

# More fit for the future

SUSTAINABILITY REPORT - 2020



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## ABOUT THIS REPORT

This is Nilörngruppen AB's statutory sustainability report for the 2020 fiscal year, prepared in accordance with the requirements of the Swedish Annual Accounts Act and UNGC's Communication on Progress. It covers all of Nilörngruppen's operations, unless otherwise stated, in relation to the reporting of specific indicators from our sites. The report has been submitted by the Board of Directors, together with the Annual Report. The Annual Report can be found on our corporate website.

Since 2017, Nilorn is signatory to the UN Global Compact corporate responsibility initiative. As a signatory, we voluntarily agree to align our operations and strategies with the ten universally accepted UNGC principles in the areas of human rights, labour, the environment and anti-corruption, as part of our strategy, culture and day-to-day operations. This commitment requires us to communicate how we align our work and contribute to the ten principles.

We strive to live up to our stakeholders' expectations. Comments, suggestions and criticism regarding our sustainability practices and reporting are welcome. Please contact us at [csr@nilorn.com](mailto:csr@nilorn.com).

We will not print our sustainability report this year, a brief summary of the report will be available, and the full report is available at: [www.nilorn.com/sustainability](http://www.nilorn.com/sustainability)



# CEO Statement

2020 put companies, governments and entire societies to the test, and Nilorn was no exception. It was a year dominated by economic, political and health turmoil with repercussions that will likely affect the entire year of 2021. Facing the global Covid-19 pandemic, we had to adapt to a new reality that no one was prepared for. In March last year we estimated that sales would fall by 30 percent for the full fiscal year. We were wrong. Our employees have done an excellent job adapting to the challenges posed by the pandemic while keeping in mind the vision and commitment we have made to integrate sustainability. At the end of the year the decline was ultimately only 9 percent. 2020 has shown the world that we all need to continuously improve and adapt to be more fit for the future – whatever it may be.

The catchphrase 'More fit for the future' has never been as relevant as it is today.

The health and safety of our employees is our highest priority. Supporting our employees through this transition has been key to overcoming the challenges from the global pandemic together. Adapting to the new reality also meant building on the opportunities generated by this crisis. We reviewed how we conduct meetings; we reconsidered our business travel and strengthened our digital

focus through training and conferences for our employees. From physical meetings to online collaboration; from working at the office to ensuring proper working conditions when working from home. Today we know that we can be even more efficient, increase our digital connectivity across borders and accelerate our digital development.

The challenges of 2020 did not slow down our work in transparency and traceability. We deepened our strategic focus on technologies like RFID, NFC and QR-codes that provide our clients and end customers with full transparency on products' social, environmental and governance standards. These technologies also prevent counterfeiting of our clients' products and help increase efficiency in logistics to have their products in the right place, at the right time. Traceability also entails a better understanding of our own performance, and last year was also a milestone in our sustainability commitment metrics. In 2020, we implemented the Higg Index to further understand and measure Nilorn's sustainability performance.

I am proud of what we have achieved so far, guided by our skilled CSR and sustainability team. Sustainability is by nature a work in progress and under constant development, which must be integrated throughout the organisation in all countries with different cultures and backgrounds. This is challenging and requires the greatest attention.

There is no room for complacency, and we need to continuously improve, every day, everywhere. Guided by the Ten Principles of the UN Global Compact, we plan for a 2021 full of learning and



training, for both our employees and our suppliers. And we will, of course, carry on with our focus on improving our products, whether by making their content more sustainable or by expanding our scope to new material options.

We are on an exciting journey and within Nilorn we will continue to work hard for continuous sustainable progress.

Krister Magnusson  
CEO  
Nilörngruppen AB



# About Nilorn

Nilorn is an international company, established in 1977, focused on adding value to its clients' products by presenting branding and design in the form of labels, packaging, trims and accessories. We offer complete, creative and tailor-made concepts in the areas of branding, design, product development and logistic solutions.

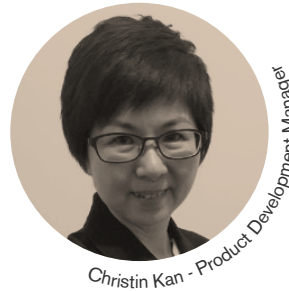
## OUR CORE VALUES

The core values are the practices that a Nilorn employee should be guided by on a daily basis, in all work situations. They form a common platform and strengthen our teamwork.

- **Passion** – encourage those around you
- **Innovation** – offer innovative and superior solutions
- **Respect** – respect and trust each other
- **Common Sense** – learn from experience
- **Responsibility** – take ownership
- **Execute** – lead by example
- **Teamwork** – learn from each other



## MEET THE CSR & SUSTAINABILITY ADVISORY TEAM



Christin Kan - Product Development Manager



Christina Walter - Art Director



Ginny Jones - Business Development Manager



Mohammad Abdul Ouyum - Managing Director, Bangladesh



Beatrice Kristoffersen - CSR-Coordinator



Elizabeth Sampaio - Managing Director, Portugal



Anna-Karin Wårfors - Sustainability Manager



Sylvia Voigt Le Drézen - Purchasing Manager



Fredrik Clason - Group Sales Manager



Marie Huber - Art Director



Anne Chan - Group Purchasing Manager

## HOW WE WORK

Nilörngruppen is governed by its Board of Directors, which holds between six and ten meetings a year. During 2020 the Board of Directors held seven regularly scheduled meetings. Our CEO and selected Advisory Panel members participate in these meetings.

The Advisory Panel consists of the Global Sales manager, IT Manager, Art Director, Retail Information System Manager, Sourcing and Production Manager and Sustainability Manager. A meeting is held once a month.

Our Sustainability Manager leads the CSR and Sustainability Advisory Team (CSAT), which was established in 2018. The aim of the group is to further integrate CSR and sustainability into the daily operations of the organisation, to spread knowledge and share experiences. It is a tool for anchoring the objectives throughout the organisation. The team consists of staff from different Nilorn offices, representing the design department, product development, production, purchasing, sales and CSR.

In 2020 we strengthened our team with two new CSR assistant positions, one based in Hong Kong and one in Germany. The Sustainability Manager is based at our Head Office, and in Nilorn East Asia we have our CSR Manager, which enables us to have a closer relationship with suppliers in that region. We also welcomed a CSR coordinator at the end of the year together with a Group Purchasing Manager. We all support Nilorn's sustainability work alongside local staff in our sourcing countries. We also have regular meetings with Nilorn's management group and a dialogue with the Board of Directors.



## THE NILORN OFFER

Nilorn is a leading development hub with a focus on strengthening our clients' identity. Our business, of visualising and refining brands, rests on six pillars: Design, Product development, Production, Sustainability, Logistics and Global Presence. With these building blocks, we create a holistic offer with optimal solutions to assist our customers and their brands in their development.



### DESIGN

Unique design skills create tailor-made concepts for various customer sectors. An experienced and multi-skilled team deliver creative, intelligent and original solutions.



### PRODUCT DEVELOPMENT

Based on design and high quality technical solutions, we develop products using the latest materials and techniques in all areas of branding, like labelling and packaging. Development takes place in close co-operation with our customers and through our own design collections, which provide great opportunities to investigate and refine.



### PRODUCTION

Thanks to our well-established network of production partners and our own production, we are able to collaborate with both smaller and large clients with a presence in several markets, which, as a rule, requires local sourcing solutions.



### SUSTAINABILITY

Our sustainability work is a central part of our business. Our sustainability strategy is based on the company's vision, core values and UN Global Compact's ten principles on human rights, labour law, the environment and anti-corruption.



### LOGISTICS

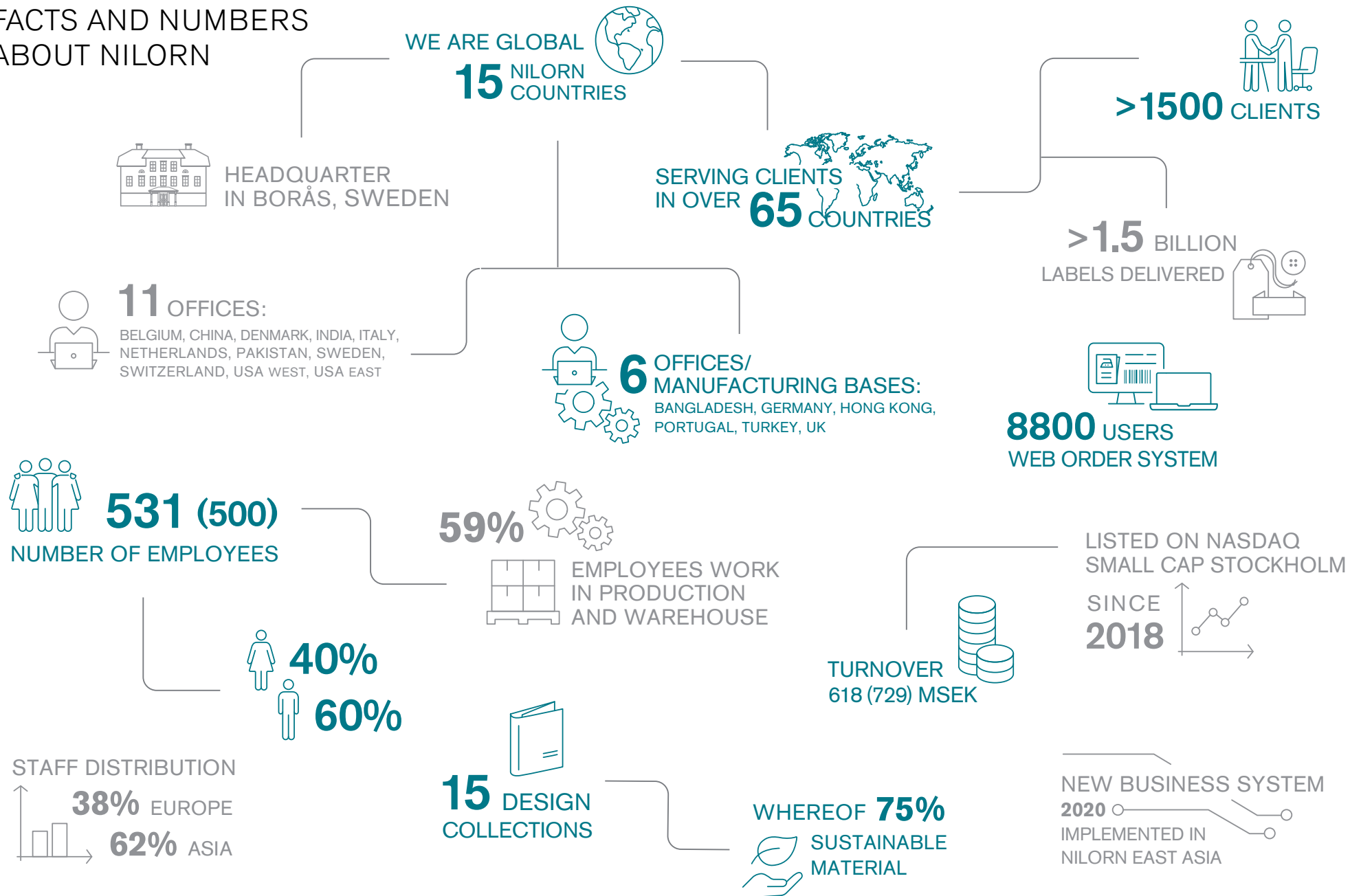
Through our strategically located distribution units, we are able to deliver products to our customers' suppliers. This means local service and short lead times. Our online platform provides both the customer and the manufacturer with a complete overview, from an effective ordering process to follow-up and reporting possibilities.



### WORLDWIDE

Nilorn operates all over the world and has local production in several countries across multiple continents. This global presence gives us an immense knowledge of different business cultures as well as proximity to the market.

## FACTS AND NUMBERS ABOUT NILORN



# Our approach to sustainability

We deliver our products to more than 65 countries around the world and are thus part of far-reaching supply chains. We feel that such a global presence calls for globally responsible actions. We aim to be leaders in sustainability in our industry and, by signing the Global Compact, commit to continually improve our practices. To lay the foundation, we have built our sustainability strategy around three pillars: clients, production and supply chains, and employees.

In 2019 we conducted an extensive dialogue with stakeholders, using both surveys and interviews, focusing on finding out which the most material topics for each of the three pillars in our strategy are. The dialogue with stakeholders is an opportunity for us to benchmark the industry and get feedback on whether or not we are on the right track. It gives us different perspectives on our work so far, and how it is perceived, and at the same time it gives us the chance not only to collect opinions but also a possibility to create awareness.

In order to gather comprehensive feedback from our partners, we included in this dialogue representative from our most important stakeholders. An online survey for employees allowed for anonymity, was sent to 320 email addresses and 158 replies received. Investors and clients allowed us to further understand their requirements and expectations in the coming years, while speaking to suppliers made it possible for us to engage them

QUOTE FROM THE EMPLOYEE SURVEY:

"I think product recycling and circularity is an important aspect, but the first steps to getting there is a sustainable choice of material, chemical management and resource efficiency."

in our sustainability journey so that they could also appraise their own capacities and challenges. The external stakeholder dialogue was conducted with the support of an external consultancy service. Our business intelligence was complemented by surveys and discussions conducted together with:

- 2 investors, one Nordic and one North American
- 2 suppliers, one European and one Asian
- 2 employees, both European
- 2 clients, both European

We consistently feed our materiality analysis through stakeholder dialogues.





There was positive feedback from stakeholders, and it confirmed the importance of our continuous work. The most highlighted areas raised through our dialogues were sustainable materials, resource efficiency and anti-corruption and transparency. At a workshop with the management team the summary of the stakeholder dialogue was presented. We analysed it from a dual perspective: how relevant they were to our key stakeholders and the impact of Nilorn on those topics. The result was a creative and useful dialogue about future sustainability opportunities and challenges and how best to tackle them. Together with a context analysis of the industry, we have defined sustainability ambitions to be reached by

2025 and aligned them with our most material issues. The outcome will also lead to a clearer set of KPIs.

Besides the stakeholder dialogue conducted in 2019, we have periodic communication sessions with our key partners. Read more about this year's employee survey on page 42.

Nilorn has identified the following stakeholders as the most important to focus on. The table below lays out how we regularly engage with them and the areas they have identified as being key for Nilorn's work with sustainability.

