CSR Report 2018

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CSR REPORT 2018
Executive statement

The Spectre way

OUR JOURNEY TO THE SUMMIT

**"NOT JUST TO BE GOOD,
BUT TO BE THE BEST"**

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**Specialized manufacturer
of functional garments**

This report is part of Spectre's overall strategy plan, "Next-Level: Towards 2020-22", which defines a clear set of targets for our business activities. Moreover, as signatories of the UN's Global Compact, it is our intention that this report covers the requirements laid down for reporting on supply chain improvements as part of the annual Communication of Progress (CoP).

Complex challenges affect the global textile industry, such as micro plastics pollution, high water and energy consumption related to the traditional dyeing methods, solid waste management, and fair pay issues, relocating productions to low-income countries and/or countries with duty free access to the European market, increased labor costs and labor migration in Europe etc.

As reflected in Kurt Salmon's report "Global Sourcing Reference 2017", CSR has gradually become one of the key criteria when international buyers chose business partners. In fact, social and environmental compliance was #2 sourcing priority and it is considered a factor that cannot be deprioritized vs costs without risking the future of any company in the industry.

Spectre integrates CSR parameters into daily practice to emphasize the importance of sustainability in the form of both working environment and external environmental standards: Ergonomics, well-being of employees in the work place, health & safety policies, social activities, recycling of textile waste, raw material sourcing activities, waste reduction and reduction of energy consumption are all part of our strategy and our daily focus areas.

Part of our strategy is ensuring transparency in terms of ongoing CSR tasks and real challenges we are facing as a company. Hence, our CSR report and social audits conducted by external auditors reveal our flaws and most importantly where we need to pay special attention in our continuous efforts to raise the bar for a responsible conduct. Our aim is to create manufacturing lighthouses in the garment industry within CSR measures in the countries we operate.

At Spectre, we are not only focusing on the economic bottom line in the form of financial profitability. We believe in the triple bottom line focusing on both profit, people and planet, as illustrated in below figure:

The mindset behind the triple bottom line is explained in more detail in this report. In short, we believe the talents of the future are aspiring to work in companies that don't just financial generate profit but also care about people and planet. A sustainable conduct is not only financial profitability but also minimizing the negative foot print on people and planet and thereby ensuring the long-term basis for running the business and handing over the planet to our next generations in a responsible manner.

It is the choices we make today as individual companies and the values on which we build our cooperation that define if we are successful on a long-term scale. We believe the winners of the future – both as individual companies and supply chains as a whole – are those who implement the triple bottom line rather than the traditional one-sided focus on profit alone.

This is due to the fact we firmly believe that the consumers and professional buyers of tomorrow will consciously select those business partners who are able to design a business model where sustainability and accountability are deeply rooted in the way of doing business and serving its customers.

SPECTRE TRIPLE BOTTOM LINE

PEOPLE

Bearable   Equitable

Sustainable

PLANET   PROFIT

Viable

CSR REPORT 2018
Executive statement

With this belief being part of our company foundation, we have formulated – or rather sharpened – our company Mission and Vision as respectively the purpose of our business and our aspiration for the future:

Mission

"Strengthen the customer's brand value by our competence in development and manufacturing of high quality, functional garments in a sustainable and responsible way."

Vision

"Becoming the outdoor sports and activity brands' preferred development and manufacturing partner for functional garments."

For 2019 we have set new CSR goals. One of these is to become member of the Sustainable Apparel Coalition's "Higg Index". With SAC's own words, the "Higg Index is a suite of tools that enables brands, retailers, and facilities of all sizes — at every stage in their sustainability journey — to accurately measure and score a company or product's sustainability performance. The Higg Index delivers a holistic overview that empowers businesses to make meaningful improvements that protect the well-being of factory workers, local communities, and the environment."

Finally, as a solid foundation behind the financial goals, KPIs and concrete action plans, we aim to create a unique Spectre company culture based on the key values of our "DRIve" philosophy:

SPECTRE CORE VALUE MODEL

Dedication
Show passion and commitment in what we do

Responsible
We care for sustainability and act with honesty

Integrity
We trust and help each other and live our values

Proactive
Our performance exceeds expectations "not just to be good, but to be the best"

DRIve

We want to create a working place where employees like to work, where they are proud to work and feel appreciated like an equal part of the ever-rotating value chain. The daily cooperation with colleagues and customers must be rooted in a particular mindset and a certain way of conducting the business. It is The Spectre Way: "Not just to be good – but to be the best!" that gives us the daily energy and motivation to do what we do.

