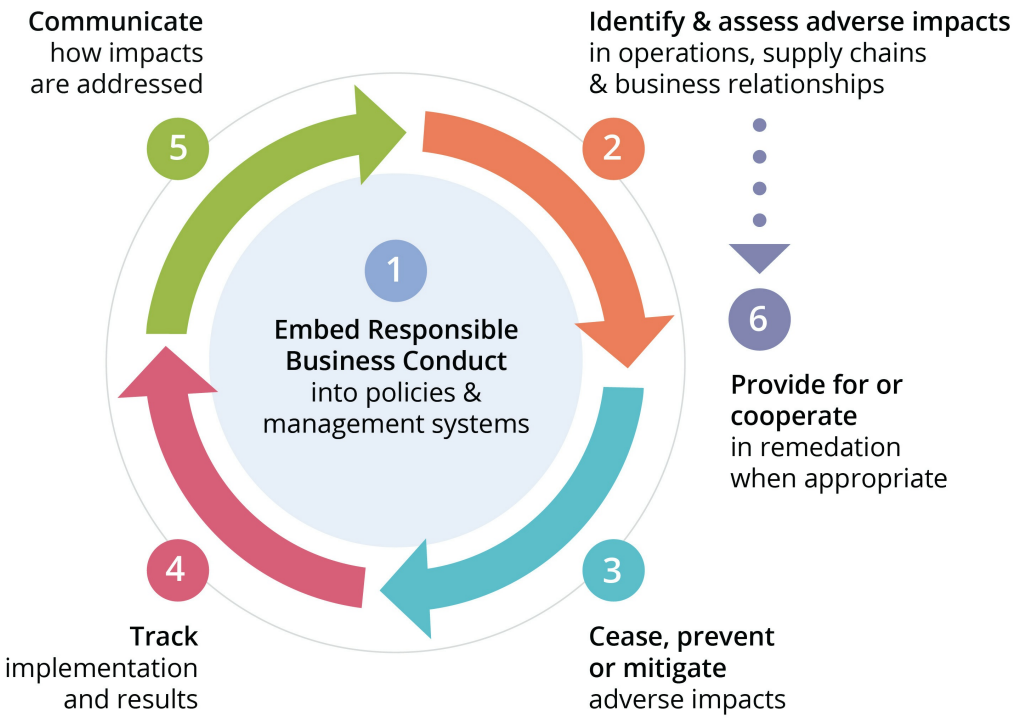


**Heidi Furustøl**
*Executive Director*
Ethical Trade Norway

# Due diligence

This report is based on the UN Guiding Principles on Business and Human Rights and the OECD model for Due Diligence for Responsible Business Conduct.

The model has six steps that describe how companies can work for more responsible and sustainable business practice. However, being good at due diligence does not mean no negative impact on people, planet and the society. It means that the company is open and honest about challenges faced and shows how this is managed in the best possible way in collaboration with its stakeholders. This report is divided in chapters following the OECD model.



# Preface From CEO

During 2019, we launched our new company ambition that will define all our activities in the future. We have put sustainability at the core of our company ambition. Driving sustainable change in our company is not a task set aside to one or more key employees. It is rooted in every one of us and we work towards shared goals. I am still confident that the leading retailers of tomorrow will be those that can integrate sustainability at the core of their business strategy.

We must continue to meet all people in our value chain with respect and dignity. We work towards fair and responsible treatment of all who are involved in our operations and linked with our value chains. We continue to assess and monitor our value chains against our social and environmental standards. During 2019, we carried out more than 591 in-depth assessments in our value chain, and established plans with our partners on how to address the identified gaps and issues. We continue to keep focus on capacity building and awareness training and developed our factory training programs even further in the previous year. During 2019, over 7000 factory workers received training through one of our training programs. Internal buying teams have this year received responsible purchasing training to guide them in their daily business to minimize negative effects of our business in our supply chain.

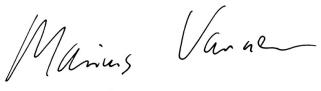
We work towards circularity and we are climate conscious. Our focus is to ensure that the way we design products, the way we select and support our manufacturing partners, and the way we distribute and reclaim our goods all work together to become a circular and sustainable economy. We have set out an ambitious sustainable fiber strategy and we are close to accomplish our pledge to source 100% sustainable cotton within 2025. 74% of all cotton in our products was in 2019 more sustainable cotton. Creating products with minimum environmental impact will continue to be on the agenda. We always seek certifications and initiatives that reduce the negative impact of each product.

Our approach to sustainability has changed considerably in light of the rapidly evolving shopping habits of our customers, and we want to engage the consumers in the work we do. We listen to what our customers request from us. Customers challenge us on traceability, animal welfare and micro-plastic pollution, as well as other topics. Because we put our customers in the focus of everything we do, we will do our best to meet their expectations. We launched an updated and improved Animal Welfare Policy with strict principles to animal fibers that we purchase.

Transparency has been a priority this year. We have always focused on the need to know where our products are produced and under which conditions. These days we experience increasing interest from customers and other stakeholders about the source of our products. We highly value transparency and have taken measures to make more information about our value chains and our way of working with sustainability publicly available.

This report is an opportunity for us to be honest and open about our accomplishments but also about our challenges. We have examined our own internal processes, assumptions, habits, and activities and paved out action plans with measurable goals. The transformation ahead is not one we can meet alone. We continue to build on cooperation and industry collaborations as we find this to be the key to sustainable development.

**" We have put sustainability at the core of our company ambition. "**



Marius Varner
*CEO*

# Company information and business context

## Key company information

**Company name**

Varner AS

**Head office address**

Nesøyveien 4, 1396 Billingstad, Norway

**Main brands, products and services offered by the company**

Bik Bok, Carlings, Cubus, Dressmann, Dressmann XL, Urban, Volt, Wow

**Description of company structure**

Varner is the parent company for all concepts/brands mentioned above. The work with ethical trade and sustainability, including strategies, decisions and policies is on one platform at group (Varner) level. This work is being implemented across all concepts and brands. Additional and complimentary projects or focus areas may be initiated at concept/brand level. Responsibility for implementation is at department level. Departments and business functions work across all concepts/brands in order to implement ethical trade and sustainability effectively .

Unless explicitly mentioned, the policies, procedures and strategies and goals mentioned in this report will be applicable for Varner and all affiliated concepts/brands.

**Turnover in reporting year (NOK)**

10 200 000 000

**Number of employees**

11 000

**Major changes to the company since last reporting period (mergers, acquisitions etc.)**

The concept Days Like This has been discontinued, and online retailer Junkyard AB was bought into the company in 2019. Varner has discontinued sales operations in Poland.

**Contact person for the report (name and title)**

Vegard Krohn Neverlien

**Email for contact person for the report**

vegard.neverlien@varner.com

## Supply chain information

**General description of the supply chain and the company's sourcing model**

We operate with three supplier categories and subsequently supply chains and sourcing models.

1) Suppliers of private label products (apparel, footwear, accessories) that are developed and branded by Varner and affiliated concepts. Mentioned below as "direct contracting/purchases".
2) Suppliers of external brand products (apparel, footwear, accessories, cosmetics) that are developed and branded by other companies. Mentioned below as "purchases through agents/intermediary/importers/brands".
3) Indirect spend suppliers (such as interiors for stores, office supplies, service providers in sales markets).

**Number of suppliers with which the company had commercial relations in the reporting year**

160

**Comments to number of suppliers**

The above figure (160) is suppliers of private label products. Each supplier may use more than one factory/producer for Varner production. The number of external brand suppliers is 90 and number of indirect spend suppliers is 84.

**Approximate ratio by sourcing options**

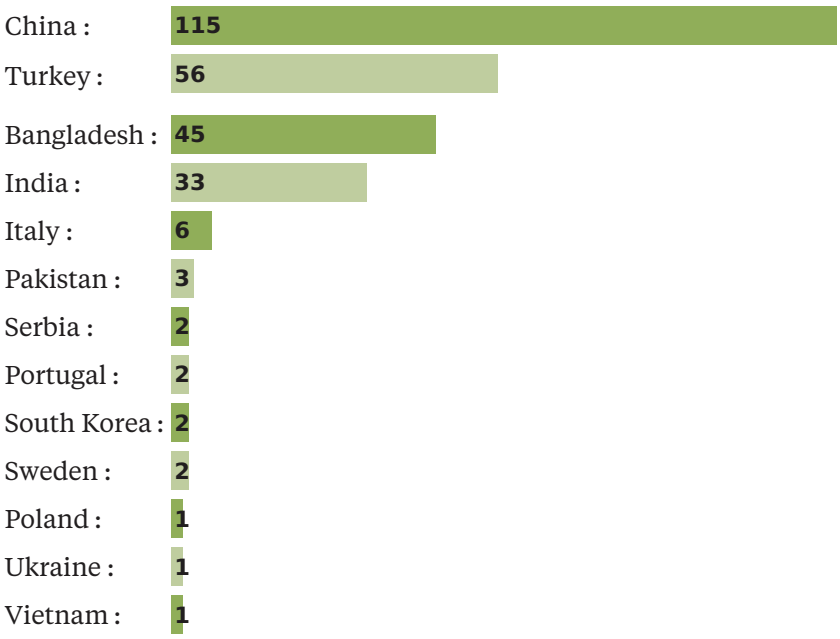



| Own or joint venture production | Direct contracting/purchase | Purchases through agents/intermediary/ | Other |
|---|---|---|---|

External brands suppliers (accounting for 30% of purchases of retail items) are only included in parts of this report. The approach to this supply chain is slightly different than for our our private label supply chain (direct contracting).

Indirect spend purchases are not included in the above figures. We have 84 steady indirect spend suppliers accounting for 80% of the indirect spend purchases (excluding indirect spend suppliers with one-off purchases). Indirect spend suppliers will not be mentioned in the report.