STAKEHOLDER GROUP	MEANS TO COMMUNICATE ABOUT SUSTAINABILITY	PRIORITISED AREAS
<b>Clients</b>	Meetings, local customer support, magazine, fairs and events	Anti-corruption and Code of Conduct, resource efficiency and CO2 emissions, sustainable materials, end of life of products, supply chain management.
<b>Employees</b>	Meetings, training, Intranet, workshops, performance appraisals, surveys	Product materials, environmental aspects, work environment and employee development.
<b>Investors</b>	Reporting, meetings, surveys	Business ethics and governance, anti-corruption, strategy, environmental issues.
<b>Suppliers</b>	Meetings, supplier package, fairs and events	Anti-corruption, code of conduct and business ethics, sustainable materials and resource efficiency, employee's work environment.
<b>NGOs</b>	Initiatives, conferences	Raw material, product development, wages.
<b>Industry</b>	Memberships, working groups	Chemicals, product development, recycling and waste management.



## IDENTIFIED MATERIAL TOPICS

Based on these dialogues, we have identified the following material topics, as illustrated on next page:

Sustainable raw materials, product end-of-life, product traceability, resource efficiency (water, energy, waste and transportation), GHG emissions, chemical management, requirements on suppliers (social, environmental and human rights), business ethics and anti-corruption, diversity and equal opportunities, work environment, health and safety and development and growth of our employees.

# Our sustainability strategy: Supporting our clients to be more fit for the future

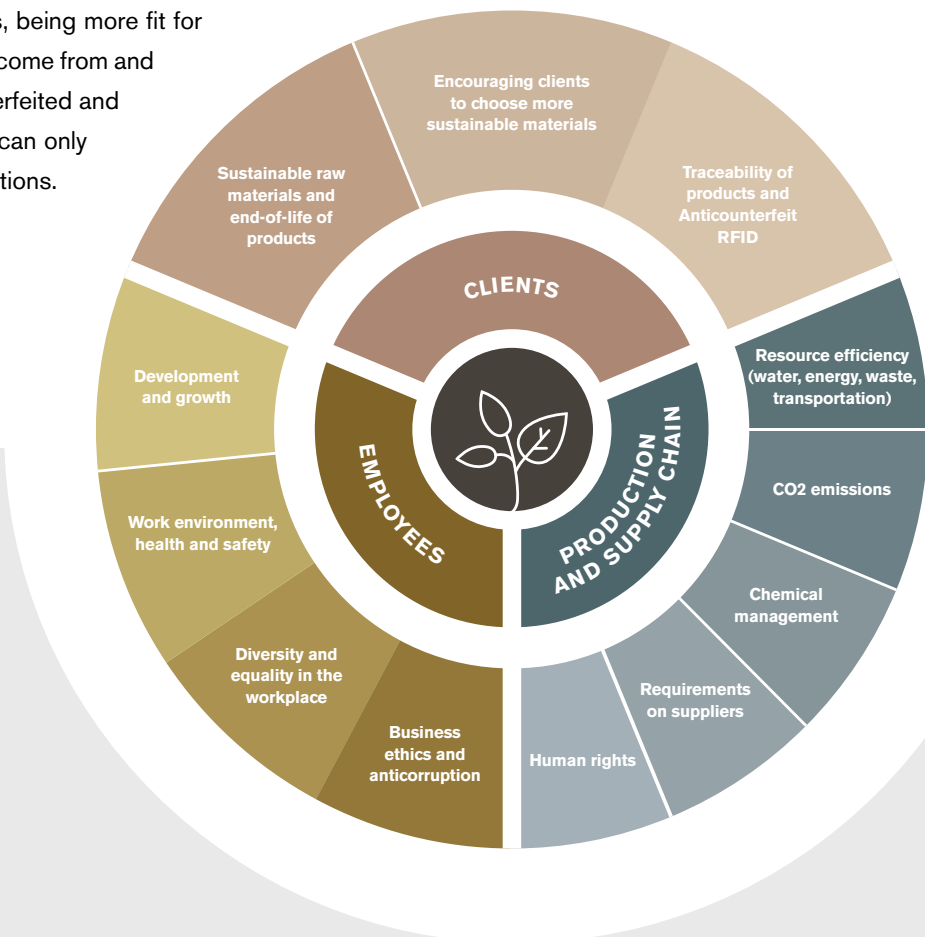
We see sustainability as an integral part of becoming more fit for the future. To us, being more fit for the future means supporting our clients in being able to trace where their products come from and where they are heading. It also entails preventing their products from being counterfeited and delivering the right information to their own clients. In today's world, this purpose can only be achieved by embracing and integrating recent technologies and innovative solutions.

Nilorn sustainability strategy More Fit for the Future is based on the company's mission "Adding value to your brand" together with the global Sustainable Development Goals (SDGs) and the materiality analysis carried out in 2019. The strategy is built around three pillars: clients, production and supply chains, and employees. Read more about each issue in the section about our three focus areas.

## POLICIES

In order to ensure the proper implementation of our sustainability strategy, we have developed a number of internal policies that support our vision and values. How we work with them is presented in each of the following sections within our focus areas.

- Animal welfare policy
- Anti-corruption policy
- Code of ethics and business conduct
- Corporate responsibility and sustainability policy
- Human resource policy
- Human rights policy
- Supplier code of conduct



# The most relevant SDGs for Nilorn

At the initiative of the UN, the international community formulated and adopted 17 global Sustainable Development Goals (SDGs) in 2015, aiming to eradicate poverty and malnutrition and to ensure a truly sustainable development across the social, environmental and economic dimensions. To meet these goals, businesses are explicitly called to contribute to the global sustainability agenda.

We are committed to minimising the way our business could, in any way, slow the transition towards the future envisioned by the 17 goals. Based on previous analysis and stakeholder dialogue, where we looked into the challenges and opportunities the fashion industry is facing in relation to the sustainable development goals and their targets, we found that six global goals and targets are of particular relevance for Nilorn, and we are committed to promoting them throughout our value chain.



## ACHIEVE GENDER EQUALITY AND EMPOWER ALL WOMEN AND GIRLS

Gender inequalities are still deeply rooted in society. Empowering women to overcome them is essential. Women suffer from lack of access to decent work and face occupational segregation and gender wage gaps. We have a responsibility to address these challenges and promote women at all levels of decision-making. Gender equality is a critical issue for global supply chains in particular, as there is a big opportunity to make an impact by creating job opportunities and sources of income for women. Women hold 60 to 90 percent of global supply chain jobs, particularly in the apparel and agricultural sectors. Our share of the apparel sector is men-dominated. This asks of us a special focus to raise awareness about the equality of the genders throughout the supply chain.



## ENSURE AVAILABILITY AND SUSTAINABLE MANAGEMENT OF WATER AND SANITATION FOR ALL

One target under this development goal is to improve water quality by reducing pollution, eliminating dum-

ping and minimising the release of hazardous chemicals and materials. In our supply chain we can work with water issues directly by being more efficient in the processes that require water and ensuring proper waste-water treatment. We also indirectly take part in projects aiming at improving the conditions further upstream, such as through our engagement with MinShed and Cotton made in Africa.



## PROMOTE SUSTAINED, INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH, FULL AND PRODUCTIVE EMPLOYMENT AND DECENT WORK FOR ALL

We commit to implementing social standards, such as living wages and decent working conditions in our supply chain. New suppliers are screened, and we encourage our suppliers to adopt quality, environmental and occupational health and safety management systems and certifications, and to include certification schemes used by suppliers in our criteria for choice of suppliers.



## ENSURE SUSTAINABLE CONSUMPTION AND PRODUCTION PATTERNS

One target for this development goal is to substantially reduce waste generation through prevention, reduction, recycling and reuse. At Nilorn we have adopted policies to choose more environmentally friendly materials, increasing the use of recycled materials and taking action for a sound management of chemicals. Nilorn has joined the bluesign® system to put the whole production chain in focus and strive to protect health and the environment across the entire chain of production. In 2020 we also started the implementation of Higg index FEM in own production and supply chain.



## TAKE URGENT ACTION TO COMBAT CLIMATE CHANGE AND ITS IMPACTS

Climate change is one of the most pressing environmental issues of our time and it is a global challenge that does not respect national borders. Here the issues are clearly linked to a more circular use of materials and resources, and we see an increased interest in this from both clients and

the supply chain. We measure the impact of business travel and energy consumption and will increase our use of energy from renewable sources. We must also be aware of the risk of climate change affecting our supply chain located in areas likely to be affected and see how we can be involved in adaptation.



## STRENGTHEN THE MEANS OF IMPLEMENTATION AND REVITALISE THE GLOBAL PARTNERSHIP FOR SUSTAINABLE DEVELOPMENT

The achievement of the SDGs depends on the collaboration of many different actors, including businesses. As a small but global player, Nilorn has to co-operate with others and participate in business initiatives, such as MinShed. Also, by aligning with standards and certifications like bluesign®, Oeko-Tex® and GRS.





# Sustainability risk analysis

Nilorn's risk management approach follows our decentralised structure, which also applies to our sustainability risks. The Board is overall accountable to Nilorn's owners, while the work concerning risks at the operational level is controlled by each Nilorn country CEO, its management team and other relevant employees. All managers at Nilorn with operational responsibilities are expected to ensure that risks associated with their operations are appropriately identified, evaluated and managed.

## INTERNAL CONTROL

In order to ensure that all group companies follow the guidelines set for the Group, Nilorn has introduced a control system to verify the various processes and ensure that financial reporting is correct. The controls for the various processes and risk elements are assessed through self-assessment, internal audit and internal meetings. The answers in the self-assessment are verified by the company's external auditors.

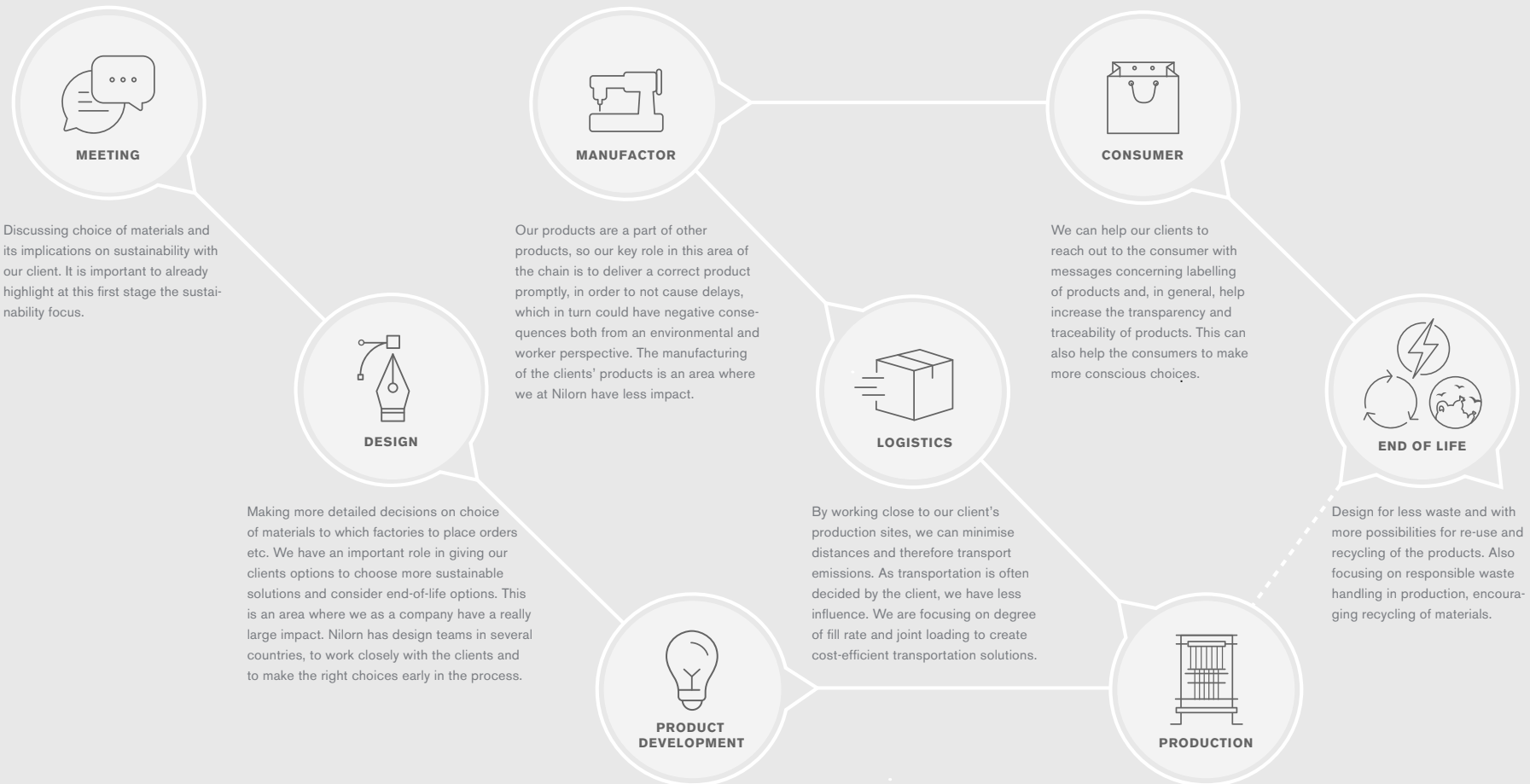
Nilorn has no separate internal audit function. However, Nilorn has a defined process for evaluating and monitoring the internal control. In this process, a self-assessment is carried out by each group company for certain key areas where they assess

whether they follow the routines set for the Group. They also fill out a questionnaire regarding the internal control for monitoring functions, including areas like governance, risk assessment, information/communication and monitoring and follow up. In addition to this, the companies are audited internally according to a rolling schedule, based on size within the group and unpredictability, in order to verify that the self-assessment carried out is accurate. The outcome of the self-assessment, the questionnaire and the internal audit for selected entities are presented to the Audit committee each autumn. In 2020, a CSR section was added to the self-assessment, including questions about waste management, fire protection and the internal environmental checklist.

The global developments of the Coronavirus pandemic and the complex risk scenarios in 2020 has raised new sustainability issues and ways of working. Priorities in these complex risk scenarios are human safety and the protection of life.