We look forward to continuing the CSR journey

Yours sincerely

Jesper Klausen, director and co-owner

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CSR Report 2018

1. Reflection of CSR milestones in 2018

Reflecting on 2018, we would like to inform our stakeholders in detail of our CSR achievements reached through a large number of daily actions and commitments derived from our overall CSR strategy model "The 4 corner stones" (see also p13).

Despite continuous challenges of uneven workload due to seasonality in our industry, we were able to book a 17% increase in our production output, mainly driven by the growth of our production facility in Vietnam. Rising costs in China and a gradual shift in China's macro-economic strategy are leading many buyers to seek alternative sourcing possibilities. Consequently, business is shifted mainly to Southeast Asia with Vietnam as one of the preferred destinations. Other popular sourcing destinations are Bangladesh, Myanmar and Cambodia which all are enjoying duty-free access to the European market – despite many challenging CSR aspects related to human rights protection, political instability and lacking environment protection.

The uneven seasonal loading of our production, particularly in Latvia where the spring season accounts for less than 1/3 and the fall season accounts for more than 2/3 of the annual business, leads to challenges of keeping production lines running and ensuring stable work to employees. Traditionally, the spring season makes up 5 months (42%) and the fall season 7 months (58%) of the annual production capacity with February-March and September-October as the low season periods due to season change.

To counteract this situation, our key account management and planning teams work very closely together with customers to organize early bird orders, fabric pre-bookings and discuss future product allocation with special focus on the spring season. Further levelling tools are planned overtime work during peak seasons and air shipment of late-season orders. The levelling challenge requires constant focus and partnership cooperation between the key parties of the supply chain: the brand, the garment manufacturer and the fabric mill.

Inspired by the United Nation's "Sustainable Development Goals" (SDG), and with a sense of obligation to respect the SDGs, we strive to select the most important and relevant global goals and make them local and realizable for Spectre with the aim of using them as guideline for our strategic goals as well as our daily CSR performance. In addition to the production levelling activities described above, other important milestones were reached during 2018. Some selected milestones reflecting the 2018 business year in our company:

Developing and implementing Spectre CSR strategy "Next-Level: Towards 2020-22" as part of the group Strategy document.
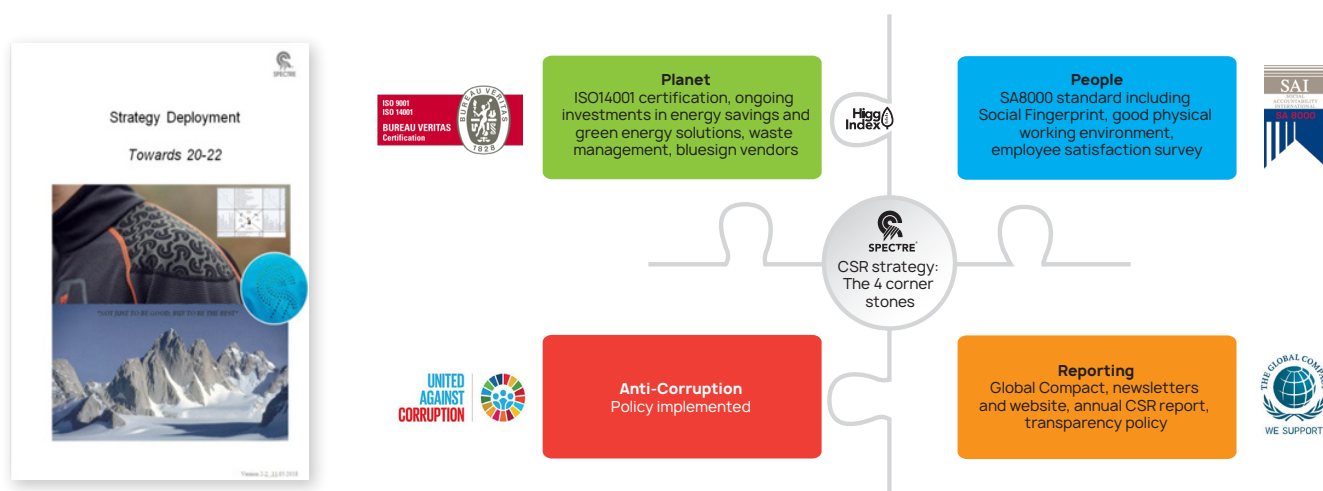
SPECTRE CSR MODEL

Fig. 1 and 2: Spectre strategy "Towards 2020-22" and CSR strategic focus areas rolled out in 2018

Received and celebrated our 3rd consecutive customer award for "Best performance in CSR for 2018". We are proud and happy that our values and efforts are leading to visible results that are and appreciated and recognized by our customers.