**List of first tier suppliers (producers) by country**




The above accounts for all 1st tier factories. Names and locations of 1st and 2nd tier factories approved and used by Varner are publicly available here:
- https://varner.com/en/sustainability/people
- https://openapparel.org/?contributors=28

**State the number of workers at first tier suppliers (producers) that the company has an overview of and the number of suppliers this overview is based on**

**Number of workers**

252 056

**Number of suppliers**

269

**Comments to number of workers**

The above accounts for 100% of first tier producers/factories approved and used by Varner.

**Key inputs/raw materials and associated geographies**

| | |
|---|---|
| **Cotton (56%)** | Australia<br>Bangladesh<br>Burkina Faso<br>Brazil<br>Ivory Coast<br>Cameroon<br>China<br>India<br>Pakistan<br>Tajikistan<br>Turkey<br>USA |
| **Synthetic fibers (polyester, elastan, polyamide, acryl) (30%)** | China<br>Slovenia<br>Taiwan |
| **Cellulosic fiber/pulp (8%)** | Austria<br>China<br>Rzech Republic<br>India |
| **Wool (4%)** | Australia<br>China<br>Mongolia<br>New Zealand<br>South Africa |
| **Leather (>1%)** | Austria<br>Germany<br>Spain<br>India<br>Portugal<br>Turkey |
| **Linen (>1%)** | China<br>India |
| **Down (>1%)** | China |
| **Metal (>1%)** | China |
| **Wood (>1%)** | China |

The above accounts for fiber materials in products. Packaging materials and most trim materials are excluded. Not all raw materials are fully traceable to origin at current. We are in the process of increasing traceability where it has not yet been established.

Comments:

- Cotton: 74% of all cotton is preferred/more sustainable cotton.
- Synthetic: 12% of all synthetics is recycled (11% recycled polyester, 1% recycled polyamide/Econyl).
- Cellulosic: 21% of all cellulose is considered preferred/more sustainable cellulose (Lenzing Fibers including EcoVero, LivaEco, Lyocell).
- Wool: 15% of all wool is certified to Responsible Wool Standard (RWS).
- Down: All down (100%) is certified to the Responsible Down Standard (RDS).

**Is the company a supplier to the public sector?**

No

## Goals and progress

**Goals and progress for the reporting year**

1

**Goal :** Fairtrade certified cotton:
Increase the amount of Fairtrade certified cotton.

**Status :** Increased the percentage of all cotton certified to the Fairtrade standard from 2,5% in 2018 to 8% in 2019.

2

**Goal :** Better Cotton Initiative target:
35% of total cotton volume on Varner level

**Status :** Increased the percentage of all cotton certified to the Better Cotton Initiative from 27% in 2018 to 32% in 2019.

3

**Goal :** Improving our environmental footprint:
Certifying two suppliers to Nordic Ecolabel Swan.

**Status :** Two suppliers have been certified with the Nordic Ecolabel Swan in 2019. 7 suppliers have been certified to standard. 2% of total Varner production is certified to the Nordic Ecolabel Swan.

4

**Goal :** Responsible Wool Standard:
During 2019 Varner will produce its first Responsible Wool products.

**Status :** 15% of all wool has been certified to the Responsible Wool Standard (RWS).

5

**Goal :** Improving our environmental footprint:
Sweden Textile Water Initiative: Two suppliers in Bangladesh participating in STWI programme

**Status :** Two suppliers in Bangladesh have started the project. The project cycle will run through 2020.

6

**Goal :** External brands:
Arrange one meeting with selected external brands on sustainability topics. Selection is based on CSR mapping of the brands.

**Status :** During the reporting year, we decreased the number of suppliers. We continued developing the portfolio and focused on following up specific brands instead of arranging a joint supplier meeting.

7

**Goal :** Communication:
Increased transparency about production of goods available to customers.

**Status :** We have added 2nd tier factories to our public factory list (in addition to 1st tier). In addition we started a cooperation with the Open Apparel Registry (OAR) to increase transparency in our supply chain.

We have initiated a project that will allow full transparency through the supply chain for certain products.

8

**Goal :** Communication:
Make policies related to ethical trade public.

**Status :** In 2019, we established the Varner Homeworker Policy.

9

**Goal :** Internal communication:
Increasing knowledge and awareness throughout the company about sustainability.

**Status :** In 2019 we provided awareness training to 165 employees at Varner headquarter.

10

**Goal :** Sustainable Cotton Pledge:
We commit to sourcing 100 % sustainable cotton within 2025.

**Status :**

By 2019 74% of all cotton sourced is from sustainable sources (as defined by by Sustainable Cotton Pledge). This is up from 38% in 2018. This is distributed across the following schemes:
- 33% organic cotton (OCS, GOTS)
- 32% BCI cotton (Better Cotton Initiative)
- 8% Fairtrade Cotton
- >1% recycled cotton

The remaining is conventional cotton.

11

**Goal :**

Credible due diligence:
Continue to increase the scope of the Varner due diligence program in tier 2 and 3 in the supply chain.

**Status :**

The scope of the ethical trade due diligence in the Varner supply chain has been expanded to include 65% of 2nd factories and a growing number of 3rd tier factories. This is in addition to all 1st tier factories. The protocol for assessments has also been updated to increase efficiently in revealing in gaps between Varner requirements on-the-ground practice. See section 2.A.2 for more information.

12

**Goal :**

Enable Social Dialogue:
Extend the social dialogue concept to new suppliers.

**Status :**

We have continued to engage suppliers and their workers and worker representatives in social dialogue. Varner has contributed to Social Dialogue projects at four new factories in 2019 (while still maintaining focus on factories where the concept has been established and implemented in previous years). Joint Ethical Trading Initiatives (JETI) is our main implementing partner for the social dialogue programme.

**Goal for coming years**

1

Sustainable Cotton Pledge:
We commit to sourcing 100 % sustainable cotton by 2025. Includes targets related to Fairtrade cotton, BCI cotton, and organic cotton.

2

Preferred cellulosic fibers:
We aim to increase to 50% preferred cellulosic fibers in 2022.

3

Responsible Wool:
100% of all wool is certified to Responsible Wool Standard (RWS) in 2025.

4

Traceability:
We aim to publicly communicate 100 % of tier 1 and tier 2 factories producing for Varner.

5

Supplier portfolio:
CSR mapping and follow up of 100% category 3 suppliers (Indirect Spend) within 2020.

6

Enable worker awareness, engagement and participation at suppliers:
We aim to ensure that all workers are aware of their rights at the workplace, are able to get engaged at their workplace, and are fairly represented. Systems for worker awareness, engagement and participation should be in place for all key suppliers by 2025. This includes implementation of proper training systems for rights and responsibilities, implementation of systems for worker representation and complaints channels, and workplace dialogue and systems for worker engagement.

7

Credible due diligence:
Continue to increase the scope of the Varner due diligence program in tier 2 and 3 in the supply chain.

8

Transparency:
Continue to support transparency by documenting and communicating our efforts regarding responsible business conduct by establishing policies and procedures that is made publicly available.



1

# Governance and commitment to responsible business conduct

Commitment to sustainability means that the business should have relevant policies and codes of conducts in place, as well as effective management systems for implementing them. Central to this is the company's work with due diligence. This means, among other things, the business need strategies and action plans for how the company identifies and manages its risk of negative impact on people, society and the environment, including through business relationships and in the supply chain. Systematic management of such risks will strengthen the company’s contribution to the Sustainable Development Goals. Strong commitment from top-management, and clear division of the responsibility for conducting due diligence is key. Those involved need to know how to proceed. Sustainability should be an integral part of business operations. Essential to this is transparency on the company’s commitments, challenges faced and measures undertaken to manage those challenges.

## 1.A Policy commitment

**1.A.1 What does the company say publicly about its commitment to respect people, society and the environment?**

Varner is committed to transparency and honesty. We communicate publicly about our commitments to respect people, society and the environment, primarily through our policies on our website varner.com.

Our internal Code of Ethics described the commitments we have made including a commitment to perform due diligence assessments in our supply chain, a commitment to responsible purchasing and a commitment to a worker engagement approach in the supply chain where workers are heard and where their concerns are addressed.

Our Supplier Code of Conduct describes what we expect from suppliers and factories. In addition, we have several policies on specific salient issues or focus areas. This includes a Responsible Sourcing Policy, Migrant Labour Policy, A Child Labour Policy, Animal Welfare Policy, Homeworker Policy and a Sustainable Fiber Policy.

Additionally, we share knowledge and experiences in industry forums or supply chain forums on specific topics related to people and environment whenever relevant.

Please find all our policies here: https://varner.com/en/sustainability/policies_and_statements/

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**1.A.2 How is the commitment/policy developed and how is it anchored in the company?**

Our policies regarding sustainability are developed internally by the relevant specialist function in cooperation with relevant stakeholder groups We follow recognized international standards such as the ILO conventions and the UN Guiding Principles on Business and Human Rights. All policies are revised regularly and we consult external expert organizations in the development of our policies in order to align with international standards and expectations from relevant stakeholders.

The Varner Supplier Code of Conduct and all relating human rights policies and sustainability policies are fully embedded in the organization and approved by the top management. This is important for the integrity and accountability of the company.

Our ongoing due diligence process in the supply chain gives us valuable input into the policies we develop. The policies are based on our perception of the zero-tolerance risks we face in our supply chain. The organization use these policies as guiding management documents to set a common standard on what business partners can expect from us and what we expect from business partners.

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## 1.B Organisation and internal communication

**1.B.1 How is the work with responsible business conduct organised within the company and why in this particular way?**

The owners of Varner, which include the CEO and Chairman of the Board, are committed to Varner's work with ethical trade and sustainability. Sustainability is at the core of the company ambition statement, and is relevant for all business decisions. All department directors hold the main responsibility related to sustainability. All employees incorporate sustainability in their day to day work tasks and particular responsibility has been delegated to assigned persons within all departments to ensure progress on sustainable fiber implementation among other concrete areas.