RISK CATEGORY	RISK DESCRIPTION	RISK CONSEQUENCES	RISK MITIGATION
<b>Anti-corruption, business ethics and compliance</b>	<ul style="list-style-type: none"> <li>- Risks that legal and regulatory requirements are not met.</li> <li>- Risk of corruption, especially in high-risk countries.</li> <li>- Global pandemics affecting compliance.</li> </ul>	<ul style="list-style-type: none"> <li>- Negative reputational and/or financial impact.</li> </ul>	<ul style="list-style-type: none"> <li>- Establish appropriate procedures, monitoring and reporting to prevent violation of laws, corruption or processing of personal data. Nilorn has a group governance framework and compliance in place, including anti-bribery and corruption policy. The policy clearly identifies which conduct is prohibited and how to report suspected violations.</li> <li>- Third party social audits at own production units.</li> <li>- Training of staff to ensure internal compliance with the policy.</li> <li>- Considering the implementation of a whistleblowing system to improve our internal mechanism to identify and report potential cases of corruption.</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>- Contributing to climate change through GHG emissions from our operations.</li> <li>- Negative impacts on the environment linked to our choice of materials, use of natural resources and chemicals and waste management.</li> <li>- Natural disasters associated to climate change affect our and our suppliers' production.</li> <li>- Difficulty to meet demand of more environmentally conscious products by our clients.</li> <li>- Not being able to respond to increased demand to understand the climate change effect on both internal and external operations.</li> </ul>	<ul style="list-style-type: none"> <li>- Soil and water contamination and air pollution that affect communities or our employees' wellbeing.</li> <li>- Breach of legal requirements.</li> <li>- Negative reputational and/or financial impacts.</li> <li>- Problems with supply due to climate-related incidents.</li> <li>- Not being able to meet clients' expectations.</li> <li>- Loss of trust from clients, resulting in termination of the business relation.</li> </ul>	<ul style="list-style-type: none"> <li>- Maintain continuous awareness of new regulations and market demands.</li> <li>- Measuring own GHG emissions and aiming at reducing them.</li> <li>- Supplier environmental screening during procurement in order to ensure the minimum level from business partners.</li> <li>- Apply framework for handling chemicals adapted to EU legislation REACH and apply Nilorn Restricted Substance list.</li> <li>- Focus on improved efficiency to minimise environmental impact in our own operations and supply chain, the bluesign certification being one method.</li> <li>- Continuous innovation of our products with sustainability as a criterium in the design phase.</li> </ul>
<b>Health &amp; Safety</b>	<ul style="list-style-type: none"> <li>- Work-related injuries and illnesses among own employees and suppliers' employees.</li> <li>- Global pandemics affecting employees and suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>- Fatal accidents, serious injuries or long-term absenteeism.</li> <li>- Employees' dissatisfaction resulting in difficulties to retain and recruit talent.</li> <li>- Loss of trust from investors and clients resulting in termination of the business relation.</li> <li>- Negative legal, financial and/or reputational consequences.</li> <li>- Supply chain disruptions: delays in delivery and increased costs.</li> <li>- Sickness due to contagion of virus and mental distress of employees.</li> </ul>	<ul style="list-style-type: none"> <li>- Continue to build a common H&amp;S culture and effective management systems.</li> <li>- Code of conduct.</li> <li>- Third party social audit at own production units and external suppliers' sites.</li> <li>- Social screening of potential suppliers during procurement in order to ensure a minimum level from business partners.</li> <li>- Awareness-building and adjusting workspace.</li> <li>- Enabling a remote and agile working style when possible.</li> <li>- Safe working practices following local authorities' health recommendations.</li> </ul>
<b>Human rights</b>	<ul style="list-style-type: none"> <li>- Non-compliance with labour standards such as lack of regulated working hours, breach of freedom of association and lack of decent wages in suppliers' workplaces.</li> <li>- Child or forced labour at suppliers in high-risk countries.</li> <li>- Discrimination in the workplace.</li> <li>- Global pandemics affecting human rights.</li> </ul>	<ul style="list-style-type: none"> <li>- Negative legal, financial and/or reputational consequences.</li> <li>- Termination of business relations with suppliers.</li> <li>- Loss of valuable competence thereby decreasing the innovative capacity.</li> <li>- Not demonstrating respect for human rights considering own employees and those involved in the supply chain.</li> </ul>	<ul style="list-style-type: none"> <li>- Supplier Code of Conduct signed by suppliers.</li> <li>- Third party social audit at own production units and external suppliers' sites.</li> <li>- Human rights screening of potential suppliers in order to ensure minimum standards.</li> <li>- Modern Slavery Statement.</li> <li>- Ensuring fair payment of wages and paying suppliers for finished goods and goods in production. Exploring ways to engage closer with suppliers to ensure decent working conditions.</li> </ul>
<b>Supply chain</b>	<ul style="list-style-type: none"> <li>- Suppliers not complying with the Supplier Code of Conduct and not following national laws and regulations.</li> <li>- Lack of established supply chain for sustainable materials.</li> <li>- Global pandemics affecting the supply chain.</li> </ul>	<ul style="list-style-type: none"> <li>- Negative reputational consequences.</li> <li>- Failing to meet the requirements of our clients.</li> <li>- Supply chain disruptions: delays in delivery and increased costs.</li> <li>- Inability to introduce and offer new materials with less environmental impact.</li> <li>- Inability to travel and visit production.</li> <li>- Production disruptions caused by lockdowns to contain the spreading of the virus.</li> </ul>	<ul style="list-style-type: none"> <li>- Continue to build strong supplier relationships.</li> <li>- Increase awareness of Code of Conduct, environmental requirements and other policies.</li> <li>- Own and third-party audits of suppliers.</li> <li>- Consolidate and focus on preferred suppliers.</li> <li>- Collaborate with supply chain for the development of new materials.</li> <li>- Using digital meetings and consider the use of new supply chain technologies.</li> </ul>
<b>Strategic</b>	<ul style="list-style-type: none"> <li>- Risk of not focusing sustainability work appropriately: incorrect questions and challenges are raised and/or questions are not handled properly.</li> <li>- Global pandemics affecting strategic decisions.</li> </ul>	<ul style="list-style-type: none"> <li>- Missing key areas for business opportunities.</li> <li>- Failing to meet investors' and clients' expectations.</li> <li>- Unforeseen events may push to short-term thinking and actions.</li> </ul>	<ul style="list-style-type: none"> <li>- Continuous stakeholder dialogue.</li> <li>- Business intelligence on sustainability trends and innovations.</li> <li>- Communication of sustainability strategy internally and externally.</li> <li>- Balance short and long-term decisions.</li> </ul>

## TOWARDS A SUSTAINABLE VALUE CHAIN











In our work to become a more sustainable company, we integrate a sustainability perspective in the various parts of the value chain with the ambition to create a positive impact.



# Traceability for sustainability

Both our clients and our company are increasingly focusing on and working to include a sustainability perspective into our practices and business relationships. Along with this shift in business practices, we see a proliferation in the use of different standards and labels. These are not goals as such, but rather a tool to ensure third-party verification of sustainable business practices and a transparent way of communicating with our partners about which standards we stand by. Yet, the development of multiple quality and sustainability marks makes it a system that is sometimes difficult to navigate. Many standards overlap in areas like social compliance, but there are also those that are more specific and target a certain topic. This is why we include in the table to the right a list detailing the standards most commonly used by Nilorn and their focus areas:

<div>REQUIREMENTS</div> <div>STANDARDS</div>	SOCIAL			ENVIRONMENTAL				MANAGEMENT		ETHICS	
	Human rights	Work conditions	Employment	Bio-diversity	Chemicals	Waste	Water	Social management system	Supply chain responsibility	Anti-corruption and bribery	Compliance to legislation
	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
 BSCI Trade with purpose	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
 For workers' rights. For better business.	✓	✓	✓					✓	✓	✓	✓
 SYSTEM PARTNER	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓
 OEKO-TEX® STANDARD 100 CONFIDENCE IN TEXTILES 100% NO HARMFUL SUBSTANCES Resistant to harmful substances www.oeko-tex.com/en/standard100					✓			✓	✓		✓
 Global Recycled Standard	✓	✓	✓		✓	✓	✓	✓			✓
 GLOBAL ORGANIC TEXTILE STANDARD GOTS - ORGANIC	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
 FSC	✓	✓	✓	✓				✓	✓	✓	✓

**SMETA** — Sedex has created the Sedex Members Ethical Trade Audit (SMETA) – a common audit methodology and report format aiming to drive consistency of data from the auditing process. The SMETA audit checks specifically against the ETI base code and how it is distributed to employees and the supply chain, relevant local laws, environmental performance, subcontractors/home workers, eligibility to work and understanding of the ETI base code. Read more about how we participate in SEDEX on page 37.

**BSCI** — Business Social Compliance Initiative, an initiative of Amfori, is a common and standardised approach for monitoring social standards, in all supplier countries for all consumer goods. It attempts to involve all stakeholders in Europe and supplier countries to ensure that there are no issues of competition between countries, suppliers and retailers. BSCI is not a certification system; rather it provides a specific process with uniform management instruments for members, suppliers, auditors and qualifiers. Read more about how the BSCI audit program is part of our supply chain on page 37.

**ETI base code** — The ETI Base Code is negotiated and agreed by the founding trade union, NGO, and corporate members of ETI, and contains nine clauses which reflect the most relevant conventions of the International Labour Organisation with respect to labour practices. Read more about how we implement the Nilorn code in our supply chain on page 36.

**bluesign®** — The bluesign® system uses a strict system of audit and chemical management to eliminate harmful substances throughout the supply chain. bluesign® provides brands and consumers with reassurance that their product meets stringent consumer safety requirements and is produced in a sustainable



manner. The bluesign® labels cover: responsible use of resources, production with a minimum impact on people and the environment and the highest level of consumer safety. Read more about Nilorn bluesign® system partner on page 23.

**OEKO-TEX®** — Introduced in 1992 the STANDARD 100 by OEKO-TEX® is a worldwide consistent independent testing and certification system for raw, intermediate and end textile products at all stages of processing. The standard is a comprehensive and strict catalogue of measures based on legal regulations, REACH, CPSIA as well as numerous harmful chemicals not yet regulated. Read more about OEKO-TEX® on page 36.

**GRS** — The Global Recycled Standard is an international, voluntary, full product standard that sets forth requirements for third-party certification of recycled content, chain of custody, social and environmental practices and chemical restrictions.

The objectives of the GRS are to define requirements to ensure accurate content claims and good working conditions, and that harmful environmental and chemical impacts are minimised. Read more about Nilorn and GRS on page 36.

**GOTS** — The Global Organic Textile Standard is a voluntary global standard for the entire postharvest processing (including spinning, knitting, weaving, dyeing and manufacturing) of apparel and home textiles made with certified organic fibre (such as organic cotton and organic wool), and includes both environmental and social criteria. Key provisions include a ban on the use of genetically modified organisms (GMOs), highly hazardous chemicals (such as azo dyes and formaldehyde), and child labour, while requiring strong social compliance management systems and strict waste-water treatment practices. Read more about GOTS on page 36.

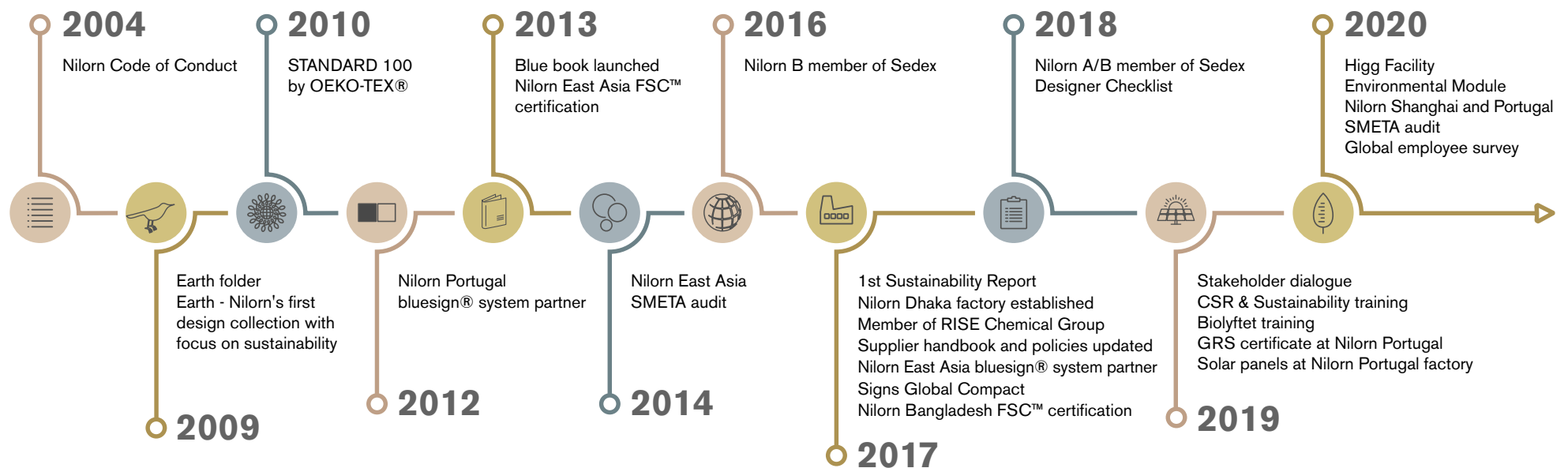
**Cradle to Cradle®** — is a set of design principles which was developed in the 1990s. It stands for innovation, quality and beneficial design. Cradle to Cradle® describes the safe and potentially infinite circulation of materials and nutrients in cycles. The standard aim to measure of safer, more sustainable products made for the circular economy. Read more about how we include the standard in product development on page 26.

**FSC™** — Forest Stewardship Council is an international non-profit organisation dedicated to promoting responsible forestry. FSC™ certifies forests all over the world to ensure that they meet the highest environmental and social standards. Products carrying the FSC™ label are independently certified to assure consumers that they come from forests that are managed to meet social, economic and ecological requirements. Read more about our ambition in using FSC™ paper on page 22.

## AT NILORN, WE LOOK BACK ON OVER SIXTEEN YEARS OF COMMITMENT TO SUSTAINABILITY

WE ARE PROUD TO PRESENT THE FOLLOWING HIGHLIGHTS FROM OUR SUSTAINABILITY WORK IN 2020:

- We remain a learning organisation. 2020 was the year where we focused on training with over 10 internal webinars in topics such as 'Using recycled LDPE for Polybags', 'FSC™ – Forest Stewardship Council' and 'GOTS - impact on labels, trims and packaging'.
- We deepened our commitment to recycling. We continued our GRS certification, with Nilorn Bangladesh applying in late 2020 and Nilorn East Asia at the beginning of 2021. Nilorn Portugal holds a GRS certificate since 2019.
- To better measure our environmental performance, the work with Higg Facility Environmental Module (Higg FEM) was initiated at Nilorn East Asia, Bangladesh, Portugal and Turkey. It was also implemented with a majority of the preferred suppliers.
- Our employees were our highest priority. We supported Nilorn co-workers for them to feel safe in our production lines and adapt to the challenges of working from home amid the Coronavirus pandemic. We successfully transitioned to digital meetings and training courses.







# Approach to focus area 1. Clients

Our mission to add value to our clients' brands means, to us, ensuring that we collaborate and share knowledge with our business partners. This includes developing sustainable products in close cooperation with our clients and together reduce their environmental impact. Today, sustainable materials are at the core of many of our clients' product design and sustainability strategy. Some of them even strive for a more circular business model, which will naturally lead to sourcing and producing with more sustainable materials that are easier to repurpose, reuse and recycle. Considering the end-of-life of these products becomes a cornerstone and ensures that the circularity loop is closed. At Nilorn we understand these challenges and we embrace them as a source of sustainable growth for our business.