Spectre took decision on joining the Sustainable Apparel Coalition (SAC) and for the first time working with the Higg Index implementation in both Vietnam and Latvia in 2019. See Executive Statement and https://apparelcoalition.org/the-higg-index/ for further information.

We believe in supporting the Higg Index initiative because it supports the industry making supply chain conditions transparent and this will eventually help us setting mutual, long-term strategic goals to make collective improvements and have significant and meaningful changes.

An official group absenteeism policy was developed and rolled out in 2018. This step was taken to work more strategically on one of the important focus areas of physical and mental well-being in factories. We believe an ongoing focus on this issue will have a positive effect on the absenteeism rate across all factories in Latvia and Vietnam. This will potentially lead to higher wages and job satisfaction for the employees and improved profit for the company.

Developing our management system for SA8000 and ISO14001 to become more criteria and data based and, among others, using the Social Fingerprint tool to highlight areas that need focus or improvement for social accountability. Additionally, from 2019 the Higg index will measure environmental and social sustainability impacts of our company's activities.

In order to strengthen CSR resources organizationally, some reorganization was done in Vietnam to separate HR & CSR management from Finance management and appoint a separate HR & CSR manager. Further, a separate organization chart for our CSR organization was created to visualize how our CSR work is implemented in the entire company group.

True to traditions a number of social events were organized in both Vietnam, Latvia and Denmark. The social events are partly based on local traditions, partly on company specific traditions. Most events include various competitions and often they include some sports or outdoor activities. The overall purpose is to strengthen social relations between employees.

Fig. 5 and 6: Spectre Latvia team participation in Riga marathon and Vietnam team celebrating 3rd Anniversary of Spectre Garment Technologies..

Latvian president Mr. Raimonds Vejonis with his spouse visited Spectre branch in Auce and talked to the employees, thus gaining a more accurate picture of the specifics of the daily work in the company and also discussing national implemented legislative changes with the purpose of creating and protecting working places.

Fig. 7 and 8: Latvian president with Auce employees in Latvia

2. Spectre CSR general issues and focus in 2018

2.1. The market situation

Within the supply chain for textile products, the shift of production from Europe and China to Vietnam and other Southeast Asian destinations remains and we expect this development will continue in the years to come.

We saw a drop in the demand for our Latvian production in 2018 which is partly a consequence of the macro-economic changes in the industry, partly due to other specific reasons. As a result, we were forced to reduce our capacity and labor force towards the end of the year.

However, there are signs that production in Europe may become increasingly important again, if the sum of all parameters such as lead time, sustainability, quality, cost and innovation competence is attractive for the buyers. In Kurt Salmons report "Global Sourcing Reference 2017", speed to market is mentioned as the single most important parameter among buyers in the industry, followed by CSR and product quality. By reducing the speed to market, buyers will be able to place orders later, thereby reducing the risk of unsold stock and mark-downs.

The European industry has been suffering from the move towards Asian sourcing for the past decade or more. In effect, many European fabric mills have shut down as have garment factories around Eastern Europe, Portugal and Turkey. An increasing amount of yarn for the European fabric industry is being sourced in China and other Asian countries due to less availability of yarn from European yarn spinning companies.

Although our forecasts show an increased demand for production in Latvia on a 3-year horizon, it remains to be seen if this is a sustainable trend and whether we will be able recruiting sufficient labor in Latvia. Our alternative route to increasing production capacity in Europe – if the demand exists – would be the establishment of a Latvian-managed production unit in Ukraine where labor availability is higher.

2.2. Seasonality

Seasonality remains one of the characteristics and at the same time one of the key challenges of the industry. The deep-rooted traditions in the sports industry with two main seasons dictating the working patterns for the entire value chain cause challenges of securing stable work for employees and leads to very high fluctuations in the cash flow demand. Therefore, seasonal overtime is a complex problem for the (sports) apparel industry.