We perform quarterly reporting on department goals, KPI's and progress on fibers, materials, supply chain assessments, green house gas emissions, energy use, water usage, chemical usage and more.

A specialist function (the CSR-department) was formed to address risk in Varner value chains in 2003. We early on identified the risk of human rights violations and environmental issues to be highest in the raw materials- and production stage of our value chain. As a consequence, we opened up production offices with dedicated CSR-teams and Quality Assurance teams in all core sourcing markets (Turkey, India, Bangladesh, China) that follow-up on responsible business conduct/CSR and sustainability. Ownership of certification schemes, animal welfare and sustainable fibers and material has been placed to the Quality Assurance Department.

Positions with responsibility for human rights and environmental issues in the business:
Chairman of the Board, Petter Varner.
CEO of Varner AS, Marius Varner.
Buying Director, Magnus Gjerde.
Design Director, Hege Meilstrup
Global Production Manager, Chessa Nilsen.
Global Corporate Social Responsibility Manager, Vegard Krohn Neverlien.
Global Environmental Manager, Dipankar Bose.
Quality Assurance Manager, Christiane Fagertun.

**1.B.2 How are employees made aware of the ways in which responsible business conduct should inform their decisions and actions?**

Responsibility is one of our core corporate values. Since we have put sustainability at the core of our company ambition, the responsibility to include sustainability in decision making and actions is not set aside to one or more key employees. It is applicable to all Varner employees, and we work towards shared goals. Top management put emphasis on the need for all employees to incorporate sustainability in core business decisions. For example buyers supporting our responsible sourcing strategy in all business with suppliers and designers always taking sustainable principles into account when designing new products and concepts.

We have implemented sustainability reporting internally where all employees with a responsibility in one or more of our sustainability goals report to the organization on progress. To make this work, established Sustainability Forums aim at informing all relevant functions in the organization on what sustainability initiatives are in focus, what goals are set and how the work will proceed.

**1.B.3 How does the company make sure employees have adequate competencies to work towards implementing responsible business conduct?**

Awareness in the organization is important if we want to achieve our shared goals. Training of employees on responsible business conduct is performed regularly and when appropriate.

A sustainability on-boarding session is mandatory for all new employees (irrespective of work task or level in the company). Employees responsible for implementing due diligence in the supply chain have been trained in their area of expertise and are kept updated on industry standards continuously.

Additionally, in depth training on Varners commitments and responsibility as a responsible business, and how to effectively work towards more sustainable solutions is required for employees in specific functions (such as designers and buyers). We are working to further develop our systems to implement relevant training specified for relevant functions during 2020. Store employees are trained through internal online based training and communication channels. Training on our sustainability efforts is offered and updated on a running basis.

## 1.C. Plans and resources

**1.C.1 How is the company's commitment to respect people, society and the environment rooted in strategies and action plans?**

Our sustainability strategy and action plan sets out specific targets and timelines related to sustainable business conduct. We report on the goals set in the strategy yearly. Department directors are responsible for targets and progress on the goals and making sure that implementation is on track with part time goals assigned to their business operations.

Because the main focus is on supply chain activities, we have annual regional CSR activity plans where audits, specific projects and supply chain risks are targeted. We also have management procedures for specific salient issues in the supply chain in collaboration with NGOs and expert organizations which enables us to work proactively with risks and handle them in an efficient manner if or when they occur.

We perform annual supplier evaluations where factory standards and social working conditions are equally weighted alongside other business criteria. Suppliers and factories with good performance on social and environmental aspects are highlighted for internal business teams. Suppliers that does not meet our requirements after several improvement plans are subject to termination of cooperation which indicates a clear incentive and advantage for suppliers that perform well on our CoC elements.

We have a developed a policy for responsible phasing out of suppliers and responsible sourcing. This policy is available at https://varner.com/en/sustainability/policies_and_statements/.

**1.C.2 How is the company's strategies and action plans to work towards being responsible and sustainable followed up in top management and in the board?**

The top management in Varner is committed to sustainable development and closely follow the transformation our industry is facing and the shift that is required. We pay close attention to what is happening around us and we are committed to be apart of the change the industry is facing by cooperating with the industry and expert organizations.

Mutual concern for people, planet and profit are taken into account when planning for the future and developing brand strategies for all brands. Sustainability is one of the key items in the brand identities we develop. We are planning our work with a long-term perspective. We pay close attention to what is happening around us and we are committed to be apart of the change the industry is facing by cooperating with the industry and expert organizations.

Topics of particular importance in the reporting year have been more sustainable fiber and material use, sustainable certifications, ethically sound production, GhG emissions, waste management, water use, microfibers, and animal welfare.

## 1.D Partnerships and collaboration with business associates, such as suppliers

**1.D.1 How does the company make clear in its business relationships (in particular in the supply chain) the importance it places on responsible business conduct?**

For direct contracting suppliers, we communicate our expectations clearly and continuously throughout the cooperation. We have a clear CSR mandate in vanrer saying that no supplier can produce for us unless the factories have been approved by the CSR department on our social and environmental requirements.

The Varner Supplier Code of Conduct is an integrated part of the Varner Sustainability Manual. The manual contains requirements for Origin and Processing of Raw Materials (including animal welfare), Product Requirements (including Restricted Substances List) and Requirements for Responsible Manufacturing (including CoC, chemical handling and environmental requirements and guidance). The Sustainability Manual is distributed to all suppliers when initiating a business relationship. Before any orders are placed, all suppliers must sign a contract where they agree to follow and implement our requirements, including those in CoC, at all levels in the supply chain. The Varner Responsible Manufacturing Standards are publicly available at varner.com.

All new suppliers are required to meet with our local sustainability teams to go through the Varner requirements and expectations described in the manual before any orders are placed. Sustainability on-boarding training program for suppliers is mandatory for all new suppliers. Refresher training on responsible business conduct is done on a regular basis, with input from external organizations (this year ILO, United Work and Mudem took part in these meetings) and experience exchange between suppliers in the supply chain.

Requirements are emphasized at factory visits and activities in our due diligence process in the supply chain. Suppliers are informed of the non-compliance we identify during mapping and inspections at factories and are given timelines for when we expect the issues to be resolved. Follow-up activities are held regularly when needed. Additionally, we organize and facilitate training and awareness sessions on specific issues (salient issues), addressing how to meet the requirements and sharing best practices. The sessions are executed by our internal CSR staff or external organizations.

For external brands fashion suppliers and indirect spend suppliers (category 2 and 3 suppliers), we screen and map each supplier against our criteria before we sign any trade contract. If a supplier does not live up to our standards, we do not open up business with the supplier. We clearly communicate our expectations and requirements with the suppliers before entering a cooperation. If the supplier is transparent and shares our understanding of the importance on sustainable business conduct, we can initiate a cooperation based on dialogue and transparency.

We focus on transparency and honesty in dialogue with all suppliers and believe this is key to enable improvements. We will support suppliers in doing required improvements to cope with our requirements. Suppliers that are not willing to engage in improvements will get alerted that improvement measures are necessary for a continued cooperation. Lack of cooperation with respect to implementation of responsible business practices will affect orders and volumes. Continuous lack of cooperation on improvements will result in termination of the business cooperation with a supplier.

## Indicator

**Percentage of suppliers that have accepted guidelines for suppliers**




2019 2018 2017

## 1.E Lessons learned and changes

**1.E.1 What lessons has the company learned during the reporting period concerning sustainability, and what has changed as a result?**

A key lesson is that openness will be one of the key drivers in the years to come. We continue to work for traceability and transparency and during the reporting year we have updated our public factory list that now includes more information. We also started cooperating with Open Apparel Registry which is a map of facilities globally contributed by many apparel and fashion companies. Additionally, we have focused on documenting and communicating our requirements, policies and procedures in the reporting year.

We have had a focus on working more strategic with our supply chain and during the reporting year we have updated our global assessment format. We have worked to standardize our work routines across regions during the reporting year and to incorporate our work into our Product Life-Cycle Management System.

The sustainability strategy has also been a big focus for us this year. The work to involve all departments that earlier was not a part of the sustainability work will be important if we want to reach our goals and will continue to be important moving forward.



2 Defining the focus for reporting

# Identify and assess the company's impact on people, society and environment

“Identify and assess” is about identifying the company's risk for, and actual negative impact on, people, society and the environment, including in the supply chain and through business relations. As a first step the company should get an overall risk picture, before subsequently prioritising measures where the risk of negative impact is the greatest, i.e. salient issues. How the company is involved in the negative impact is central to determine the right actions to take. Involvement of stakeholders, especially those affected, is central when assessing risks. It is also important to consult with stakeholders when implementing measures to manage the negative impact.