We also see our role in the industry as a proactive one. Not only do we hope to support clients who have already welcomed sustainability into their business; we also wish to encourage and guide clients who are comparatively new to these issues. As a result, we present the latter clients with sustainable alternatives, we inform them on the advantages of these solutions, and we accompany them in this transition.

Among the benefits of modern technologies, the traceability of products is one that we welcomed. Using technologies like RFID, we provide transparency and help our clients to prevent counterfeiting of their products. These smart solutions not only add value to our clients' brand, they also support them and their end consumers to have access to reliable information and the certainty that the products they receive meet high environmental, social and anti-corruption standards.

We see that this area can substantially contribute to four global goals. By designing and using more sustainable fibres and plastics, we hope to substantially reduce the impact that our products have on water sources, reuse disposed materials and decrease the amount of waste they generate. Likewise, when supporting our clients to choose more sustainable alternatives, we aim at fostering more sustainable consumption with a lower impact on the planet. This can only be achieved through partnerships with industry players and industry initiatives that guarantee high standards among the materials and technologies that we carefully select. Our report focuses on reporting our impact and how we work with more sustainable materials to support clients in their product decisions.

## KEY ISSUES

- Sustainable raw materials and end-of-life of products
- Encouraging clients to choose more sustainable materials
- Traceability of products and anti-counterfeit, RFID



TARGET 2025	STATUS 2020
100% certified claim paper, of which 80% is FSC™	40% of paper in Nilorn East Asia and Shanghai is FSC™ certified.
100% recycled polyester	100% recycled polyester in weft and warp are available in all our production markets.
100% of Nilorn internal design collections in sustainable materials	75% of the design collections represent a more sustainable product.
Map our supply chain back to raw material level enabling full supply chain traceability	Initiated but not completed, dependent on the implementation of common ERP system.



## CHOOSING AND OFFERING MORE SUSTAINABLE RAW MATERIALS

Being a producer and working with labels, packaging and trims for the textile industry, we use a broad selection of materials. Our responsibility lies in choosing and offering more sustainable raw materials. We also wish to support our customers in making more responsible choices and select products made of materials that have a lower impact on the planet. This is why we integrate a more circular thinking into our design and continuously increase our co-workers' knowledge to make this happen.

We also rely on material certifications to guide our choices and keep ourselves constantly updated to integrate innovative materials and solutions that decrease our and our clients' indirect environmental impact. Certifications and standards relevant for more sustainable material are Oeko-Tex, FSC, GRS, Cradle to Cradle and bluesign.

## ANIMAL WELFARE

A policy related to materials is our animal welfare policy. As a supplier of labels and branding products made from materials that are sometimes of animal origin, we recognise our responsibility to protect animal welfare. Nilorn works to secure materials from responsible sources and with respect for animal welfare. All suppliers or companies subscribing to this policy must follow national and international legislation regarding animal welfare. Animal-based materials are only obtained as a by-product and not as the sole purpose of the slaughter of an animal and never from vulnerable or endangered species.



# SUSTAINABLE RAW MATERIALS AND END-OF-LIFE OF PRODUCTS

Our clients are looking for new alternatives, both for labels and packaging, and many of them have clear targets to increase the use of more sustainable materials. Our role is to support and guide our clients as we see an increasing demand for materials that are renewable, recyclable and fossil-free.

We currently work with recycled and compostable plastics, FSC™ certified paper, recycled polyester, OEKO-TEX® certified textiles and GOTS cotton to mention some. We are constantly testing new materials that enhance durability and product properties, such as a wood-fibre bio-composite and Tencel™.

Moving away from petroleum-based raw materials will certainly be a major step. Using bio-based and/or recycled material leads to new questions regarding how the raw material has been collected and its chemical content. While the requirements on hazardous substances for recycled materials are the same as for the virgin materials, new materials may require new knowledge about, for example, recycling possibilities. This is obvious for some of the bio-based materials used for plastic packaging. Additionally, sourcing materials that are organic or recycled may also, in some cases, demand shifting from our traditional supply chains to sourcing from new ones. Below

are some of the materials and certifications we have assessed in our search for more sustainable raw materials.

## PACKAGING MATERIALS

Product packaging has a vital role in protecting our client's product from production via transportation and stores to the consumers. The most unsustainable packaging is the one where the product is damaged. Packaging production entails the use of valuable raw materials and is a source of greenhouse gas emissions. Also, after use, packaging will most often become waste and currently, plastic waste is considered one of the most critical pollutants adversely affecting wildlife, especially marine habitats. Providing packaging solutions with a low environmental impact as well as recyclable materials is a material topic for Nilorn. As a result, it is important to understand the existing sustainable alternatives and their pros and cons. With the information below, we hope to help our stakeholders make more informed decisions that match their needs for packaging materials.

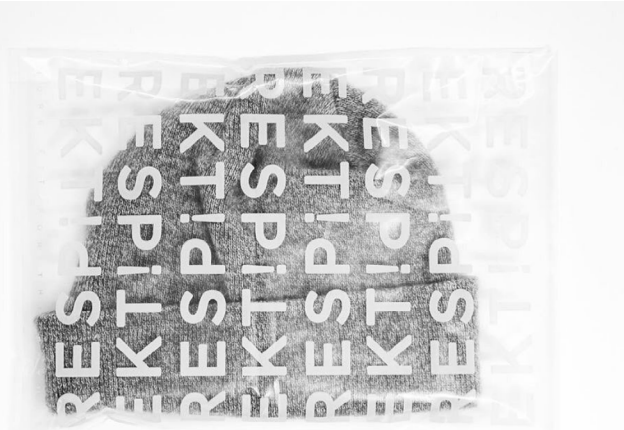
## E-COMMERCE

Many consumers have discovered the convenience of e-commerce during the pandemic. In 2020, the share of e-commerce in retail sales grew at two to five times the rate before Covid 19, increasing its share of total retail sales by several multiples.

*Source: Euromonitor International Retailing 2021 Edition;  
McKinsey Global Institute analysis safety and the  
protection of life.*







### RECYCLED PLASTICS

Recycling of plastics is controversial. While most materials can be recycled, many still are not because the process is expensive, complicated and sometimes due to a poor result of the recycled material. There is a problem with contamination and a high variety in plastic waste streams in different countries.

The price of plastic is low, and the lack of financial incentives is also keeping recycling at a lower level than what is possible. Chemical recycling, using a different process, is often communicated as a solution. One option often used is the pre-consumer waste generated in the production of polybags. We are also involved in a German project looking at using waste from the 'yellow bin' to increase the use of post-consumer materials. As so often when working with materials based on waste, there have been issues with unpleasant smells and finding the right quality. However, by working closely together with the producer and client we are now moving towards a desired product that will be able to be used as polybag for transporting garments.

We believe that by using recycled plastic in our products, we are involved in and drive demand for recycled material, which in turn can lead to better waste management and increased recycling rates for plastics. In 2020, 88% of our total number of delivered polybags were made from pre- and/or post-consumer plastic material. We are sourcing for more alternatives where the amount of post-consumer material is higher.

### BIO-BASED PLASTIC

Bio-based means that the material or product is (completely or partly) derived from a renewable source, i.e., biomass (plants) or carbon dioxide. Biomass used for bioplastics stems from, for example, corn, sugarcane or cellulose.

Bioplastics are bio-based, biodegradable, or both. In other words, 100 percent bio-based plastics may be non-biodegradable, and 100 percent fossil-based plastics can biodegrade. An example is Braskem's 'I'm green™ Polyethylene' produced from sugar cane, which can be recycled within the same chain of recycling as traditional polyethylene. Biobased raw materials help us reduce the use of fossil-based materials.

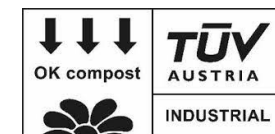
### BIODEGRADABLE PLASTIC

Biodegradation is a chemical process during which micro-organisms that are available in the environment convert materials into natural substances such as water, carbon dioxide and compost (artificial additives are not needed). The process of biodegradation depends on the surrounding environmental conditions (e.g., humidity and temperature), on the material and on the application. The property of biodegradation does not depend on the resource basis of a material but is rather linked to its chemical structure. Biodegradability is an area of growing interest and is often viewed as a solution to litter. There is concern that the mistaken idea that this material will necessarily break down in the natural environment could lead to an increase in littering.

### COMPOSTABLE PLASTIC

In order to be recovered by means of organic recycling (composting), a material or product must be biodegradable. Compostability is a characteristic of a product, packaging or associated component that allows it to biodegrade under specific conditions (e.g., a certain temperature, timeframe, etc). These specific conditions are described in standards, such as the European standard on industrial composting EN 13432 (for packaging) or EN 14995 (for plastic materials in general). Materials and products complying with this standard can be certified and labelled accordingly.

Often, plastics that are referred to as 'biodegradable' or 'compostable' require industrial composting facilities to decompose and they will not break down in the natural environment. Most standards available are for industrial composting and the conditions in home composts and the open environment are very different from industrial composting plants, and this affects the rate and extent of breakdown. The fact it is very hard to distinguish between a conventional and a biodegradable plastic means they may contaminate existing recycling streams. If they were to be more widely adopted, it is generally accepted that they would need a separate collection system.



Example of labelling for the industrial compost standard EN13432



Example of labelling for the home compost standard AS 5810

## PAPER

Responsibly produced and used, paper has many advantages over other non-renewable materials, as wood fibre is a renewable and sustainable natural resource.

### FSC™ CERTIFICATION

With our FSC™ certificate for Nilorn East Asia and Nilorn Shanghai we report the delivered quantities to the FSC Secretariat. There was a 55 (35) percent increase in the amount of FSC-labelled products sold in 2020 and FSC-certified papers' share in the paper product groups was 40(20) percent. We see the same trend in the production of FSC-labelled products produced at external production units, but we are not able to follow this statistic with our current business system. Nilorn UK started the certification process in 2020; due to the pandemic it has taken longer than planned but was finalised at beginning of 2021. Nilorn Germany, India, Portugal and Turkey will also go through the FSC™ certification process in 2021.

### WASTE STREAM FOR RECYCLING AVAILABLE

Recycled paper is any type of paper that is collected and recycled. It can be newspapers and printed matter, books, office paper, cardboard and corrugated cardboard. Recycled paper is an important raw material for the pulp and paper industry. Looking at the entire world, recovered fibre constitutes about half of the raw material used in papermaking. The rest is fresh wood fibre from the forest.

The pulp mill cleans the recycled paper, removing dirt and printing ink. The paper is then dissolved into a recycled pulp and

that pulp becomes raw material for new paper and cardboard. Usually, the recycled fibre is mixed with a virgin fibre to give the paper the desired quality. Paper fibre can often be recycled 6–7 times before the fibre is consumed, but paper cannot be recycled forever because the fibres it consists of become too short and worn out and can ultimately not be used to create new paper.

Paper is a product that is easy to recycle, and diverse types of recycled paper are available, depending on the market as well as a country's waste streams and recycling industry. A recycled paper could be certified, i.e., an FSC™ recycled certification, but it could also be a product outside a certification/validation scheme. For the paper products we produce, we aim to include more recycled materials.



## MINSHED – A RESEARCH PROJECT ON MICROPLASTICS

In recent years, there has been major focus on the micro-sized particles of plastics called microplastics and the number of negative consequences of them on humans and their natural environment. MinShed was a research project running between 2018 and 2020 that Nilorn participated in to learn more about materials and microplastics in our part of the textile industry.

When participating in the MinShed project we had the opportunity to test some of our polyester labels and the release of particles. A screening method developed by RISE was used. Both woven and printed polyester labels were included, in both virgin and recycled materials. The result showed no significant difference between the two versions of the material, and this was important for us to understand as the share of recycled material in our products is increasing.

## TEXTILE LABELS

The majority of our products are various kinds of textile labels. Polyester is traditionally the most commonly used fibre in our production due to its properties, and an option often used today is recycled polyester, which has less environmental impact than the virgin material.

We are also looking at other alternatives. Testing with a mix of Tencel™ and cotton is ongoing; the challenge has been to reach the desired level of stability and shrinkage. Bio-based textiles like hemp and wool are also attracting more interest from our clients.

The STANDARD 100 by OEKO-TEX® has been the base for our textile product offer for many years. We had our first certification as early as in 2010. Today we are able to offer woven and printed labels certified according to STANDARD 100 by OEKO-TEX® for our Nilorn group certificate, and, in addition, some metal and plastic accessories and heat transfer.

Several of our clients in the outdoor segment of the industry are committed to the bluesign® system. This system provides its participants with a chemical management tool. It is not about testing finished products, but rather ensuring that the process is carried out correctly, all the way from its first stage. Everything from raw material and component suppliers to textile manufacturers and retailers, should meet the same criteria. Nilorn Portugal has been a bluesign® system partner since 2012 and Nilorn East Asia became a bluesign® system partner in 2017.

Global Recycling Standard (GRS) is intended to meet the needs of companies looking to verify the recycled content of their products (both finished and intermediate) and to verify responsible social, environmental and chemical practices in their production. 2019 was the year when it was widely implemented

in the supply chain of labels and trims. The objectives of the GRS are to define requirements to ensure accurate content claims and good working conditions, and that harmful environmental and chemical impacts are minimised. Nilorn Portugal has a GRS certificate for woven labels in post-consumer recycled material, Nilorn Bangladesh and Nilorn East Asia are going through the certification process and we expect to receive the certificates during first half of 2021.

The Global Organic Textile Standard (GOTS) is a standard for natural fibres, such as cotton. In order for a product to become certified and labelled with the GOTS symbol, it is required that it is made from organic cultivated cotton and managed, throughout the entire production chain, by factories that are certified according to GOTS by an independent party. We can provide GOTS-certified cotton labels produced in India.

We see increasing interest in biobased and biodegradable fabrics for labeling. Designing biodegradable products is a complex topic: Although biobased or natural fibres and materials inherently might have the ability to degrade, research identifies fibre fragmentation, from both natural and synthetic textiles, as a contributor to environmental pollution. Similarly to plastics and packaging, the challenges lie in the interconnectivity of various factors that make up a fabric, including raw materials, type of yarn and fabric construction, chemistry (e.g. colour, finishing), as well as the environment where the garment/textile will end up after end-of-use. It is crucial to consider the choice of materials and substances when designing for biodegradability as well as where the product will end up after use. Designing for industrial compostability is seen as the safer option, because a product would degrade under controlled conditions. However, access to industrial textile composting is still very limited today.