2.2.1. Latvia

Uneven loading of our production in Latvia contributes to a continuous pressure on our margins due to the increased costs that are the direct consequence of the very large seasonal fluctuations. As an effect, we were forced to close one of our small, newly opened sewing branches towards the end of 2018, only one year after its establishment. In connection with the closure all employees were treated with dignity and respect by receiving a clear explanation of the situation and they were supported by offering a relocation to another branch including transportation to/from work and an onboarding program. Another new, small branch was operating successfully and certified according to SA8000 at the end of 2018.

In the other branches uneven workload requires seasonal overtime (OT) work during the peak season. Respecting the voluntary principle related to OT work we had a constructive dialogue with employees to achieve a two-sided agreement and extra seasonal bonuses were offered for honoring this effort. Work time tracking was taking place to ensure a balanced working hour schedule within the season as a whole.

Labor market challenges are distinct in Latvia as a result of migration, unsuccessful labor policies, bottlenecks during boom periods, changing education and job preferences amongst the younger part of the labor force, an ageing labor force etc. As a result, it is hard to recruit and maintain enough professional workers. The labor market was on the boiling level in Latvia due to economic growth, decreasing the unemployment rate to a – for Latvia – low level of 6,9% in Q4 2018. The number of job vacancies registered with the Public employment system (PES) is therefore increasing gradually in the country.

As mentioned in the section "Milestones", a detailed production planning process in close cooperation with our customers was a key part of the production levelling solution minimizing excess capacity by pre-booking raw materials and producing early-bird orders in the low season. Finally, a few volume programs were shifted from Latvia to Vietnam production due to overloading of the production in Latvia in 2017, resulting in a domino effect that continued into 2018. All-in-all, we have had a much better and smoother production flow during 2018.

Fig. 9: Production site in Latvia. Summing up the focus for Latvia remains:
- *Strengthening the organization through an engaged and empowered work force*
- *Maintaining a constructive and regular dialogue with employees to solve current issues based on win-win solutions*
- *Levelling capacity supply and demand to minimize OT and turnover of employees*

2. Spectre CSR general issues and focus in 2018

2.2.2. Vietnam

Spectre Garment Technologies (SGT) has been developing positively, with the welcoming of 500 new colleagues since the opening of the new factory beginning of 2017, now totaling some 772 employees at the end of 2018.

SGT is managed under the same management programs as the remaining companies in the Spectre Group with key words such as 5S and Continuous Improvement production principles, well-defined quality management systems and certified standards for the quality management as well as external environment. The factory has already been certified according to ISO9001 and ISO14001 as well as the social standard SA8000 which brings the factory up to the same level as its sister factories in the Spectre Group.

Although the seasonal fluctuations in Vietnam are less pronounced, there are still issues that must be improved via a close planning cooperation with our customers. The low-season period must be reduced by applying the clearly defined levelling tools that are part of our partnership strategy. Moreover, we must seek to have a stable allocation plan from our customers to keep a stable quality and cost level and offer our employees job stability, with equal loading throughout the year.

Focus for Vietnam remains:
- To tackle the challenge with OT work in peak seasons we must intensify our cooperation with customers and discuss solutions such as differentiated lead times for different markets, products or color variants, extended lead times for end-season orders, detailed forecast information sharing with customers and suppliers at very early stages of the production cycle etc.
- Strengthen our CSR organization proportionally with the increasing business in Vietnam to sustain and further develop our CSR standards.

3. Spectre's Business Model

As a private label garment manufacturer Spectre is placed somewhere in the middle of the traditional textile supply chain. Via our 4-corner stone CSR strategy, we seek to manage our own business activities in a professional and responsible way, and at the same time to ensure a constructive and value-adding cooperation with our business partners in the supply chain.

Hence, a core element of our business model is "cooperation" which is a key to sustainable and long-term business success. A cooperation takes many forms. It can be as simple as bringing employees together across departments and organizational levels. Often it involves close partnership cooperation with our customers and/or key suppliers and occasionally it involves public authorities or various organizations.

On our own, we are able to fulfill certain sustainability targets but by joining forces through internal and external cooperation we can expand the ambitions to a higher level. To accelerate progress, we have to intensify cooperation further in the future from a clue that no one has the full answer but together we have the chance to take sustainability and responsibility efforts to the next level.

We believe that sustainable supply chains are a big part of our success. Our efforts to making our supply chains more sustainable can be seen as an infinite process and, like continuous improvement activities in general, there will always be a potential to improve things further. One of the goals of our supplier management is compliance with fundamental environmental and social standards, alongside high quality, delivery reliability, and competitive prices. To achieve this in full, we still need introducing relevant strategies, processes and guidelines and ensure the continuous improvement of these to prevent violations of supply chain standards. However, as can be seen in sections 11-12 of this report, we have taken concrete steps to ensure a more systematic approach to our supply chain management.