## 2.A Mapping and prioritising

### STATEMENT ON SALIENT ISSUES

*Prioritising one or more risk areas on the basis of severity does not mean that some risks are more important than others, or that the company should not take action on other risks, but that risks with the greatest negative impact are prioritised first. Mapping and prioritisation are a continuous process.*

**2.A.1 In the table below state the salient issues associated with the company's activities and business relationships, particularly in the supply chain and during the reporting period**

| Salient issue | Related topic | Geography |
|---|---|---|
| Worker representation and freedom of organization | Freedom of association and collective bargaining | Bangladesh<br>China<br>India<br>Pakistan<br>Turkey |
| Occupational health and safety in the supply chain | Occupational Health and safety | Bangladesh<br>China<br>India<br>Pakistan<br>Turkey<br>South Europe<br>Eastern Europe |
| Building and fire safety in the supply chain | Occupational Health and safety | Bangladesh<br>China<br>India<br>Turkey |
| Decent work for migrant workers | Forced labour<br>Discrimination<br>Regular employment | India<br>Turkey |
| Excessive working hours in the supply chain | Working hours<br>Regular employment | Bangladesh<br>China<br>India |
| Modern slavery in the supply chain | Forced labour<br>Harsh and inhumane treatment | China<br>India |

| | | |
|---|---|---|
| Decent wages in the supply chain | Wages<br>Regular employment | Bangladesh<br>China<br>India<br>Pakistan<br>Turkey<br>South Europe<br>Eastern Europe |
| Animal welfare in the supply chain | Animal welfare<br>Use of materials | Australia<br>China<br>India<br>South Africa |
| Water scarcity in the supply chain | Emission<br>Water<br>Use of materials | Bangladesh<br>China<br>India<br>Pakistan |
| Greenhouse Gas Emissions (scope 1-3 emissions) | Emission<br>Greenhouse gas emission<br>Energy | Global |
| Microfibre pollution in the supply chain and use phase | Waste<br>Water<br>Use of materials | Global |
| Unsustainable material use (linear supply chains) | Greenhouse gas emission<br>Energy<br>Waste<br>Water<br>Use of materials | Global |
| Discrimination in the supply chain | Discrimination | Bangladesh<br>India<br>Pakistan<br>Turkey |
| Child labour in the supply chain | Child labour | China<br>India<br>Turkey |

The geography linked to our identified salient issue is based on our supply chain and factory portfolio. There may be prevailing risks in a market that we are present in that is not considered a risk for our specific supply chain. This is because of our responsible sourcing policy to actively avoid factories with critical breaches of our requirements, or that we have taken active measures to mitigate the risk.

## DETERMINATION OF SALIENT ISSUES

**2.A.2 Describe how the salient issues were determined, in terms of processes and sources of information, including any input from stakeholders**

We identify salient issues in our business through an ongoing due diligence process. This includes supply chain audits, desktop reviews, worker and worker representative dialogue, surveys, stakeholder engagement, engagement with expert organizations, networks and forums. We actively seek engagement with relevant country forums that target salient issues. We regularly communicate with NGO's, unions, employer associations and governments to stay updated on changes to legal frameworks and prevailing risks. Social and environmental assessments throughout our supply chain gives us valuable insight. The CSR team in Varner have competence and local knowledge of the markets we work in which enables us to make competent decisions and plan actions based on identified risk.

We actively gather information about potential risks in our industry in markets where we have supply chains. We use a wide array of recognized sources, such as OECD, ILO, United States Department of Labour (DOL), relevant expert organizations such as CCR CSR, Homeworkers WorldWide, Ethical Trade Norway, Fairtrade Norway, Future in our Hands Norway, Canopy Style, Swedish Textile Initiative for Climate Action, Sweden Textile Water Initiative, Zero Discharge of Hazardous Chemicals, Sustainable Apparel Coalition among others.

In addition, we include affected stakeholders. Based on the information gathered we develop country risk profiles, supplier profiles, product risk profiles and materials/fiber risk profiles. We work strategically with the risks identified through global strategies and regional action plans. We rank our suppliers on risk from low risk to critical risk depending on the perceived risk from the above mentioned sources. Risk profiles are also developed for all new/potential markets/countries before initiating business.

## Indicator

**Number of external stakeholder meetings attended to by Varner representatives**

2019: **169**

2018: **86**

These are meetings, workshops, and roundtables with NGOs, multi-stakeholders, brands, other expert organizations with the aim to assess and address challenges related to responsible business conduct or sustainability in our sourcing markets.

Meetings with suppliers/factories, management or workers about improvements at specific workplaces are not included in this number.

**Percentage of new suppliers screened against Varner requirements for social and environmental conditions.**




2019 2018 2017 2016

Screening of new suppliers:

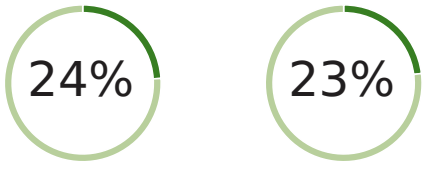
Varner has established a sourcing policy where all suppliers and factories are required to undergo detailed assessment/screening before any cooperation can begin. A wide range of methods are used for the pre-screening. CSR specialists at the global production offices (in the relevant markets) are executing the screening (based on a globally applied methodology where country specific risks are taken into account). Local execution ensures necessary language skills, updated information about the local regulatory framework, and the required contacts with local stakeholders.

Some key steps in pre-screening of suppliers include:
(1) Pre-assessment done by Varner CSR Specialists. At this stage the factory unit (or units) is visited and pre-audit is done.
(2) relevant documentation and information on social and environmental aspects of the supplier are reviewed in cooperation with supplier, and information is pulled form relevant external stakeholders.
(3) Review of previous inspection reports, audit reports and certifications.
(4) Review of the level of transparency, openness and dialogue with the suppliers.

How we further proceed depends on what we find at the pre-assessments. If the factory comply with our most important criteria we initiate a full Code of Conduct Audit done by Varner internal CSR specialists or a nominated third party. After this stage the factory can be approved for use by the CSR department if the factory (or factories) meets the required standard and the supplier is willing to commit to the Varner Code of Conduct program.

An assessment cycle for factories in the Varner supply chain has been established. The cycle defines which type of assessment activity should be engaged and the frequency of assessments. The frequency is based on the risk profile of a factory. Assessments/audits are done at minimum once annually per factory (up to 4 times annually for factories evaluated to have higher risk and therefore needing more close follow-up).

**Percentage of suppliers not traded with as a result of the screening.**




2019 2018

Varner has developed a zero-tolerance level for suppliers. If we find a non-compliance to any of our zero-tolerance issues, the supplier can not produce for Varner. Every issue we find is discussed and assessed before a

decision is made based on the severity and the remediation possibility of the issue.

Key issues we find with suppliers not being used by Varner include:
- Lack of transparency.
- Critical breach with the Varner Code of Conduct/Responsible Production Standards.
- Extensive number of sub-contractors or non-transparent supply chain.
- Weak or missing knowledge about social compliance and proper working conditions.
- Lack of willingness to adjust practices in order to meet our requirements.
- Insufficient management of production standards, missing capacity/capability of improvement and development.

Social and environmental audits are carried out by appointed CSR specialists. The assessments include management interviews, worker interviews, worker representative interviews, onsite inspections, systems reviews (working hour systems, payment systems, emergency systems etc.), document reviews, other spot checks. The audit can be from 1 day and upwards to 6 days, depending on the size and complexity of the factory unit. Each audit generates a corrective action plan with all issues that will need to be addressed within set timelines.

**Number of unannounced audits/inspections in the supply chain**




At unannounced audits no announcement will be issued to the factory management about the audit and the date it will be executed. We aim to increase the use of unannounced audits because there are challenges with announced audits where factory management prepare the staff and hide evidence of CoC violations.

Transparency, honesty and openness are key elements in our work. therefor, we prefer unannounced audits when suppliers can prove they share these values.

**Number of semi-unannounced audits/inspections in the supply chain**




At semi-announced audits a window of 1-4 weeks is announced for execution of the audit, but the exact date for the audit is not announced.

**Number of announced audits/inspections in the supply chain**




At announced audits the exact date for the audit will be announced to the factory management.

**Number of visits to factories/units in the supply chain**



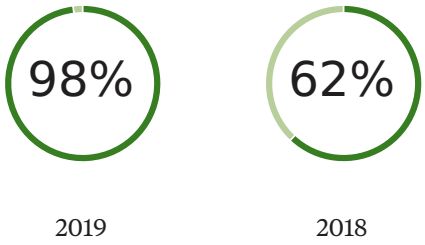

52% of the visits are unannounced, 48% are announced. Visits can be utilized in various ways, but are typically targeted towards a certain risk/issue. This activity can last from half day to one full day.

**Targeted audits/inspections from external organizations/specialist**




Targeted audits are done to assess certain aspects in the supply chain. For 2019 the main part of the inspections have been done in the scope of The Accord Bangladesh, to check structural integrity at factories, check electrical safety, and check fire safety. These inspections are done by qualified and independent engineers.

**Percentage of factories with established and ongoing improvement plans (Corrective Action Plans)**




This includes 1st and 2nd tier factories in all markets.

## ADDITIONAL SEVERE IMPACTS

**2.A.3 Identify any severe impacts on people, society and the environment that occurred or were still being addressed during the reporting period, but which fall outside of the salient issues, and explain how they have been addressed.**

We continuously map and evaluate impact on people, society and the environment in the supply chain. We aim at addressing all risk in a responsible manner, including risks that are not highlighted as "salient".

Such risks are issues with regular employment (proper contracts and work relations, proper resignation procedures), disciplinary procedures, missing systems at suppliers to prevent corruption, lack of systems to properly mange potential risks, issues with accommodation facilities. The issues will in general be addressed in a documented manner with the relevant supplier/factory, with a set timeline for improvements and a follow-up to verify that the issues have been addressed.



3 Management of salient issues

# Cease, prevent or mitigate negative impacts

“Cease, prevent and mitigate” is about managing findings in a way that contributes to a sustainable and responsible business conduct. The most severe negative impact on people, society and the environment should be prioritised first. This does not mean that other risks are less important or that they are not handled. The way the company is involved in the negative impact is central to taking the right action. Negative impact that the company causes or contributes to must cease, and the business must work to prevent and mitigate such risk. To address negative impact directly linked to the company, e.g. in the supply chain, the business must use its leverage to influence the entity causing the adverse impact to cease, prevent or mitigate it. This involves developing and implementing plans and routines to manage risk and may require changes to the company's policy documents and management systems. Effective management of the negative impact on people, society and the environment is a major contribution to the achievement of the SDGs.