## OTHER MATERIAL AND PRODUCT DEVELOPMENTS

Material developments are constantly happening, which is why we keep ourselves up-to-date and open to trying more sustainable materials that emerge. These are just a few new materials that we are evaluating and testing for our product ranges:

### DURASENSE™

DuraSense™ by Stora Enso is a wood-fibre bio-composite offering the mouldability of plastics and the strength and sustainability of wood. It is possible to combine fibres with recycled or bio-based polymers to further enhance environmental values. In 2020 we started to test the material in some of our products and we hope to introduce it during 2021.

### NFC ZIPPER-PULLER

The Zipper-puller with an NFC-inlay is a digital product identifier. It can store product information for both sorters/recyclers and end consumers: Material and chemical substances are permanently stored to enable a reverse supply chain of sorting and recycling, while end consumers get access to information related to sustainability or brand services. Digital product identifiers can come in different shapes, such as labels, patches or accessories, and with different technologies depending on their purpose.

### PLA

PLA is used in buttons and is industrially compostable and designed for a circular textile economy: It is based on renewable feedstock and designed for the biological cycle where products – after end of life – decompose back into the natural environment, providing food for bacteria and microbiological life. Industrial composting of garments is only practiced on a small scale today. We will see more of this in the future, related to new ways of producing and consuming textiles, including new business models and brands offering take-back services.

### CORK-TENCEL™

Cork-Tencel™ fabric is a through and through sustainable cork fabric: Cork of the highest quality is applied by hand under fair conditions by Portuguese experts to a natural backing of OEKO-TEX® certified 100% Tencel™ fabric. Water-based glue and a water-based finish guarantee long-lasting quality and durability as well as a fully sustainable approach. The material is 100% vegan and PETA-approved. Used for badges and labels.

### PAPTIC® TRINGA

Paptic® Tringa is made of wood fibres from controlled and sustainably managed forests. The material is completely biodegradable under industrial composting conditions according to EN 13432. It is recyclable with carton board.





# Sustainable product development

## REDUCE – RECYCLE – RETHINK

The use of alternative materials is becoming increasingly important both for our customers and for our own work on taking responsibility. We see many possibilities to integrate better solutions with a lower environmental impact in the products we deliver. Yet, these options must be carefully evaluated to ensure that we are making sound decisions.

We see an increased interest from clients regarding a product's possibility to be recycled. One challenge is that for most brands and retailers, the market is global and there are many different options and recycling alternatives. There are both national and regional differences in the recycling and waste systems, it is obvious that more standardised and effective practices across the EU are needed to make product recycling easier.

80 percent of a product's environmental impact is determined at the design stage.

*Source: European Commission, Sustainable Product Policy*

### DESIGNER'S CHECKLIST

The checklist below has been prepared by the Nilorn design department. It is to be used as a tool in new product developments.

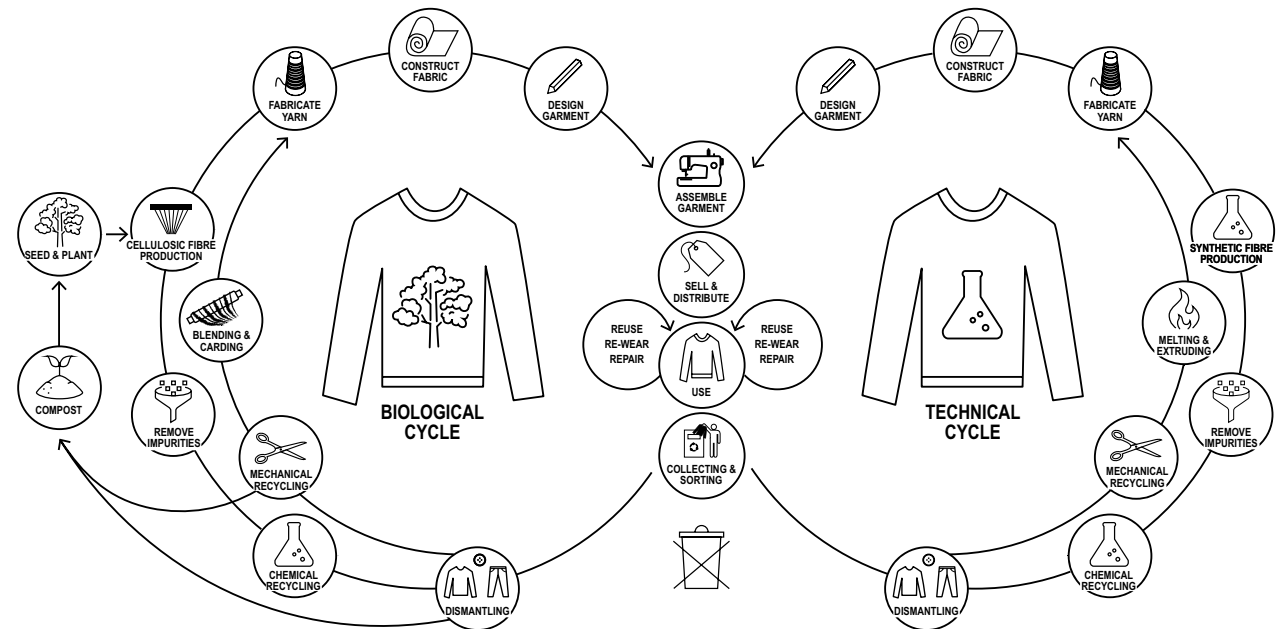
- Does this product serve its purpose? Is it functional?
- Could we use certified materials?
- Is the material suitable for this product?
- Will it last long enough?
- Can it be recycled?
- Is it able to have a second use?
- Will it age with beauty?
- Could it be reduced/minimalised/simplified?
- Can the design be optimised to reduce product waste?



**Cradle to Cradle®** is a school of thought, developed by German chemist and visionary Michael Braungart and American architect Bill McDonough, refining and developing the circular economy concept. This design philosophy considers all material involved in industrial and commercial processes to be nutrients, of which there are two main categories: technical and biological. The Cradle to Cradle framework focuses on design for effectiveness in terms of products with positive impact and reducing the negative impact of commerce through efficiency. Cradle to Cradle Certified® Product Standard – multi-attribute and multi-level certification that guides designers and manufacturers through a continual improvement process and looks at a product through five quality categories: Material health, material reutilisation, renewable energy and carbon management, water stewardship and social fairness. A product receives an achievement level in each category: Basic, Bronze, Silver, Gold or Platinum, with the lowest achievement level representing the product's overall mark.

"Circularity is likely to be one of the key business trends of the next decade. However, it is not the kind of revolution that can be led by a few leaders while others wait and see."

Source: *The State of Fashion 2021*,  
McKinsey & Company



## CIRCULARITY

Labels, trims and packaging are only small parts of a garment, but, nevertheless, they have high relevance. Providing the right trims on a product is key to ensuring its cyclability. Labels encourage durability by providing instructions on how to wash, dry and repair to minimise damage. Furthermore, clear instructions that remain visible on a label until a garment's end of use help ensure recyclability.

Design and material choices play an integral role in creating products that can continuously be circulated back. In 2020

Nilorn continued to develop products supporting a more circular industry with design collections and clients' developments. In our Comeback design collection labels and trims are presented showing the two material cycles – the biological, including material from renewable sources, and the technical, with materials originating from non-renewable resources. For the first time, we used Cradle to Cradle Certified® materials for packaging and labels. An internal training course focusing on circularity was held to increase knowledge across our team.



## Supporting clients to make more sustainable choices

For the past years, technologies that power product traceability and transparency have undergone a fast-paced development. Solutions known under the name of Radio Frequency Identification (RFID), Near Field Communication (NFC) and unique QR-codes are revolutionizing how companies make their supply chains more efficient, how brands connect to their customers and the way end consumers make more informed decisions. Through the scanning of a code, it is potentially possible to trace a product from cradle to cradle, which increases transparency and prevents product counterfeit and theft. All of this in real time.

Martin Arvidsson, Manager for the Retail Information Systems business area, leads this exciting journey at Nilorn. Martin is responsible for the development of variable data labels and IT solutions for business partners. With his twenty years of experience at Nilorn he has seen the transformations in this area. 'We started working with RFID innovations in the early 2000s but the technology was expensive and only in the early stages back then. Today, RFID has matured into a solution that has revolutionised the way supply chains are managed and is accessible to big and smaller companies.'

But what is so special about attributing products a unique digital identity? It is now possible to know when products are at a certain location and time for follow-up on product stockage and ensure stock accuracy and availability. 'This allows for precision when ordering materials and components as it helps to avoid over- and out-of-stocking in warehouses and increases efficiency at the supply chain and in customers' stores,' explains Martin.

"Digital labels will be the building block for a more circular business model."

When a company knows where its products are positioned, it can also guarantee that they are not counterfeited or stolen. As a result, customers can rest assured that they are buying authentic pieces whose quality and branding can be ensured.

Together with business partners, Nilorn supports its clients in understanding the untapped opportunities offered by RFID: 'While some clients already have a good knowledge about RFID, we also guide others to introduce these solutions into their business. We are more than just another supplier and strive to be a strategic partner for our clients. We make sure



we stay flexible and offer solutions that allow for a smooth transition into smarter labels without disrupting the quality and aesthetics of our products.' All of this can even be done by selecting more sustainable materials, for example choosing paper-based inlays instead of plastic-based.

What's more, intelligent labels don't just make businesses smarter. They also have a tremendous potential to be good for the planet and societies. With the unique identities used in RFID-tags, NFC-tags and unique QR-codes, large amounts of information can be stored in supporting systems that can be shared between companies and with consumers. What is my garment made of? Are the materials used sustainable? Which suppliers have contributed to making these pants? Can I give to my clothes a second life when I no longer use them? How should my old jacket be disposed of? Is this second-hand store

authorised to resell this attire? All this information and much more can be contained in and made available through these technologies. 'Digital labels will be the building block for a more circular business model. When one knows what materials were used in making the garment it becomes simpler to decide if they can be reused or recycled or if they should be disposed of and how. Automatising recycling of clothing will also depend on how much information consumers have at hand to make more informed decisions.'

Martin is positive about the fact that these technologies are here to stay: 'Societies are asking for more transparency, and companies with a sustainable focus want to be able to show their consumers that they are listening to them. Smart labels will be a common practice among companies, and many of our clients want to be front runners in this area. Those that don't embrace them will simply fall behind their competitors.'

"So far, we have only had a glimpse of the potential of RFID, NFC and unique QR-code technologies. Digital interconnectivity has never been as relevant as it is today."

So far, we have only had a glimpse of the potential of RFID, NFC and unique QR-code technologies. Digital interconnectivity has never been as relevant as it is today. Interacting with customer preferences and enhancing in-store experiences of end consumers through intelligent mirrors and smart fitting rooms are just part of the potential that has yet to grow. Our goal is to be there too, amplifying the value we can add to our customers' brands.







## Our approach to Focus area 2. Production and supply chain

We cannot add value to our clients' brands if we do not ensure that we and our suppliers are doing things correctly. We have production sites both in Europe and Asia. It is an advantage to have multiple locations that enable shorter delivery times, lower freight costs and reduced environmental impact. Yet, we also recognise the challenges associated with being a global company. We strive to hold the highest labour standards for our co-workers around the world. We also systematically monitor our production's environmental impact, while working to ensure an efficient use of resources and favouring renewable energy.

Nilorn combines its own production with external suppliers that manufacture and deliver key components of our offer. As a result, we can be more flexible and adapt to various locations, which represents a strong added value for our clients. But this also comes with the responsibility to closely collaborate with our partners in order to ensure responsible business practices, including adequate labour conditions and respect for human rights. During 2020 we had few disruptions in our supply due to our presence in many countries.

Through our commitment to have a more sustainable production and supply chain we see the possibility to make a substantial

contribution to five sustainable development goals. On the one hand, we aim to ensure that we use all the needed resources for our business in an efficient way, whether it is water, waste management, energy consumption or transporting our employees and our products. Through this, our goal is to ensure a responsible production that reduces its impact on the climate and the environment. On the other hand, we are committed to ensuring that our suppliers provide their own employees with the right labour standards. This can only be achieved by collaborating with our business partners to collectively achieve the global goals.

### KEY ISSUES

- Resource efficiency (water, energy, waste)
- CO2 emissions
- Chemical management
- Requirements on suppliers
- Human rights



	TARGET 2025	STATUS 2020
NILORN OWN OPERATIONS	100% Sedex audited	Nilorn Bangladesh, Hong Kong, Portugal, Shanghai and Turkey are SMETA audited. UK will go through the audit program in 2021.
	100% landfill-free	80% of our waste is currently sent to recycling.
	100% renewable energy	43% of our electricity in 2020 came from renewable sources*.
	100% of waste water from our operations returned to the environment safely	Our Bangladesh factory is the only Nilorn production unit which requires an ETP. Waste water handling in our remaining Nilorn production units will be in focus 2021 as part of the implementation of Higg FEM.

\*Renewable energy is limited in some countries, but we are actively looking for alternatives in our remaining production units as example Bangladesh.

# Resource efficiency

The environmental work is focused on reducing the climate impact in the different parts of the value chain, however, so far, our work has been concentrated on our own production. For the production facilities owned by Nilorn, we oversee and have control over the energy and water consumed and the management of our waste. Our biggest direct impact with regard to water is the wastewater we discharge at our production processes. The company's environmental impact is also attributed to the energy consumed by our offices and factories, some of which are in countries where renewable sources of energy are not yet widely available.

Our CSR and Sustainability policy is our internal guide and aims to set the base for how Nilorn works with social, environmental and ethical responsibility. It covers all Nilorn employees and we commit to evaluating, reducing and preventing the environmental risk and impact of our activities, products and services. Initiatives and goals described below are important steps in finding ways for us to operate more efficiently and improve resource efficiency.



Photo by: Michael Wilson

## ENERGY

Our scope of commitment has grown and we aim to reduce the overall energy consumption of Nilorn's operations, with particular focus on reducing the use of energy sourced or derived from fossil fuels. Our operations in Belgium, Denmark, Germany, Portugal, Sweden and the UK all use renewable energy through agreements on renewable sources of electricity. In Hong Kong, where we have production and warehouse operations and in some of the other countries we operate in, there is a limited supply of renewable energy. In Hong Kong, our team started by purchasing the renewable energy certificate (REC) from CLP for parts of the total kWh usage in 2020. In 2021 we also hope to start using some renewable energy in our Bangladesh factory.

More than 40 percent of our total energy consumption comes from renewable sources, and we continue to investigate options to increase that number with the goal of achieving 100 percent by 2025.

Logistics warehouses and production units are usually well suited for the installation of solar panels, as they are equipped with large flat roofs on which solar panels can easily be installed, without causing aesthetic damage to local communities. Nilorn Portugal, the production unit within the Nilorn group that uses the most energy, installed 460 solar panels in 2019. In 2020 the solar panels produced 148 MWh, which is 22% of the factory's total electricity consumption; the remaining is purchased electricity from renewable sources.