Fig. 10: Spectre's Business Model ···

Sustainability is an integral part Spectre's business model. Some of the key words of our CSR strategy is openness and transparency (see section 7, "Reporting"), and by sharing our strategy, knowledge, methodology and goals, we hope others may find inspiration to follow the same path. As players in the value chain, we cannot work in silos if we want to create true change. On the contrary, to create a visible and sustainable impact requires very close cooperation between all the key players of the value chain: the brands, the garment manufacturers and the fabric mills.

Fortunately, there is much evidence that the actions and behavior among companies and consumers around the world are changing for the better. Sustainability and responsibility are here to stay. We recognize that today's economic, political, environmental, and social context have been shifting and companies are playing ever larger roles in addressing major global challenges. E.g. to help reduce emissions, organizations – from the business community to local and state governments to NGOs – are aligning with the United Nations Sustainable Development Goals (SDG).

The United Nations adopted the SDGs in 2015, seeking to influence all countries and organizations across the globe. The SDGs are the blueprint and a source of inspiration to implement strategies to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to poverty, inequality, climate issues, and environmental degradation, lack of prosperity, and turmoil and corruption.

Spectre's ambition is to align with the SDGs and implement the relevant ones in our overall CSR strategy. The selected SDGs are embedded in the following sections of this report illustrating how they impact our daily business practices:

Fig. 11: Selected United Nations Sustainable Development Goals (SDGs) of primary relevance for Spectre

In summary, one can say that important elements of our overall company strategy are the empowerment of our organization, our partner selection and the strengthening of the collaboration with key partners. These elements are described further in below section "Overall strategy and CSR strategy" since they merge with our CSR strategy.

3.1. Overall strategy and CSR strategy

Key parameters of our group strategy are:

- Frontrunner within CSR standards
- Selective customer strategy with the ultimate goal of reaching a true partnership cooperation
- Spectre Value Adding Model
- Partnership cooperation with key suppliers

The Spectre Group "Next-Level: Towards 2020-22 strategy" aims to maximize our success based on the conviction of the long-term strength of the triple bottom line way of doing business. This goes hand in hand with respecting the interests of our employees, customers and shareholders, as well as those of the community and other stakeholders.

3.1.1. Frontrunner within CSR standards – The 4 corner stones

Our CSR strategy is an integrated part of the overall group strategy, and can be described via our CSR strategy model, "The 4 corner stones" as illustrated below:
Fig. 12: Spectre's CSR strategy – The 4 corner stones