## 3. A Cease, prevent or mitigate

**3.A.1 For each salient issue in your supply chain, add a goal, status and describe specific actions and progress made in the reporting year**

| | |
|---|---|
| **Salient issue** | Worker representation and freedom of organization |
| **Goal :** | Ensure that workers are efficiently represented at work in the Varner supply chain. |
| **Status :** | We have identified a risk of infringement of rights of workers related to worker representation and freedom of organization in our supply chains. This risk was identified through a combination of onsite assessments, interviews and dialogue with workers, worker representatives and union representatives, dialogue with unions, NGOs and multi-stakeholder organizations (globally and on local level).<br><br>To succeed in this issue we need to go beyond auditing and collaborate with organizations and suppliers to raise competence and awareness among factory workers on their rights and responsibilities. |
| **Objectives in reporting year :** | We work on these issues on 3 main levels in our supply chain: 1. Workers should be aware of rights and responsibilities at workplaces (including rights to be fairly represented and rights to organize). 2. Workers should be able to get engaged at workplaces (such as freely choose their representatives, and have effective channels to raise concerns and suggestions). 3. Workers should be able to participate in actively in improving their workplaces (by being represented effectively). |

Actions :

- Continued implementation of systems for the program called Social Dialogue at factories. This program is workshop based with the majority training taking place offsite (outside the factory facilities) to facilitate free discussions. The program consist of 205 days of training to build capacity and align perceptions and objectives regarding social dialogue. 35 worker representatives, 16 managers, and 156 supervisors attended the in-depth training program in 2019. This training has been facilitated by Joint Ethical Trading Initiatives (JETI) Bangladesh. In addition, 5698 workers, 965 supervisors, and 52 managers received training through assisted video based training (facilitated on the Quizrr learning platform).

- Training of workers, mid-management and top management in rights and responsibilities at the workplace: 555 workers, 39 mid managers, 9 top managers received rights & responsibilities training through Varner in 2019. A facilitated (in-person supported) e-learning is used for the training. The training is provided by Quizrr.

- Training of workers, mid-management and top management in worker engagement at the workplace: 104 workers, 6 mid managers, 9 top managers received worker engagement training through Varner in 2019. A facilitated (in-person supported) e-learning is used for the training. The training is provided by Quizrr.

- Established system to evaluate factories internal training systems for workers (including training on rights at the workplace, means of getting engaged and the role of worker representation). 19 factories were included in the evaluation program in 2019.

- Satisfaction surveys (executed in participation with worker representative committees) for workers at selected factories (1243 workers participated in the surveys). The surveys were followed by plans to address raised issues. The implementation of the plans have been closely monitored by Varner.

- Monitoring/observation of worker representative elections in factories and social audits where this is a highlighted topic.

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| **Salient issue** | Occupational health and safety in the supply chain |
| **Goal :** | Prevent and address risk related to health and safety in the supply chain. |
| **Status :** | Occupational health and safety a risk in our supply chains. The risk has been identified through a combination of onsite assessments, feedback in grievance/complaints channels, dialogue with NGOs and multi-stakeholder organizations (globally and on local level).<br><br>To address this issue we systematically inspect our factories on safety standards to ensure that the factory operation will not cause any harm to workers. We develop or partake in project to support factories in the work with health and safety. |
| **Objectives in reporting year :** | 1. Identify risks and compliance gaps related to health and safety in the supply chain. 2. Address the risks/gaps effectively. 3. Contribute to proper training and capacity building to prevent new or reoccurring health and safety risk. |

Actions :

- We have further developed our requirements for health and safety and building standards in 2019. These requirement are being followed up at in all factory audits.
- Additionally, as we are a part of The Accord Bangladesh 384 nominated safety officers have been trained in 2019 (though a seven parts training program with The Accord Bangladesh).
- Support program for suppliers struggling to cope with Varner requirements has been established with 7 supplier taking part in the program in 2019.
- We have partnered with Advit Foundation to offer training in responsible chemical handling to factories.
- Piloting digital tools to better maintain chemical inventory at factories.

| | |
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| **Salient issue** | Building and fire safety in the supply chain |
| **Goal :** | Prevent and address risk related to building and fire safety in Varner supply chains. |
| **Status :** | We have identified risk related to building and fire safety in our supply chains.<br><br>This issue needs to be solved on a higher level than factory audits alone. We believe that the structure of the collective agreement The Accord Bangladesh sets an example on how international brand can join forces to tackle a challenging issue. |
| **Objectives in reporting year :** | 1. Identify and assess risk to building and fire safety, including gaps with relevant building codes. 2. Address and contribute to remediation of gaps that have been identified. 3. Contribute to capacity building and training to prevent new and reoccurring risk. |

Actions :

We are an active member of The Accord Bangladesh. The Accord is an independent, legally binding agreement between brands and trade unions to work towards a safe and healthy garment and textile industry in Bangladesh. All our factories in Bangladesh are required to take part in the full scope of the Accord programme, including regular inspections from independent and qualified engineers, following the remediation plans that are based on identified issues (our factories have achieved a progress rate of 95% in average for improvement of initial issues), taking part in the training programmes for workers and management, and respecting and responding the independent grievance channel that is established and available to all workers.

We have further developed our requirements for health and safety and building standards in 2019. These requirement are being followed up at all our assessment activities.

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| **Salient issue** | Decent work for migrant workers |
| **Goal :** | Prevent and address risk of exploitation of migrant workers, and facilitate responsible integration of migrant workers in Varner supply chains. |
| **Status :** | We have identified migrant workers as a particularly vulnerable group in regions where we have supply chain. This is relates both to international migrants and domestic migrants.<br><br>The risk has especially been identified in India and Turkey but is also applicable for other regions, including Europe.<br><br>The issue is especially related to Code of Conduct clauses "Forced Labour", "Discrimination", "Regular Employment". However the issue also connects to most other clauses related to decent work. |
| **Objectives in reporting year :** | 1. Re-establish a policy for migrant labour in Varner supply chains. 2. Ensure proper means to identify migrants in the supply chains. 3. Proper assessment of the working conditions of migrant workers. 4. Ensure proper remediation for migrants at work that are prone to exploitation or have been employed on insufficient terms. |

Actions :

We continuously map our supply chain for migrant workers. We have updated our policy on migrant labor based on our risk assessment and the increasing focus on this area. The policy now includes more details on our approach to the issue and operational procedures if we identify cases where migrant workers are involved in our supply chain. The policy is available on our website varner.com.

We have well-established cooperation with the organizations Association for Solidarity with Asylum Seekers and Migrants (ASAM) and Refugee Support Center (MUDEM) in Turkey as a response to the Syrian refugee crisis that affected our supply chain. We have been working with these organizations since 2015. Through cooperation with these NGOs we are able to work proactively and responsive. We are able to offer an online grievance channel where migrant workers can seek help in their current situation related to the workplace. We also have access to remediation support if migrant workers find themselves in a challenging situation and need support. We also cooperate with United Work Reintegration and Placement Services, a non-profit organization that is running a social responsibility project funded by the Dutch Government aiming to support Syrian refugees being employed in Turkey. Varner has been cooperating with United Work since 2018 to support refugees in finding formal work in the garment sector.

During 2019, 131 migrants at work were trained on rights at the workplace and applicable labour laws (with particular focus on discrimination), and how to put forward grievances and seek help if needed.

We continue to build knowledge and experience on this issue and we participate in forums to exchange information and have engaged with several organizations and stakeholders to advance on issues related to decent work for migrant workers, including ILO, UNHCR, multi-stakeholder organizations and industry peers.

| | |
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| **Salient issue** | Excessive working hours in the supply chain |
| **Goal :** | Work to prevent and address excessive working hours in the supply chain. |
| **Status :** | We have identified the use of excessive overtime as a risk in our supply chains.<br><br>The risk of excessive working hours has especially been identified in Bangladesh, India, China.<br><br>This is a complex issue that needs a long-term approach. We need to assess factories policy on the use of overtime, but we also need to assess and improve our internal purchasing practices. |
| **Objectives in reporting year :** | 1. Identify and assess the use of overtime at all factories. 2. Contribute to establish plans to reduce the use of excessive overtime where it is identified, with special focus on root causes. 3. Improve and professionalize our product development teams to limit delays in the cooperation with suppliers. |

Actions :

- We have assisted the implementation of proper working hour systems to enable suppliers to measure pay/working time levels accurately and transparently.
- During 2019 we started a targeted project with two factories that had serious problems with excessive use of overtime work. The project aim to lower the use of overtime through addressing seasonal and departmental peaks in workload and production.
- During 2019, we held two Responsible Buying sessions to the buyers at our head office. We will continue to focus on streamlining internal buying practices and investigating it's effects on the use of overtime in production.

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| **Salient issue** | Modern slavery in the supply chain |
| **Goal :** | Prevent and address risks of modern slavery in Varner supply chains. |
| **Status :** | We have identified risk of forced labour and modern slavery in regions where we have supply chains. The risk has been identified through assessments, and dialogue with NGO's locally in related markets.<br><br>The risk has especially been identified in China and India.<br><br>The issue is especially related to Code of Conduct clauses "Forced Labour" and "Child Labour". |
| **Objectives in reporting year :** | - Continue the project that was started in 2018 with aim to target issues with exploitation and forced labour in the yarn producing sector in Tamil Nadu, India. And address forced labour and modern slavery in all forms throughout Varner supply chains, with specific focus on migrant workers, minorities and other vulnerable groups. |

Actions :

We are working towards full traceability in our supply chains in all regions. This is imperative if we are to address modern slavery in our supply chain in a sufficient manner. This is done in multiple ways such as using blockchain technology, onsite follow-up of goods throughout the supply chain and certifications with traceability. Credible supply chain assessments and credible factory social inspections continue to be a large part of our work to prevent and address the risk of modern slavery in our supply chain.

In India, we make progress in the Tamil Nadu Spinning Mill project that was established in cooperation with the brands Shop Direct and Next in collaboration with the Tirupur based NGO Save (Social Awareness and Voluntary Eduction). The project was set up to target exploitative practices in recruitment and employment. Implementation of the project has been done by the NGO Save, with support from the involved brands. The first round of the project was from 2018 until 2019. The second round is currently running and will finalize end of 2020.