## WASTE

Being waste-efficient is part of our sustainability strategy. We are working toward the goal of zero waste going to landfill by 2025, an ambitious goal considering the current international environment we operate in and the different waste streams and management. The amount of waste shall be minimised and as much as possible shall be sorted. In 2020 we continued to increase the amount of waste sent to recycling, but 20 percent is still not being recycled (40 percent in 2019). This is an area critical for us to improve. We continue to promote that the amount of waste shall be minimised and as much as possible shall be sorted.

## WATER

Our direct impact on water is relatively small, as we do not have any dyeing facilities at our own production units. In our supply chain, however, there are dyeing processes, and as part of the textile industry we need to be mindful about water usage. In our Bangladesh factory we are evaluating how we can reuse some of the water.

Some of the new product materials, such as bio-based plastic originating from corn or sugar cane, brings new challenges for water management practices as production of the bio-based plastic has a larger water and land footprint associated with agricultural production.



## HIGG IMPLEMENTATION

The Higg Index was developed by the Sustainable Apparel Coalition (SAC) back in 2012. It has now grown to become the leading module to measure brands', retailers', and facilities' environmental impact and sustainability performance. The modules use a scoring system based on self-assessment and verification. The Higg Index provides a holistic overview that empowers businesses to make meaningful improvements that protect the wellbeing of factory workers, local communities, and the environment. It also enables and encourages the industry to become transparent by communicating sustainability information publicly.

Higg has three different tools that can be implemented for different types of businesses: Product, Facility and Brand Tools. At Nilorn we work with the facility tools. The Higg Facility Tools offer social and environmental assessments that facilitate conversations among value chain partners to socially and environmentally improve every tier in the global value chain. Within the facility module we work with the Higg Facility Environmental Module (FEM).

The FEM module supplies information about the environmental performance of individual facilities, empowering them to scale sustainability improvements. The Higg FEM assessment tool standardizes how facilities measure and evaluate their environmental performance every year. It provides facilities with a clear

picture of their environmental impacts. It also helps identify and prioritise opportunities for performance improvements.

### THE HIGG **FEM** ASSESSES THE FOLLOWING:

- Environmental management systems
- Energy use and greenhouse gas emissions
- Water use
- Wastewater
- Emissions to air
- Waste management
- Chemical management.

In 2020 we started working with the Higg Index with both internal and external production units, as a part of our journey to become a more sustainable company. Nilorn Bangladesh, Nilorn East Asia, Nilorn Portugal and Nilorn Turkey all completed the FEM self-assessment. By working with the Higg Index and the measurable data, we can set objectives that can easily be followed up. When seeing our environmental impact and its sources we can make decisions about where developments are required.

In 2021 we will roll out the Higg Facility Social & Labour Module (FSLM) in our Nilorn production units in Hong Kong, Bangladesh and Turkey. This FSML module measures the social impact of manufacturing across areas such as wages, working hours, health and safety, and employee treatment. We are also following the recently announced partnership between Sedex and Higg, and how that will support and impact the sustainability assessments in our supply chain.

# CO2 Emissions

Measuring and reducing our climate impact is an area that must be prioritised. We measure our business's own climate impact, both direct (scope 1) and indirect (scope 2), as well as parts of our scope 3 emissions. We have a complex organisational structure, which makes our emissions-mapping and follow-up challenging. We have a clear understanding of the areas of our operations that need to be included, but we are working to meet the difficulties in quantifying and measuring our total emissions that result from our large supply chain.

In 2019, we clarified the company car policy, considering the environmental impact of fuel and focusing on electric and hybrid cars with lower emissions when replacing a car. Charging stations for electric cars have been installed at Nilorn Sweden and Nilorn UK. We also follow up on our climate impact linked to business travel. See page 43 for more information.

## LOGISTICS AND TRANSPORTATION

We are present close to the ready garment industry in many parts of the world, through our own companies and a network of strategic partners. This global presence together with Nilorn Auto Order System were a strength when the outbreak of the pandemic started. With countries implementing lockdowns and factory shutdowns, our network of production units made it possible to mitigate risks by re-planning and moving some production, but the impact on logistics was still big.

The Nilorn Auto Order System provides control and aims to save time for our clients. When a production order is sent to the manufacturer, Nilorn receives a request from the client's system in a fully automated process, and, depending on location and stock levels, most orders are processed within 48 hours. The Nilorn Web Solution provides a complete overview of orders, warehousing and distribution, allowing both the client and manufacturer to order labels and check/control their delivery. The web order system is available in ten languages and offers a comprehensive set of follow-up and report-generating options. We have warehouses in Dhaka, Hilden, Hong Kong, Istanbul, Karachi, Cononley, New Delhi, Recarei and Shanghai.

Efficient transport ensuring the distribution of goods is essential for our business, and there is a complex distribution network in Nilorn Worldwide, where speed and accuracy are high priority. In 2020 the work with mapping the transportation network with the European central warehouse continued, however due to the situation, it will be finalised in 2021.

## AIR TRANSPORT

For our European central warehouse, air transport accounted for approximately 40 (34) percent of the transported parcels but accounted for as much as 98 (96.5) percent of emissions. The reliance on air travel increased in 2020 due to the uncertainty and difficulties caused by the pandemic. Our goal is still to reduce air transport by 50 percent by 2025 (base year 2019).

Air transport is often required to meet clients' deadlines, but we believe that through a better dialogue and planning, together with clients, we can reduce the share of air transport and use it only when there are special needs regarding time requirements. The dialogue with clients had a different focus in 2020 due to the challenging environment caused by lockdowns and bottlenecks impacting logistics and transportation.





## SEA TRANSPORT

The forwarder used for sea freight is part of the Getting to Zero Coalition, a global alliance of over 140 companies with the aim to develop zero-emission vessels and making them commercially available by 2030. The strategy is to reduce greenhouse gas emissions from shipping by at least 50 percent by 2050 (compared to 2008 shipping emissions). At this stage the forwarder provides Less-than-container-load (LCL) shipments that are carbon dioxide (CO<sub>2</sub>) neutral from 2020 onward through a “Net Zero Carbon program” that leverages three fields of action: detection, reduction, and compensation.

Sea transport accounted for approximately 7 (14) percent of the transported parcels to and from the European central warehouse in 2020, which represents less than 1 (1) percent of emissions.

## RAIL TRANSPORT

For Nilorn it is relevant to see how we can move more transportation to less carbon intensive alternatives. The land route through Central Asia is relatively short. A container ship too large for the Suez Canal has to make a 24,000 km journey to reach Europe. Trains travel approximately 10,000 km to reach the same destination. Compared to sea freight, rail transport saves 10 days, and it also implies reduced logistics costs and a reduction of the environmental footprint by a >90 percent reduction of CO<sub>2</sub> emissions compared to air freight. In 2020 our ambition was to increase the use of rail transport; however, this did not happen. In 2021, we will again see how this mode of transport can be used to reduce current air transport.

# Chemical management

Nilorn produces a range of products in many varied materials at our six production sites and through external production. The manufacture of products requires the use of chemicals, especially dyeing and printing processes. The phasing out of chemicals is continuous work based on legal requirements, as well as requests by authorities and non-governmental organisations, when products not yet included in legislation are suspected of causing harm to humans or the environment.

Nilorn participates in the Chemicals Group for textile companies at RISE Research Institutes of Sweden. The Chemicals Group exists to disseminate the latest findings related to chemicals and their potential impact on the environment and human health, to its member companies. The chemical guidance developed by the initiative helps the members to avoid importing products containing unwanted substances. Nilorn Restricted Substance List (RSL) is based on the AFIRM Restricted Substance List and The Chemicals Guidance provided by The Textile Importers' Association in Sweden and RISE.

Our operations must be compliant with all regulations relevant to our business. All Nilorn, partners are required to sign an agreement stating that the REACH regulation and Restricted Substances List are complied with. This is a non-negotiable requirement.

## REGULATIONS

As many of our clients act on a global market, there are several regulations to consider in production, REACH and California Proposition 65 being two of them.

### REACH

REACH is a regulation by the European Union, adopted to improve the protection of human health and the environment from the risks that can be posed by chemicals, while enhancing the competitiveness of the EU chemicals industry. It also promotes alternative methods for the hazard assessment of substances in order to reduce the number of tests on animals.

It is the responsibility of all manufacturers, importers and users of substances within the EU to ensure that the substances they manufacture, import or use do not pose any risk to human health and the environment. REACH affects all EU actors that professionally manufacture, import, sell, buy, distribute or use chemicals as they are and in products. If goods contain restricted chemicals, it is mandatory that the manufacturers and importers are informed. REACH stands for Registration, Evaluation, Authorisation and Restriction of Chemicals. It entered into force on 1 June 2007.

### CALIFORNIA PROPOSITION 65

California Proposition 65 requires businesses to provide warnings to Californians about significant exposures to chemicals that cause cancer, birth defects or other reproductive harm. These chemicals can be present in the products that Californians purchase, in their homes or workplaces, or released into the environment. Proposition 65 also prohibits California businesses from knowingly discharging significant amounts of listed chemicals into sources of drinking water.

Currently, the California Proposition 65 list of chemicals includes close to 1,000 chemicals and will continue to expand as new chemicals are added. The official name of Proposition 65 is the Safe Drinking Water and Toxic Enforcement Act of 1986.

# Requirements on suppliers

## MANAGING SUPPLIER RELATIONSHIPS

Companies today are getting called upon by stakeholders to take responsible action in various areas, especially in the supply chain. Nilorn is no exception. We conduct a variety of CSR-related activities and, through our supply chain, urge suppliers to do the same, with the goal of a fully compliant supply chain and achieving sustainability in society.

Most of our first-tier suppliers are located in Asia and Europe, and we actively work with them to ensure that they commit to all aspects of a sustainable business, from sourcing materials to offering a safe working environment to their employees. They are expected to keep accurate information regarding their activities, structure and performance, and disclose these in accordance with applicable regulations and industry benchmark practices. Business partners should neither participate in falsifying such information, nor in any act of misrepresentation in the supply chain. Monitoring suppliers across a nationwide or global supply chain can be difficult, but we aim to ensure that our suppliers protect human rights and provide safe workplaces.

New suppliers to Nilorn are to be reviewed by the CSR department, and there is a 'Nilorn New Vendor Guideline' that must be

followed. The first assessment includes looking at social audits that the factory may previously have been subjected to, as well as other areas, such as their production capacity and product quality. New suppliers should preferably be visited prior to production. Contractual agreements are entered into with suppliers, including their commitment to abide by Nilorn policies and guidelines:

- Supplier Code of Conduct
- Corporate Responsibility and Sustainability policy
- Animal welfare policy
- Environmental requirements for Nilorn suppliers
- Nilorn supplier handbook
- Nilorn agreement to supply according to RSL

### POLICIES

Policies related to this area are our Human Rights policy and Supplier Code of Conduct. Through our Human Rights policy, we seek to work proactively in line with the UN Guiding Principles on Businesses and Human Rights. Nilorn aims to avoid causing or contributing to adverse human rights impacts in areas we can directly influence, through our management control and addressing such impacts if they occur. Wherever possible, we also strive to identify, prevent or mitigate adverse indirect human rights impacts that may be linked to our operations, products and services through business relationships. The Human Rights policy applies to all Nilorn employees. It also applies, as far as reasonably achievable, to our upstream and downstream supply chain through suppliers and business partners.



## NILORN SUPPLIER CODE OF CONDUCT

Nilorn's Supplier Code of Conduct requirements are based on the ETI Base Code. The ETI Base Code is founded on the conventions of the International Labour Organisation (ILO) and is an internationally recognised code of labour practice. The Code of Conduct serves as a common foundation for us and our suppliers in terms of acting in a responsible manner, including focusing on social responsibility and good working conditions. Companies applying this code are also expected to comply with national and other applicable laws and not be involved in any act of corruption, extortion or embezzlement, nor in any form of bribery.

### THE ETI BASE CODE IS BUILT AROUND NINE PRINCIPLES

- Employment is freely chosen
- Freedom of association and the right to collective bargaining are respected
- Working conditions are safe and hygienic
- Child labour shall not be used
- Living wages are to be paid
- Working hours are not excessive
- No discrimination is practiced
- Regular employment is provided
- No harsh or inhumane treatment is allowed

We carry out our own inspections in combination with having third party audits conducted, through BSCI, SEDEX and other initiatives. Most importantly, we focus on having a very close dialogue and frequent meetings with all prioritised suppliers. Given the travel limitations imposed by the Coronavirus pandemic, our plan to conduct inspections of our own sites and



suppliers was put on hold. This is nonetheless an important measure that we aim to resume in 2021. In 2020 we did not terminate any business relationships with suppliers due to non-compliance.

We continue with our program 'Reduce to increase'. It is important for us to continue reducing our supply chain for greater control,

visibility, improved communication and buying power. Whilst reducing our supply chain we also build on the relationships we hold with suppliers, some of which have been with us for over 20 years. A stronger relationship equals a better partnership.



## SEDEX

Sedex, the Supplier Ethical Data Exchange, is a non-profit membership organisation as well as an online database, used by more than 60,000 members in over 180 countries, which allows companies to store and view data on ethical and responsible business practices. Members also have access to a range of resources and reports, including industry-specific questionnaires and risk analysis tools. Sedex does not set any standards or determine the policy of its members. Sedex provides a place to store any and all ethical audit reports, with a summary of non-compliances held in a common format.

Sedex has created the Sedex Members Ethical Trade Audit (SMETA) – a common audit methodology and report format aiming to drive consistency of data from the auditing process. SMETA is the world's most commonly used ethical audit format. The audit checks specifically against the ETI base code and how it is distributed to employees and the supply chain, relevant local laws, environmental performance, subcontractors/home workers, eligibility to work and understanding the ETI base code.

For Nilorn, Sedex is a support in managing our complex supply chain and allows us to share data with clients. We are an A/B-member (buyer/supplier). We believe that the Sedex's participation will reduce the need for numerous audits, both for our own and external production. Since all social audits, such as BSCI, SA8000 and ICTI, can be uploaded to the Sedex platform, it will also reduce administration.

Nilorn's own production in Bangladesh, Hong Kong and Turkey is audited according to SMETA and in 2020 Nilorn Shanghai

and Portugal also had their first SMETA audit carried out. The plan is to have all Nilorn's own production sites and warehouse units SMETA-audited by 2021.

In 2020 we managed to engage more of our external supply chain in Sedex and now more than 78% of our buying volume in risk classified countries is third part audited. The challenge is the often-smaller suppliers supplying bespoke products that are not part of the core business.