The South India Mill project includes three main stages:
1) Community engagement (in communities relevant to worker recruitment). Some key activities being:
- Life skill and workplace awareness for potential workers, their families and schools in identified villages (2479 persons were part of the awareness sessions, training).
- Establishing village grievance committees.
- 2479 persons were part of the training (with further approximately 6000 community members taking part in the wider awareness sessions).
2) Employment agent engagement. Some key activities being:
- Ensuring fair recruitment practices (with focus on "employer pays" principles related to recruitment fees).
- Establishment of guidelines for responsible recruitment.
- 60 recruitment agents were involved.
3) Spinning mill engagement. Some key activities being:
- Life skills and rights and responsibility training for workers.
- Behavioral training for supervisors and managers.
- Policy reviews and adjustments.
- Establishment of effective grievance handling systems at factories.
- Establishment of responsible recruitment, enrollment and induction systems.
- Establishment of active worker committees (including election process, worker and management training, worker representative training)
- 957 employees (mangers/supervisors/workers) participated in training.

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| **Salient issue** | Decent wages in the supply chain |
| **Goal :** | Contribute to achieve decent wages in Varner value chains. |
| **Status :** | We have identified risk of infringement on decent wages in the markets where we source from. The risk has been identified in all of the countries we source from.<br><br>This is an issue that require industry collaboration and the responsibility is shared with all international buyers. Providing decent wages to factory workers in production countries cannot be solved by auditing factories for compliance alone. We also need to assess our internal purchasing practices. |
| **Objectives in reporting year :** | The issues of wages is approached from two angles. Firstly we are committed to ensure wage compliance in the Varner supply chains (addressing any gaps in minimum wage compliance, including gaps related to the payment of overtime premiums and other mandatory financial benefits). Secondly, we aim to contribute to fair wage practices beyond compliance. |

Actions :

- Wage status is assessed in detail for all of our cooperating factories. Gaps in legal wage compliance is addressed and handled together with affected stakeholder.
- Preventive measures were taken to address potential exploitation (specifically on wages, but also other employment aspects) of new legislation on apprenticeship in India.
- We have assisted the implementation of proper working hour systems to be able to measure pay/working time levels accurately and transparently.
- Continuous monitoring of wage levels at suppliers identified to be struggling with aspects such as overtime payment levels is executed where needed.
- Training of workers, mid-management and top management in responsible wage management systems: 908 workers, 104 mid-managers, 34 top managers have received training . E-learing is used for the training and the solution is provided by Quizrr.
- We are increasing the amount of products produced with Fairtrade cotton that ensures a premium pay to cotton farmers.
- We held two training sessions in Responsible Buying in 2019 to address our internal purchasing practices and the effects this has on suppliers.

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| **Salient issue** | Animal welfare in the supply chain |
| **Goal :** | Respect for animal welfare in the manufacturing of products. |
| **Status :** | Through our partnership with Textile Exchange we have increased our knowledge on animal fibers and materials we use and the potential impacts. We have identified animal welfare and handling of animals used for textile fibers as a salient risk because of potential harm to both animals and environment.<br><br>The risk has especially been identified in Australia, China, India and South Africa.<br><br>The issue is especially related to "Animal Welfare" and "Use of Materials". |
| **Objectives in reporting year :** | 100 % fully traceable animal fiber/animal material products. We work to implement the updated Animal Welfare policy in the organization. We aim to increase our purchase of RWS certified wool to 30 % within 2020. |

Actions :

During 2019, we updated our animal welfare policy. The policy now includes several more bans on specific animal fibers and materials (cashmere, yak, cow hide from India and leather from Brazil). This is based on a risk assessment and stakeholder engagement. See more information in section 3.B.3. We focus on traceability and collect certificates of origin for all animal material products. We need to know the origin of all animal fibers and materials in our product to be compliant with the strict animal welfare policy we have developed.

We bought our first Responsible Wool Standard (RWS) products in 2019. 15% of all wool products purchased in 2019 are RWS certified. We aim at buying 100 % RWS within 2025. We actively participated in the development of the New RWS standard that now also includes a social module.

Additionally, we are a part of a due diligence project in the wool industry in South Africa where animal handling of sheep and goats is one of the focus areas.

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| **Salient issue** | Water scarcity in the supply chain |
| **Goal :** | Prevent exploitation of water resources with particular focus on locations/regions with water scarcity. |
| **Status :** | We have identified water scarcity as a risk in markets we are sourcing from. The risk has been identified through dialogue with NGOs and multi-stakeholder organizations.<br><br>The risk has especially been identified in India, China, Pakistan, Bangladesh. |
| **Objectives in reporting year :** | Map water stress and water scarcity in regions connected with Varner supply chains. Establish parameters and for water use and initiate tracking. Initiate the Sweden Textile Water Initiative project at two factories. |

Actions :

We have been a member of Sweden Textile Water Initiative (STWI) since 2016. It's an initiative based on cooperation between the textile industry and Stockholm International Water Institute (SIWI). The idea behind the initiative is to gain a better understanding of the water challenges faced by the industry and finding the right mechanisms to address them. We have started implementation of new STWI projects at two of our suppliers in 2019.

We have initiated a project to standardize the mapping of water use in the production phase in our supply chain. So far, we have started mapping of India and the water management of our factories in this production market.

In addition, we have increased the use of certified raw materials (in particular cotton) to schemes that address water use in various ways. Our designers/buyers utilize tools to measure the water impact of the products we develop through industry tools (such as the Jeanologica tools).

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| **Salient issue** | Greenhouse Gas Emissions (scope 1-3 emissions) |
| **Goal :** | Reduce Greenhouse Gas emissions in all parts of our operations and value chains. |
| **Status :** | We acknowledge that the textile industry is a significant contributor to greenhouse gas emissions, with the majority of emissions happening in the supply chain (scope 3 emissions).<br><br>In order to address this issue in a proper manner, we need to assess our supply chain and establish a baseline. We have started this work and will establish a framework and guidelines internally on how to support suppliers in the transition to renewable energy and how we can contribute. |
| **Objectives in reporting year :** | Seek collaboration to address the issue in with relevant peers and partners. |

Actions :

This is a work in progress and we expect to work more systematically to minimizing negative environmental impact in our supply chain. Some action points taken by Varner so far:
- We have employed a Global Environmental Manager based in our production office in Dehli, India.
- Active discussions with several organizations on potential collaboration, target setting and progress plans.
- Preliminary mapping of energy sources for factories in the Varner supply chain.
- Close monitoring of Institute of Public and Environmental Affairs (IPE) list in China to identify suppliers and sub suppliers that needs follow-up and close monitoring related to environmental issues.

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| **Salient issue** | Microfibre pollution in the supply chain and use phase |
| **Goal :** | Build knowledge and strategies on how to handle microfibre pollution throughout garments life cycle. |
| **Status :** | We have gained increased insight into the challenge of microfibers and microplastics in the latest years. However, several aspects related to microfibers, their impacts and mitigation strategies are still unclear.<br><br>This issue relates to several environmental aspects and the long-term consequences of the pollution is still unknown. The impact is on a global level. |
| **Objectives in reporting year :** | Take action based on the suggestions and recommendations identified through the research projects we participate in. |

Actions :

- Participation in the research project "MICROFIBRE: Evaluating the fate, effects and mitigation measures for microplastic fibre pollution in aquatic environments" in collaboration with SINTEF (https://www.sintef.no/microfibre/)
- Participation in the research project MinShed, a three year research project with the overall goal to create knowledge which will help the textile industry to design clothes made of synthetic fabrics which do not emit microplastics. The project is in collaboration with Swedish research center RISE (https://www.ri.se/sv/vad-vi-gor/projekt/minshed).

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| **Salient issue** | Unsustainable material use (linear supply chains) |
| **Goal :** | Design and develop products with minimum negative impact on the environment. |
| **Status :** | Finding the most sustainable mix of fibers and materials is a key focus area in our industry and one that triggers us to start developing products and designing products differently than previous years.<br><br>This salient issue is related to the use of resources and materials and its environmental impact. |
| **Objectives in reporting year :** | 40% of our private label products are made from "preferred fibers" (more sustainable fibers) within 2020. We aim at developing products with 100 % preferred fibers and materials within 2025. |

Actions :

We address the challenge of sustainable fibers and sustainable use of materials by being a member of Textile Exchange where we report annually on our use of materials and fibers. We also actively share knowledge and experiences with Textile Exchange. Our designers and buyers work towards established goals on all materials and fibers and report yearly on progress.

See section 3.B.3 for more information.

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|---|---|
| **Salient issue** | Discrimination in the supply chain |
| **Goal :** | Prevent and address discrimination in the supply chain. |
| **Status :** | We have identified discrimination as a risk in regions where we have supply chains. The risk relates to various forms of discrimination, that would manifest differently in depending on region. Gender discrimination is a risk that can be found in all regions.<br><br>The risk has especially been identified in Bangladesh, India, Pakistan, Turkey. However, the risk is also prevailing in other markets where we have supply chains. |
| **Objectives in reporting year :** | Assess and address risk in our supply chain. Continue ongoing projects with gender equality and migrant workers rights. |

Actions :

- We are in development phase with a gender equality programme in cooperation with ILO. The programme is planned to be piloted with 4 suppliers in Turkey.
- Discrimination is a part of all CSR assessment activities in the supply chain with special focus on vulnerable groups, e.g. migrants, women, ethnic minorities among others.
- We have cooperated with UN Women in establishing Women Empowerment Principles (WEPs) at several suppliers across regions.

Our work and projects targeting migrant workers are actions to mitigate discrimination to this particular vulnerable group.

- See also salient issue "Decent work for migrant workers".

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|---|---|
| **Salient issue** | Child labour in the supply chain |
| **Goal :** | Prevent the use of child labour in Varner supply chains, and ensure remediation for any children and their families if child labour is identified. |
| **Status :** | We have identified child labour as a risk in markets where we have supply chains. The risk has especially been identified to be present in the lower tiers of the supply chains. The risk has especially been identified in China, India and Turkey. However, the risk is also prevailing in other markets where we have supply chains especially in the raw material sector.<br><br>We have not had any cases of child labour in our supplier portfolio in the reporting year. However, we acknowledge that the risk is always present and therefore we have established remediation support to be proactive in case of a finding. |
| **Objectives in reporting year :** | We have updated the Varner child labour policy. Establish cooperation with an expert organization on child labour issues in India. |

Actions :

- We have updated child labour policy and implemented this in our supply chain. The policy has been communicated to all suppliers.
- We continue to perform audits and monitoring throughout our supply chain (and increasingly in lower tiers of the supply chain).
- We have established and continued partnerships with credible organizations to develop strategies to prevent, monitor and contribute to effective remediation of issues related to child labour. Organizations being: CYDD (Association for the Support of Contemporary Living), CCRCSR (Center for Child Rights and Corporate Social Responsibility), Creative Pathways and Aider.
- We have actively contributed to the study: In the Interest of the Child? Child Rights and Homeworkers in Textile and Handicraft Supply Chains in Asia (https://www.ccrcsr.com/sites/default/files/CCR%20CSR_STC%20Study%20on%20Child%20Rights%20and%20Homeworkers_2019.pdf)
- We established schools for disadvantaged youths and young girls in cooperation with Save the Children and Plan International in Bangladesh and continued to support this project.

## Other actions related to management of negative impact:

**Describe general actions to cease, prevent or mitigate negative impacts, including in your supply chain**

### 3.B.1 Reduction of environmental and climate footprint

We are currently in the process of mapping our environmental impact and climate footprint in scope 1, 2 and 3. The most significant impact is in scope 3, more specifically in the production/processing phase of products. We are in the process of identifying effective means of reducing the negative impact. We have employed a Global Environmental Manager that will work specifically with these issues. Additionally, we collaborate with Sweden Textile Water Initiative on implementing actions that reduce the negative impact on water usage, energy usage and chemical usage at selected factories. We have established environmental requirements to factories that are followed-up at assessments and audits, the requirements comprise aspects such as environmental management systems, waste management, treatment of industrial waste water.

We focus on reducing the environmental impact of the products we sell. We offer a wide array of products certified according to environmental criteria. The main certifications we utilize are Nordic Ecolabel Swan, Global Organic Textile Standard (GOTS), Organic Content Standard (OCS), and certified recycled materials such as Econyl, Repreve and the Recycled Claim Standard (RCS). We are also a member of Better Cotton Initiative, which is focused on increasing sustainable farming principles in cotton farming. We have established a Restricted Substance List (RSL) for products that is more strict than the EU legislation on chemicals. We have also taken steps to reduce our footprint in the distribution phase. We have transferred from truck transport to train transport for all production in Turkey, and we are also piloting other ways of establishing transportation with lesser climate impact.

During 2019 we have initiated a risk analysis on water stress in our supply chains. We continue this work onwards and expect to implement improvement activities in India during 2020.

### 3.B.2 Adapting own purchasing practices (sourcing)

We have established a Responsible Sourcing Policy which is the foundation in how we cooperate with suppliers. We have an approval system for factories and suppliers, where we assess all potential factories on environmental, social and governance criteria before production can start. As a control mechanism and CSR mandate, buyers cannot place orders to factories that does not meet our minimum requirement (and have not been CSR approved). The CSR mandate also applies for sourcing countries where we perform thorough risk assessments of sourcing countries before entering a new production market. CSR also do a screening process and need to approve external brands suppliers and indirect spend suppliers before a cooperation can be initiated.

Awareness training on responsible purchasing practices has been provided to designers and buyers. The training focuses on how the functions can facilitate better business conduct and avoid to undermine decent work conditions. All new employees go through a mandatory CSR and sustainability on-boarding session, and more in-depth training is provided for specific functions, such as design and buying.

We evaluate our supplier portfolio on an annual basis (in addition to the continuous and ongoing evaluation). Suppliers are evaluated on criteria such as business performance, quality performance, CSR performance, sustainability performance. Results from the evaluation are presented to each supplier in a setting where suppliers are invited to give feedback to Varner on topics such as purchasing practices, responsible business conduct, cooperation and communication. We have a phase out procedure to factories that after several attempt to improve still does not meet our requirements where the focus is on responsibility and transparency.

Varner standard credit terms for suppliers is 30 days. 99% of all payments are done within agreed credit terms.

### 3.B.3 Choice of product design and of raw materials

We have chosen to focus on certifying fibers and materials to minimize the negative impact of products to society and environment.
- Cotton: 74% of all cotton is preferred/more sustainable cotton. This includes 8% Fairtrade cotton, 32% BCI cotton and 34% organic cotton.
- Synthetic: 12% recycled synthetics (11% recycled polyester, 1% recycled polyamide/Econyl).
- Cellulosic: 21% of all cellulose is considered preferred/more sustainable cellulose (Lenzing fibers including EcoVero, LivaEco and Lyocell).
- Wool: 15% of all wool is certified to Responsible Wool Standard (RWS).
- Down: 100% of all down is certified to the Responsible Down Standard (RDS).
- Swan certified products: 2% of all products in Varner is Swan certified.

Procuring Better Cotton we will be a part of the development of Better Cotton as a sustainable mainstream commodity. Making cotton production better for the people who produce it, better for the environment it grows in and better for the sector's future. BCI production uses less water, less synthetic fertilizers and pesticides, increase the yield and focuses on better working conditions for the farmer. 2. By expanding the use or certified Organic cotton, we will be a part of securing the farmer a premium for his crop, reduce the use of synthetic fertilizers and pesticides. By buying Fairtrade certified cotton we will be a part of securing better working conditions for farmers, and a steady income. The Fairtrade premium will also help the local community contributing to development. By continuing the certification of our down products we address and recognize issues related to animal welfare and traceability.

By choosing more sustainable cellulose fibers we can contribute to more sustainable forestry and preserving ecosystems and biodiversity. Cellulose fibers are made of renewable sources such as wood. Preferred cellulose fibers set requirement to a sustainable forestry, and bans the harvest from endangered and ancient forest in order to maintain the forest for future generations and its biodiversity. Some preferred cellulose fibers also set requirements to the pulp and fiber process in order to minimize the use of hazardous chemicals and to protect the environment.

By choosing recycled synthetics we can reduce our reliance on virgin oil based fibers. Recycled synthetic fibers use e.g PET- bottles, plastic waste and waste from the garment production to produce new fibers. Since synthetic fibers comes from the non-renewable source, oil, recycling is a great measure in order to minimize the use of resources and reduce waste.

By following RDS our customers can be assured Varner take animal welfare and traceability seriously. Expanding the the number of Swan certified suppliers and increasing the use of Swan certified products will enhance the traceability in the supply chain, and securing the chemical use in production. By introducing the Responsible Wool Standard certification of our wool products we address and recognize issues related to animal welfare and traceability. By implementing the RWS our customers can feel safe Varner take animal welfare and traceability seriously.

We have implemented several bans, policies and restrictions on raw material and production processes. These are:
- Ban on cotton from Uzbekistan and Turkmenistan because of systemic forced labour in the industry.
- Ban on sandblasting processes at factories.
- Ban on use of leather tanneries in Bangladesh
- Ban on electroplating trims on jeans.
- Ban on animal testing on cosmetic products.
- We have implemented a Varner Homeworker Policy to address the challenges in worker`s rights and working conditions to homeworkers as a result of product design that require manual work.
- We do not allow factories in shared buildings unless special permission is granted. This is to prevent risk related to building and fire safety and the limitations of ability to ensure this in shared buildings.

The Varner Animal Welfare Policy was updated in 2019 and now includes several additional bans related to the use of animal fibers:
- Ban on real fur
- Ban on angora wool and angora wool blend yarns (from rabbits).
- Ban on materials derived from species appearing on IUCN (International Union for Conservation of Nature) or CITE (the Convention on International Trade in Endangered Species of Wild Fauna and Flora) lists of endangered species.
- Ban on wool from sheep that have been exposed to mulesing.
- Ban on cashmere an cashmere wool blends.
- Ban on yak and yak wool blends.
- Ban on cow hide form India.
- Ban on leather from Amazon region.
- Ban on leather from live-skinning or live-boiling.
- Ban on hides or skins from exotic animals is prohibited, including but not limited to: crocodiles, snakes, sharks and seals.
- Ban on down or feathers from birds that have been live-plucked or force fed.

## Indicator

**Percentage of total amount of cotton in Varner private label products that was more sustainable (Organic, BCI or Fairtrade)**




2019 2018

This includes 8% Fairtrade cotton, 32% BCI cotton and 34% organic cotton.

**3.B.4 Actively support free trade union organisation and collective bargaining, or where the law does not allow it, actively support other forms of democratically elected worker representation.**

We require all suppliers to support and not infringe and obstruct rights of freedom of association, collective bargaining, and elected worker representation. We work to prevent negative sanctions from management to workers who engage in unions and initiate the formation of local unions at their workplaces. This is investigated at all social assessments in our supply chain.

We have identified that workers often do not have proper knowledge about what their rights as an employee are in terms of freedom of association and worker representation. Accordingly, we have implementing training programs to workers on rights and responsibilities in the workplace both internally organized and together with expert organizations.

See 3.A.1 and salient issue subsection "Worker representation and freedom of organization" for more information.

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**3.B.5 Contribute to development, capacity building and training of suppliers and workers in the supply chain:**

Knowledge and capacity to identify, address and prevent breach to social and environmental requirements is key for all levels (top management to workers) at our cooperating suppliers and factories. Therefore competence training and capacity building is an important part of our ongoing work in the supply chain.