## HUMAN RIGHTS

Through our Human Rights policy, we seek to work proactively in line with the UN Guiding Principles on Businesses and Human Rights. Nilorn aims to avoid causing or contributing to adverse human rights impacts in areas we can directly influence, through our management control and addressing such impacts if they occur. Wherever possible, we also strive to identify, prevent or mitigate adverse indirect human rights impacts that may be linked to our operations, products and services through business relationships. The Human Rights policy applies to all Nilorn employees. It also applies, as far as reasonably achievable, to our upstream and downstream supply chain through suppliers and business partners.

Our Code of Conduct for suppliers includes human rights issues like prohibition of child labour, discrimination and inhumane treatment at the workplace. All our first-tier suppliers must sign this document at the beginning of our business relationship.



## MODERN SLAVERY

Modern slavery is a term that captures a range of human rights issues, including forced labour, bonded labour, human trafficking and child slavery. Since 2017, Nilorn publishes a statement in line with the UK Modern Slavery Act 2015, detailing the steps we are taking to mitigate the risk of modern slavery occurring in the supply chain and business operations. The statement is published on the Nilorn website. It reflects our zero-tolerance approach to modern slavery in every form, and the different forms of modern slavery are covered by the focus areas of our supply chain audits.

## Our approach to Focus area 3. Employees

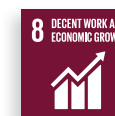
For Nilorn, as a multinational company operating globally, diversity is essential. It entails a responsibility for safeguarding its employees' health and safety and respecting key human rights, such as freedom of expression, freedom of association and the right to fair working conditions. By developing good workplaces and engaging in improvement work in the countries where we have a presence, we can improve the welfare of and generate positive effects for our most important asset, our employees. Diversity is recognised as a strength and is to be a natural part of the Nilorn organisation.

In this area, we see great potential to contribute to three global goals. By ensuring diverse and equal opportunities at Nilorn, we aim to provide a workplace where all our employees feel welcome and cherished, regardless of their gender, ethnicity, creed or background. Moreover, our employees' physical and psychosocial health and safety are a corner stone to conduct our business responsibly and ethically. We also focus on upholding

our business ethics, guiding co-workers to behave accordingly, and nurturing diversity at our offices, from the very beginning of the recruitment processes to our employees' growth and promotion. Yet, it is not enough to provide fair working conditions, we also need to look at our employees' impact on the environment and strive to minimise it.

### KEY ISSUES

- Business ethics and anti-corruption
- Diversity and equality in the workplace
- Work environment, health and safety
- Development and growth



TARGET 2025	STATUS 2020
90% retention rate of our employees	92% retention rate.
Reduce CO2 emissions from business travel by 20% (base year 2018)	Reduction of 65% compared to last year. 2020 was an unusual year due to the Covid pandemic travel restrictions.
100% units offering a program for employee engagement	Still to be implemented.
40-60 % gender balance in our units.	We currently have a 40% female and 60% male gender split. Striving to reach greater gender balance at all levels of the organisation.

## BUSINESS ETHICS AND ANTI-CORRUPTION

Being present in various geographical locations around the world, we are aware that corruption risks may arise. This is why we have developed the governance documents that should guide all Nilorn employees behaviour at work, setting high ethical standards and good practices to prevent improper conduct.

Our Code of Ethics, company core values, practices and policies guide the actions and behaviour of our employees, to act in an ethical manner that goes beyond compliance. It also means fostering an environment where our employees can speak up if they have questions or encounter violations. Every Nilorn office and facility manages its own system or mechanism for reporting irregularities as well as dissenting opinions and concerns at the workplace, whether relative to corruption or discrimination, so that employees are heard and to identify areas that require special attention. Depending on our offices, the HR manager or Finance manager is responsible for collecting cases or suspicious of unethical behaviour. They are also in charge of managing and following up each case to take the measure required to resolve each case. We are currently considering implementing a centralised system that will allow for a more homogenous process to voice inappropriate conduct. This initiative has been postponed but will be reviewed again in 2021.



### NILORN CODE OF ETHICS AND BUSINESS CONDUCT

This Code provides a guide to the values, behaviours and ways of working for all Nilorn employees; it shall guide our daily work and covers areas like:

- Compliance with laws and regulations
- Respect in the workplace
- Protection of company property
- Professionalism

Nilorn's Anti-corruption policy contains the organisation's mandatory rules and restrictions regarding gifts and other kind of appreciations. It also describes the procedures for employees to raise any ethical questions or report any breaches or suspected breaches of the company's Code of

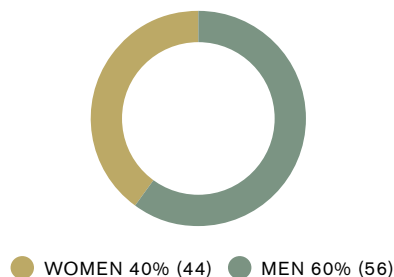
Conduct. The Policy includes guidelines for managing gifts or benefits from partners, which in principle should not be accepted. If gifts are ever accepted, it should be done with full transparency and in a manner compliant with the organisation's policy. 98% of Nilorn employees signed the anti-corruption policy 2020, and as it mandatory requirement for all follow up will be done. During the reporting year, we received an anonymous complaint about one employee and unethical behaviour was reported. After an internal investigation, no evidence of bribery or breaches of our code of ethics was determined. We are also aware of the risk of some incidents not being reported. This, added to the fact that incidents still occur, proves the importance of continuing to provide relevant information and conducting training on our rules and standards. A review of the internal routines to identify and report breaches will take place in 2021.



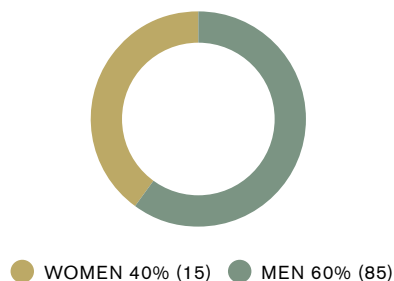
## GENDER DISTRIBUTION

Number of employees: 531

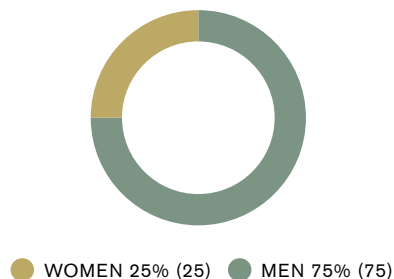
## ALL EMPLOYEES



## MANAGEMENT



## BOARD



## Diversity and equality at Nilorn

Nilorn wants to continue to be an attractive employer in all countries where we have offices and production. We work with our work environment, education and safety, and want our employees to enjoy a lengthy career with Nilorn.

As an employer in over a dozen countries, we take our responsibility to create fair and equal opportunities for men and women very seriously, regardless of their socio-economic background, religious beliefs or ethnicity. This is part of our commitment to being an actor to empower men and women and ensure their participation in economic life and decision-making positions. We have internal policies and business practices that incorporate this vision in everything that we do, from our facilities to our management team, in all our locations.

Our Human Resource Policy regulates what the company expects of its employees and what employees expect of the company. The HR policy mainly regulates management responsibility for developing its staff, information supplied to all employees, annual performance reviews, payments and IT usage. The overall objective is that work on gender equality should be a natural and integral part of all our activities and apply to all staff and levels.

Nilorn continues to grow, and the employee headcount increased by six percent in 2020. This growth is principally due to recruitment in Bangladesh. The gender distribution in the entire Group is 40 percent women and 60 percent men. 40 percent of managers are women, which is an increase to the year before. The target is that neither men nor women will account for less than 40 percent. The focus for the coming years is to increase the age balance and improve diversity in all individual categories.





We seek to play an active role in the promotion of Human Rights and to work proactively to respect the rights that everyone is entitled to: basic rights and freedoms, regardless of nationality, gender, religion, race or any other status. Nilorn aims to avoid causing or contributing to adverse human rights impacts in areas we can directly influence, through our management control and addressing such impacts if they occur. Wherever possible, we

also strive to identify, prevent or mitigate adverse indirect human rights impacts that may be linked to our operations, products and services through business relationships. This is part of our human rights policy.

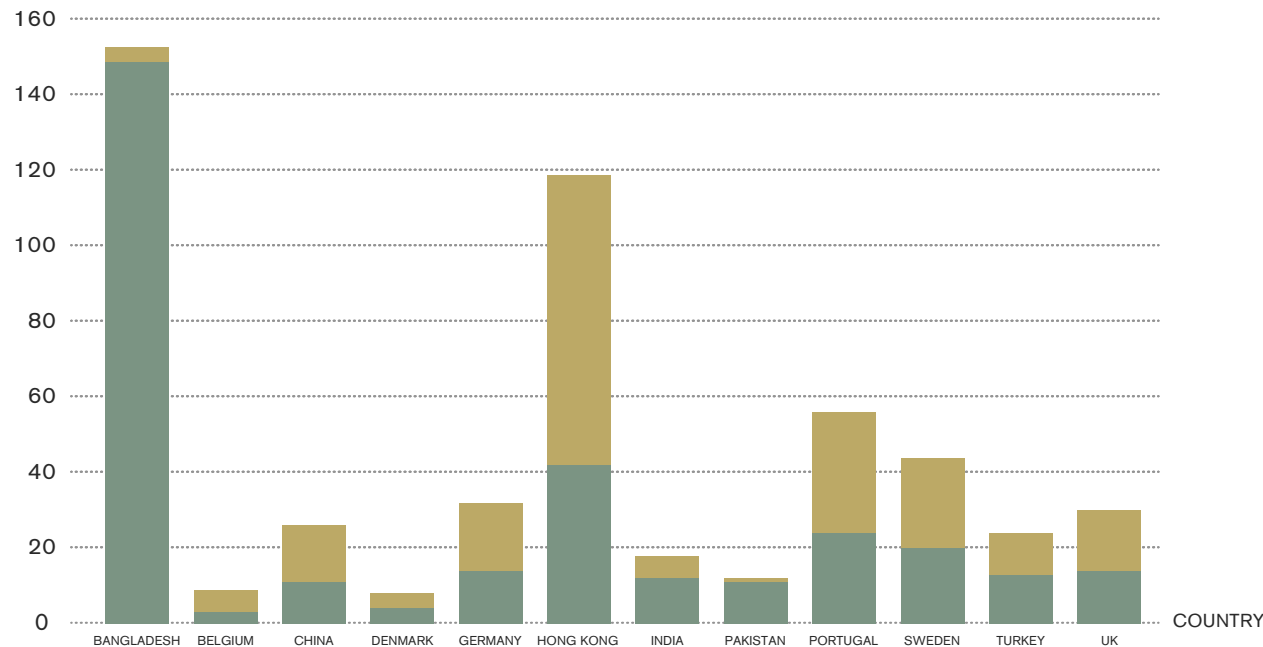
We also believe it is important that Nilorn employees feel comfortable with voicing dissenting opinions and concerns at the

workplace. Our employees have the opportunity to communicate their concerns to their managers and through our employee surveys. We also have an internal system that ensures proper implementation of our policies and routines. To know more about our internal controls on policy implementation, go to page 12.

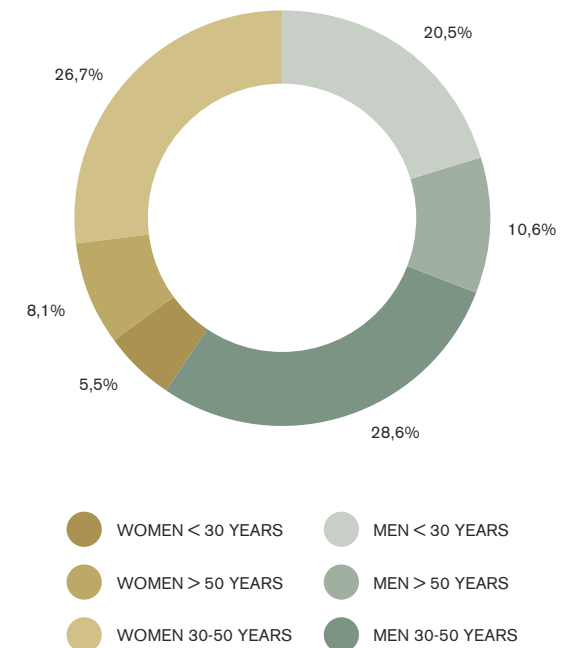
GENDER DISTRIBUTION PER COUNTRY



## EMPLOYEES



AGE DISTRIBUTION



# Work environment, health and safety

Nilorn aims to be an employer of choice by offering a more sustainable, caring and safe working environment. Attracting and retaining highly skilled employees is a strong competitive advantage and to do that we need to offer an excellent work environment.

Reporting of incidents is one way of identifying risks and working to make improvements. In 2020, 1 incident was reported.

According to the Swedish work environment act, we as employer are responsible for occupational health and safety. We cooperate with employees and safety representatives about the work environment and occupational health- and safety management in our headquarter. This means that we systematically identify, prevent, investigate and follow-up on work-related activities that may lead to work-related ill-health or accidents. This includes both the physical and psychosocial wellbeing of our employees. We do this through an external health service provider and the safety representatives. Each facility within the group is responsible for defining action plans that prevent and mitigate the risks identified and follow-up their implementation. Employees can also report potential issues directly to each Managing Director, and safety rounds are conducted on a regular basis at our production facilities.

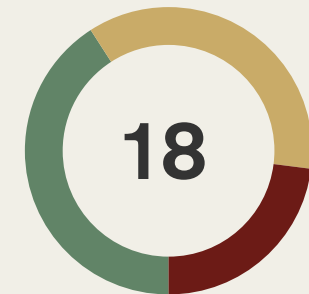
We promote a safe, healthy and secure environment, in our own offices and production as well as our external suppliers' activities. The focus of occupational safety at Nilorn is on preventive actions and raising awareness, i.e., risks and hazards are to be eliminated in advance where possible. Risk assessments are carried out, and training programs are managed by each production unit.

We conduct a bi-annual employee survey with the goal to monitor on our employees' wellbeing and make sure that we can guarantee a great place to work. This survey generally includes questions about employee wellbeing at the workplace and employee satisfaction. The recent version of a global employee survey conducted during the year involved 279 employees in 15 different countries and was completed by 58 percent of the employees. The survey consisted of 5 questions and was anonymous; only the country of the person who replied was revealed. The average was very uniform among the questions, but there was some variation between the different companies. Areas where we received the highest marks by Nilorn's employees included 'I find that my values and the company's values are similar' and 'How likely are you to recommend this workplace to a friend or someone from your professional network?'. Three countries in particular were identified as an area for improvement that will be followed up.

We will follow up with a new survey every six months so that we follow the trend. Thanks to the input of our people, we can identify more opportunities to improve how we all work together. The results of the survey were presented to the employees during a group assembly.

## EMPLOYEE NET PROMOTER SCORE

On a scale of 0-10, how likely are you to recommend this workplace to a friend or someone from your professional network?



PROMOTERS (9-10)

41%



PASSIVES (7-8)

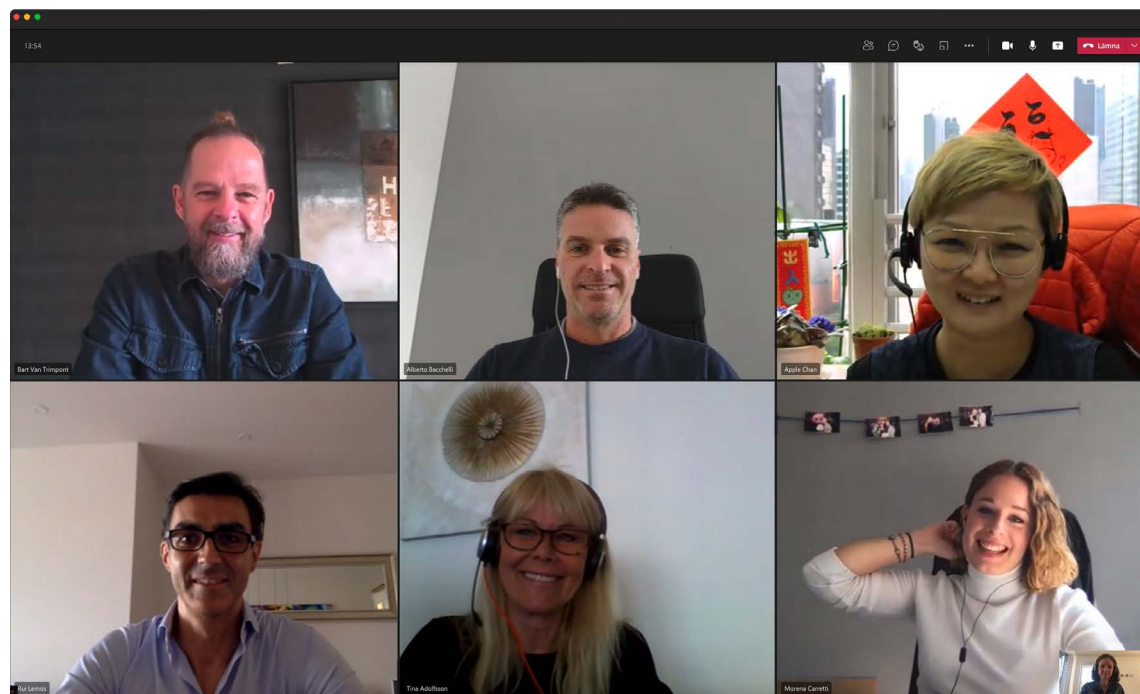
36%



DETRACTORS (0-6)

23%

The Covid-19 pandemic has had a significant impact on our work with health and safety for our employees. In our sales offices, there was a change in workplace culture, with many working from home as well as providing flexible work arrangements with split teams schedules for those who needed to be in the office to allow for more physical distancing. For the production units, the focus has been on communication and education, for example regarding mandatory use of face covers and good hygiene. Each Nilorn location has been responsible for implementing proper workplace controls to help mitigate the spread through, for example, temperature screening, mandatory face covers, disinfection of common areas and remote working. The Covid-19 pandemic has increased the need for support, communication and flexibility.



## Employee development and growth

We see training opportunities for our employees as a necessary tool to continuously increase their skills and professional development. This is also a means to retain our experienced co-workers and attract new talents. Furthermore, capacity-building is key to increasing all employees' knowledge and awareness of sustainability issues that are important for the sustainable growth of Nilorn and for our clients.

Capacity-building and training is normally arranged locally in each country, for example, First Aid and Occupational Health and Safety training at our own production sites. Skills development was an area we had decided to focus more on, and in 2020 we learned how to use digital tools, such as TEAMS, to meet, train and share experiences within our organisation.

In total there were more than 10 webinars, covering topics as Different Plastics, GOTS – impact on Nilorn products, Presentation to the Bluesign system and FSC™.

Our induction program shall ensure that new employees receive a broad understanding of Nilorn and how we operate. It sets the tone for our collaboration. Part of the program is the Code of Ethics and Business Conduct, the practices a Nilorn employee should be guided by daily. All employees are to be offered annual performance reviews, in 2020 46% completed their annual performance reviews with their manager.

### TRAVEL BY EMPLOYEES

Nilorn operates in a wide geographical area, from Asia to western Europe, to Northern Europe, to the Americas. Business travel is normally one of our largest sources of emissions, and air travel generates more emissions, per kilometre travelled, than any other mode of transport. However, in 2020 there was naturally a large decrease of travelling and therefore also a reduction in our emissions linked to business travel. We quickly learned how to use online tools to replace in-person meetings. We plan to continue to adopt these practices in the future and extend the benefits from higher online connectivity and collaboration.

# Social engagement

Nilorn participated in two initiatives by the German Aid by Trade Foundation – The Good Cashmere Standard® and Cotton made in Africa.

## THE GOOD CASHMERE STANDARD®

The Good Cashmere Standard® is an independent standard for sustainably produced cashmere wool. Developed in 2019 in close collaboration with animal welfare specialists and independent cashmere production experts, its goal is to improve the wellbeing of cashmere goats and the working conditions of the farmers as well as the environment in which they live. The standard focuses on cashmere production in Inner Mongolia and in 2020 the first cashmere farmers were certified according to the requirements set by the standard. Eight cashmere producers with 4,300 farms and around 1.2 million cashmere goats participated in the verification process.

A certificate can only be issued upon verification by the independent auditing company Elevate. Before verification, each farm is required to complete a self-assessment encompassing more than 50 points. In addition, farmers and cashmere producers must meet social, environmental and animal welfare criteria. They are also subject to certain exclusion criteria. If this process is completed successfully, the producers receive a certificate that is reviewed on an annual basis and reissued only if they pass the verification process again. The certificate authorises them to label the cashmere produced by the verified farms with the seal of The Good Cashmere Standard®. Training materials are being developed for farmers and producers, taking into consideration the results of the self-assessments and verifications.

The Good Cashmere Standard® (GCS) and Cotton made in Africa (CmiA) are administered by the Hamburg-based Aid by Trade Foundation (AbTF), founded by Prof. Dr. Michael Otto in 2005. Instead of collecting donations, an alliance of textile companies and brands is formed, which purchases the sustainable raw material at normal market prices and pays a licence fee to use the seal. The foundation reinvests income from licenses in accordance with its foundation goals.

'We know that training material is necessary for the successful and sustainable implementation of a standard. Overall, the verifications painted a positive picture of the situation on the ground, but some areas still require improvement, for example the goat shelters or the continuous record keeping of farm activities. We are working with our partners and animal welfare experts to develop training material and find out what else will help the farmers to implement the criteria of The Good Cashmere Standard® to an even greater extent', says Tina Stridde, Managing Director of the Aid by Trade Foundation.

By using the Good Cashmere Standard® label, partnering brands can communicate to the consumer that the cashmere wool in this product has been produced sustainably. Nilorn is proud to be a nominated producer of all standard labels.





## COTTON MADE IN AFRICA

Cotton made in Africa (CmiA) is an internationally recognised standard for sustainable cotton from Africa. Since its creation in 2005, CmiA has set for itself the goal to protect the environment and help Sub-Saharan African smallholder cotton farmers and ginnery workers improve their living and working conditions. Instead of collecting donations, the initiative follows the principle of helping people help themselves through trade. Nilorn has been a partner of the initiative for 8 years.

To put this aim into practice, an alliance of international textile companies and brands, built up by CmiA, purchases CmiA-verified cotton, integrate it into their textile value chains and pay a license fee to use the seal. Income from licensing fees is reinvested by CmiA to achieve its mission – enabling smallholder farmers to grow cotton in accordance with CmiA values, improving their living conditions and those of their families, and securing the preservation of natural resources.

A major challenge facing smallholder cotton farmers is a lack of knowledge on how to handle pesticides. Pesticides are often used, stored, and disposed of improperly, creating a dangerous situation for both people and the environment.

For this reason, Cotton made in Africa strictly regulates pesticide use. Additionally, CmiA promotes botanical pesticides and natural fertilisers, such as compost or manure, which are examples of environmentally friendly and cost-efficient measures contributing to sustainable agriculture. The locally available pesticides and fertilisers used provide environmentally friendly alternatives that are easy to produce. The necessary ingredients can be found all around the villages and cotton fields, free of charge, and can be processed by the smallholder farmers themselves using simple machines and household utensils. Expenditure on chemical pesticides and synthetic fertilisers can also be reduced. This benefits both people and nature.



# Nilorn participates in initiatives

## THE AMERICAN APPAREL & FOOTWEAR ASSOCIATION

In 2020 Nilorn became a member of The American Apparel & Footwear Association (AAFA) which represent more than 1,000 brands, retailers, and manufacturers. AAFA provides exclusive expertise in trade, brand protection, and supply chain & manufacturing to help their members navigate the complex regulatory environment. The American Apparel & Footwear Association was formed in August 2000 through the merger of the American Apparel and Manufacturers Association (AAMA) and Footwear Industries of America (FIA).

## AUSTRALIAN FASHION COUNCIL

The Australian Fashion Council (AFC) is a non-profit membership organisation and exists to promote the growth of the textile and fashion industries in Australia. AFC runs The Sustainability Portal, a platform for responsible fashion & textiles and a collaborative space and resource for both industry and individuals, working to establish best practice. Nilorn has been a member since 2018.

## SWEDISH TEXTILE IMPORTERS ASSOCIATION

The Swedish Textile Importers Association provides importers of textiles and related businesses with industry-specific service, helping us to keep track of important regulations and information, such as customs duties, rules of origin, labelling and CSR. Nilorn has been a member since 2004.

## FEDUSTRIA VZW

Fedustria vzw is the merger federation of the former non-profit organisations Febeltex and Febelhout, and represents companies from the Belgian textile, wood and furniture industry. Fedustria's mission is to assist companies in their successful development by safeguarding and strengthening their competitiveness. Nilorn Belgium has been a member for many years and through the membership we get access to information, support and training in areas like communication, sales, environment and sustainability.

## SWEDCHAM HONG KONG

The Swedish Chamber of Commerce in Hong Kong was established in 1986. The objectives for the Chamber are to promote, study, extend, advance and protect business relations, investments and interests of Swedish and other organisations in Hong Kong. SwedCham participates actively in IBC, the International Business Committee, which provides a sounding board and forum for lobbying and discussion for international business representatives with the Government on matters of interest for Chamber members. Nilorn East Asia has been a member since 2017.

## TEKO

TEKO is the Swedish trade and employers' association for companies working in the textile and fashion industry, with over 300 member companies. They represent the sector, both nationally and internationally, in all questions of common interest and inform clients, suppliers, media, the public and the government about the Swedish textile and clothing industry, its companies and its products. TEKÖ is also the national member for Sweden to GINETEX – the international association for care labelling. Sustainability is one of TEKÖ's focus areas and is high on the agenda. This work has been conducted in TEKÖ's Environmental and Energy Group since the early 1970s and the group includes member companies as well as authorities, and Nilorn participates in this group.

## UK FASHION AND TEXTILE ASSOCIATION

The UK Fashion and Textile Association (UKFT) is a British network for fashion and textile companies, bringing together designers, manufacturers, agents and retailers to promote the business and industry in the UK and throughout the world. UKFT has a unique position, representing businesses from spinning, weaving and knitting, right through to catwalk and aftercare. UKFT is the UK representative of GINETEX, the international association for textile care labelling. Over 2,500 companies hold a membership and by being a member, Nilorn gets access to industry-specific business information, export advice and networking. Nilorn has been a member since 2017.





## THE WAY FORWARD

What we do has evolved from our long-term commitment to sustainability. 2020 made it very clear that we must have the ability to adapt to new conditions and keep our focus on sustainability. Our strategy going forward will entail continuing to work on involving the entire organisation, support our employees in driving change and work closer with our suppliers as they have a significant impact on our performance.

We have been refining the information included in our sustainability reports and aim to keep improving the data and standards we use to disclose our sustainability work. As a result, we plan to publish our next sustainability report in accordance with the GRI Standards – Core option.

### OUR PRINCIPAL FOCUS AREAS:

- Measuring environmental impact in supply chain
- Sustainable materials
- Continuing the FSC™ and GRS certification
- Mapping transportation and reducing the use of air transport



# Data summary

	2020	2019	2018	2017
<b>CLIENTS</b>				
Number of clients	>1500	>1500	>1400	–
Users of web order system	8800	9400	9400	–
FSC certified paper share of paper product groups in Nilorn East Asia and Nilorn Shanghai*	40%	20%	13%	11%
<b>PRODUCTION AND SUPPLY CHAIN</b>				
Number of suppliers	217	197	176	215
Number of delisted suppliers due to non-compliances	0	0	0	0
Internal inspections **	20	35	>70	–
Purchase volume % from external suppliers with 3rd party social audit	78	73	72	–
<b>NILORN OFFICES AND PRODUCTION UNITS:</b>				
Energy Kwh/m2	90	108	131	127
Renewable electricity Kwh/m2	43	44	30	3
Energy consumption tonne CO2e	709	870	1040	1220
Waste (tonnes)	93	152	91	100
Waste sent to re-use or recycling	80%	62%	50%	22%
Water consumption Nilorn production units m3	5801	6183	5354	–

	2020	2019	2018	2017
<b>EMPLOYEES</b>				
Total number of employees	531	500	482	444
- whereof women	214	221	210	208
- whereof men	317	279	272	236
New employees	71	73	101	–
Employee attendance %	94,2	97,8	96,1	96,3
Employees signed anti-corruption policy ***	98%	100%	100%	–
Cases of suspected or confirmed breaches of anti-corruption policy	1	0	0	0
Number of work related injuries (no fatalities)	1	3	4	5
Training hours/employee	5	7,6	9	–
Air travel inter-continental km/employee	146	1721	2739	3522
Air travel continental km/employee	81	866	894	918
Staff travelling tonne CO2e	126	378	474	540

\* With our FSC certificate for Nilorn East Asia and Nilorn Shanghai we report the delivered quantities to the FSC Secretariat. We see the same trend in the production of FSC labelled products produced at external production units, but this statistic we are not able to follow with our current business system.

\*\* Less visits due to restrictions of travelling in 2019-2020.

\*\*\* Review of policy implementation to assure all new employees receives the policy.

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Nilorn has been recognised as a Nasdaq ESG Transparency Partner since 2019. The recognition is presented to companies that display a high level of transparency to its investors in regard to Environmental, Social and Governance (ESG) issues.



NILORN  
WORLDWIDE

ADDING VALUE TO YOUR BRAND

BRANDING · DESIGN · PRODUCT DEVELOPMENT · LOGISTICS