Some training activities during 2019:
- CSR Supplier seminars: 87 suppliers, and 169 persons attended our suppliers seminars this year, where focus was on how to meet and implement measures to cope with updated social and environmental requirements, best practice sharing among suppliers on how to address relevant risks). External organizations such as ILO, United Work, Mudem/ASAM took part in the seminars to share knowledge.
- A CSR Support programme has been initiated for 7 suppliers who are struggling with proper implementation of parts of our CoC requirements. The programme training of internal staff, onsite support in establishing proper systems, help setting up short and medium term targets, ongoing consultation, and best practice sharing.
- See also 3.A.1 about training activities related to salient issues.

In the raw material part of our supply chains training is mostly done related to certification schemes such as Better Cotton (training on more sustainable farming practices for farmers), and Fairtrade (training in more responsible farming practices and responsible investments for farming cooperatives).

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**3.B.6 Other plans and measures taken to deal with salient issue**

Salient issues are subject to frequent review through stakeholder engagement and other assessment activities.



4

# Track implementation and results

Tracking implementation of actions and results is key to the company’s due diligence process. For example, is the identifying and prioritisation of salient issues done in a scientifically sound and credible way? Does it reflect real conditions in the supply chain? Do measures aimed at ceasing, preventing and reducing the company's negative impact work as intended? Is negative impact remediated where relevant? This may apply to actions taken by the company alone or carried out in collaboration with others. Companies must have procedures and systems to track their implementation and results in order to assess them. The company’s experience with due diligence is used to improve processes and results in the future.

## 4.A Monitoring and assessment

**4.A.1 Describe responsibilities and procedures within the company for tracking performance with respect to due diligence activities**

Activities and performance with respect to our due diligence activities in the supply chain are tracked on a quarterly basis by the Global CSR Manager. Data and information on each factory related to human rights, workers' rights and environmental issues is collected and reviewed on an ongoing basis. The effectiveness of the ongoing regional programs are monitored continuously and reviewed on an annual basis, by the Global CSR Manager with input from relevant internal and external stakeholders.

The CSR mandate is separated from other business functions enabling responsible business conduct to be measured independently from business criteria such as price and profit. A supplier evaluation is executed annually where supplier relationships are being evaluated based on the most important criteria: CSR performance, quality assurance performance, sustainability performance, production performance, buying and design.

**4.A.2 Describe how the company evaluates the effect of its own efforts, or those made by suppliers (and other business relations), to identify, prevent and mitigate salient issues**

We continuously evaluate the effect of our own efforts and the efforts taken by suppliers and factories. All approved suppliers and factories have been enrolled in the Varner assessment program. An essential part of this program is the follow-up and verification activities carried out to assess whether the identified issues have been improved and that required implementations have been done based on the improvement plans. We keep a high focus on the verification process at all factories in order to track performance. Whenever we find a need to include expert organizations, we contact our established partnerships to secure that our efforts are sufficient.

The experiences we gain from our ongoing routines helps us improve and gradually this helps us improve the supply chain as a whole. We continuously build our internal competencies and increasingly gain local knowledge in our production markets.



5

# Communicate how impacts are addressed

Relevant external communication on company due diligence for responsible business conduct needs to build on specific activities and results. This include external communication of policies and codes of conduct, or processes and activities related to identifying and managing the company's actual and potential negative impact on people, society and the environment. Communication should also include findings, effects and results of concrete actions or activities.

## 5.A External communication

**5.A.1 Describe how the company communicates with affected stakeholders when managing its salient issues**

We promote and seek open dialogue wherever this is relevant or needed in the activities that we do with in our supply chains. We aim to communicate with all affected stakeholders when specific cases or issues arise in the production of our products.

We keep ongoing dialogue with dialogue with local NGO`s, partnering organizations, trade unions, factory management, worker representatives and factory workers. When we are alerted of a case in one of our factories, we do onsite and offsite investigations (if appropriate assisted by relevant organizations) and seek to identify root causes of the incident by communicating with all parties involved. Our local presence in production countries enables us to engage with stakeholders on the ground quickly and directly.

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**5.A.2 Describe how the company communicates publicly about its own work on identifying and management of salient issues**

We believe transparency is imperative when working with sustainability. Over the years we have worked systematically with due diligence in our supply chain. As a result, we have developed thorough policies and procedures for our salient issues. The policy documents as well as information on how we work with people, the environment, materials and animal welfare are publicly available on Varner.com.

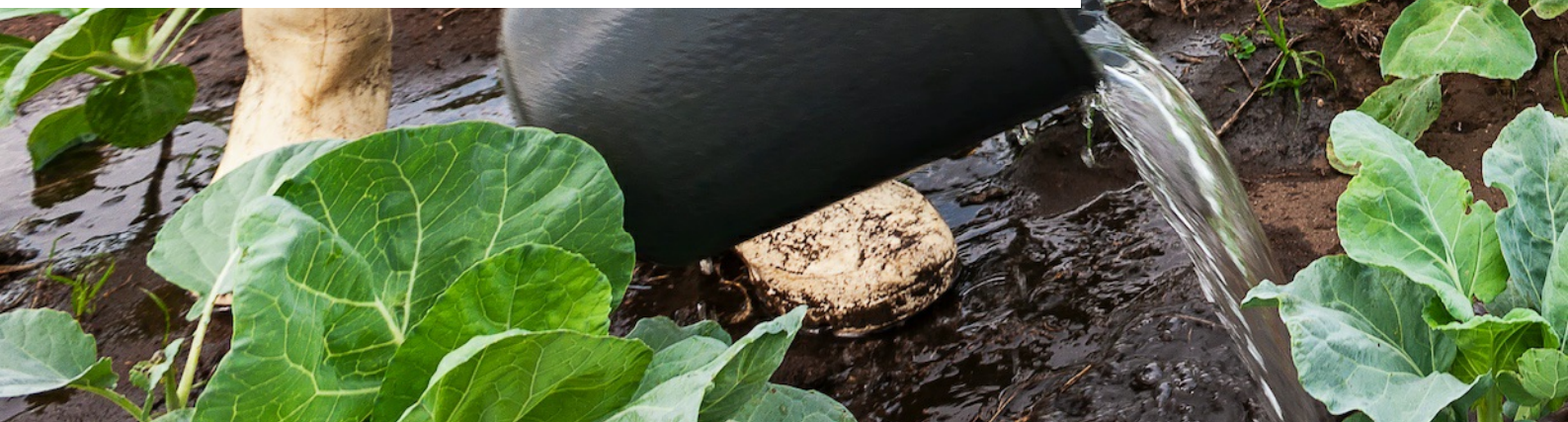
This report is also an opportunity for us to be honest and open about our accomplishments as well as our challenges. We believe it is important to share knowledge and experiences with all that shows interest in our work. We participate in public and closed forums on specific topics and issues relevant to our business, both in our sales markets as well as in our sourcing markets.



6

# Provide for or cooperate to ensure remediation when appropriate

Once a company has identified that it has caused or contributed to negative impact on people, society or the environment, the company must provide for, or cooperate to ensure remediation. Remediation may involve financial compensation, a public apology or other ways to remediate the negative impact. When appropriate, companies should provide for or cooperate with legitimate remediation mechanisms through which impacted stakeholders and rights holders can raise complaints.



## 6.A Remediation

**6.A.1 Describe the company's policy for remediation of negative impacts on people, society and the environment**

In the Varner Internal Code of Conduct, we commit to remediation support if we have directly or indirectly caused harm to people or environment. We closely follow-up all identified issues in our supply chain.

Some breaches may be more severe than others and require a proactive and systemic approach. A key part of our due diligence process is remediation support. We commit to follow up any situation closely and provide assistance where possible to resolve any case that may occur. If remediation support is necessary, we aim to identify (in cooperation with relevant stakeholders) the most appropriate way of addressing the issue that has been identified. We have established cooperation with expert-organizations that contribute to remediation support if a serious breach is identified at one of the factories producing for us.

We have additional procedures for remediation on specific salient issues (modern slavery, child labour, migrant labour, homeworkers). These are publicly available on varner.com.

**6.A.2 Describe cases of remediation in reporting year, if relevant**

Cases of remediation in the reporting year has been related to:
- Ensured reinstatement of workers that had been dismissed on unjust grounds.
- Ensured proper payment of separation benefits to resigned or dismissed workers at several factories.
- Ensured proper payment of maternity benefits to workers in maternity leave.
- Ensured back payment of employment benefits (that had not been issued in accordance with established contracts) to workers.

Our approach to remediation is to seek and facilitate dialogue between affected stakeholders. Our dedicated CSR Specialists closely monitor the situation and facilitates remediation support when necessary.

## 6.B Secure access to grievance mechanisms

**6.B.1 Describe what the company does do to ensure that workers and communities have access to effective remediation mechanisms, when appropriate:**

All production facilities/factories we cooperate with are required to develop internal complaints and grievances systems in order to enable workers to raise their issues to assigned persons/committees. The factories are required to have a system in place to ensure the issues raised are resolved in a fair and efficient manner. Information about the complaints/grievance mechanism and the process for addressing received complaints/grievances shall be a available to all workers. We routinely check onsite and through worker and worker representative interviews that these systems are available and effective for workers (checked at minimum once per year).

In addition, external complaints mechanisms are available for workers at all factories Varner cooperate with in Turkey and Bangladesh. Here complaints can be raised in a named or anonymous form to an independent third party. These complaints mechanisms have been established in cooperation with The Accord Bangladesh and Turkish NGO ASAM. Information about these mechanisms is available from posters in all factories, websites, and through training.

A separate complaints/alert channel has also been set up for suppliers/factories (as well as internal staff at Varner) where issues such as responsible business conduct and corruption can be raised directly to Varner in confidence. The channel is available publicly at the website varner.com.

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