SPECTRE CSR MODEL
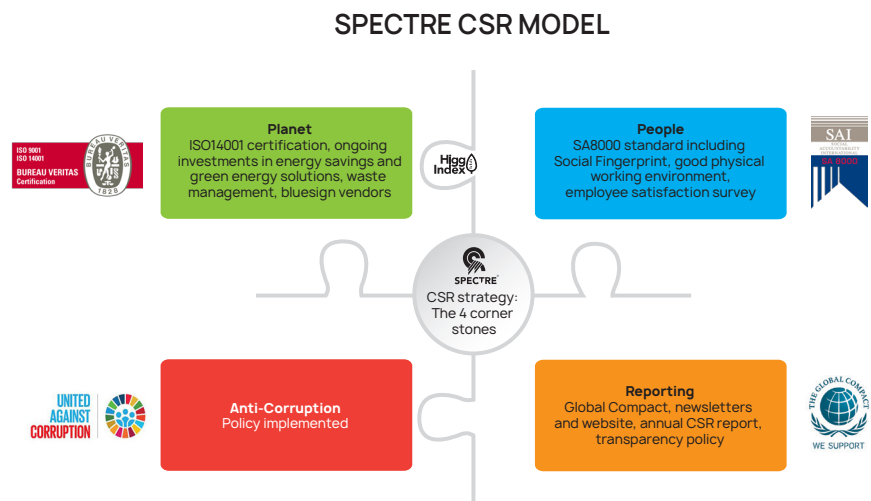
Based on our Mission and Vision statement as well as our DRIve values, we have formulated a CSR strategy that ensures a daily commitment to running the business in a sustainable and responsible way. The 4 corner stones of our CSR strategy are: Planet – People – Anti-Corruption – Reporting.
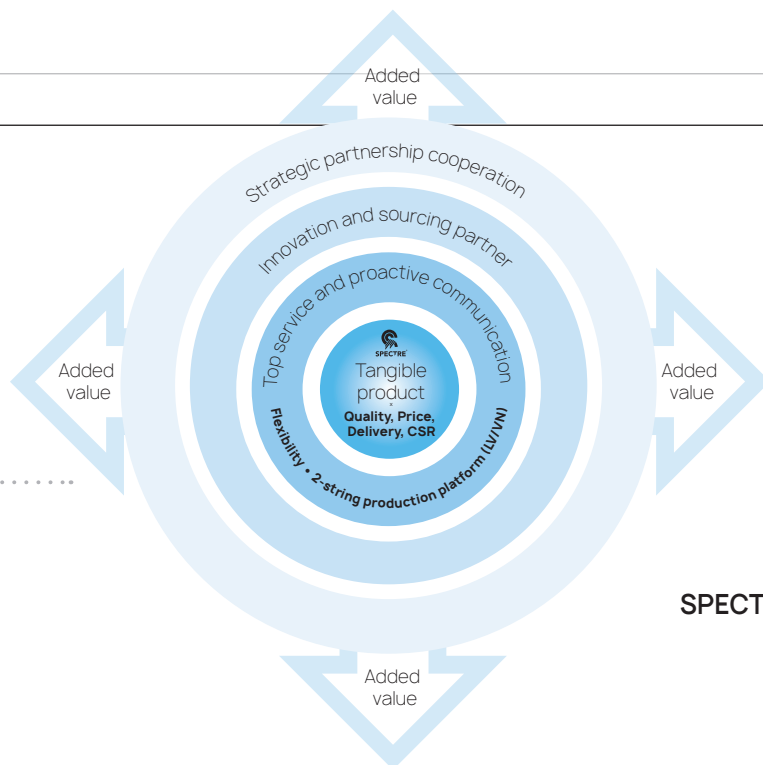
SPECTRE VALUE-ADDING MODEL

All our CSR activities fall under the heading of responsible governance with an aim to perform beyond compliance and legal requirements and offer better working conditions than the average standard in the countries in which we operate. As a company, we comply with the nine core elements of the SA8000 standard, we are members of the United Nation's Global Compact and we are aligned with the United Nation's SDGs.

Well established management systems such as SA8000 for people management and ISO14001 for external environment management form the solid basis of our CSR efforts. However, we don't stop here. We work openly an constructively with customers, suppliers, organizations and stakeholders such as Fair Wear Foundation and Fair Labor Association to monitor and improve our business practises. We organize social events to strenghen the relations within our organization and we measure our energy consumption and waste generation with the objective to find ways of reducing our environmental footprint. We have formulated and implemented an Anti-Corruption policy and we value transparency, sharing openly information with our customers and other business partners.

3.1.2. Selective customer strategy and Spectre Value Adding Model

We practice a sales strategy of selective choice of customers based on an internal model where a minimum score must be achieved on a number of key criteria, including the customer's CSR profile, to ensure a proper match between Spectre and our customers. This analysis and selection procedure supports our ambition of reaching long-term, sustainable cooperations with our business partners.

We want to establish partnerships with our customers by our value creation for the brand, as stated in our Company Mission. The value adding is based on a long-term partnership approach with the customer focusing on product design and development as well as brand building and distribution and Spectre being responsible for the manufacturing process, raw material management and being an active partner through the technical product development process.

Fig. 13: Spectre's Value Adding Model

The tangible product – delivery of a high-quality product on time, at a competitive price in a sustainable and responsible way – is the core of our deliverable to the customer. We provide additional value by offering a top service level through our daily communication with the customer's organization, we offer innovation power and skills and our ultimate goal is to reach a true partnership cooperation where strategies are shared, discussed and aligned between Spectre and our customers.

3.1.3. Partnership cooperation with key suppliers

Through our value creation model, our ambition is to to build better supply chains with more long-term perspectives and increased focus on minimizing the total environmental footprint of the value chain. Overall, the demand for sustainable raw materials is increasing and new, interesting technologies have made their entry: For example dyeing methods with no or limited use of water and with less energy consumption. However, the availability of relevant fabrics based on this technology and the brands' awareness of the technologies and willingness to adopt them are barriers for a wider implementation of these products. We want to play a role in inspiring the brands to select the green solutions and make it part of their sourcing strategy.

This requires a strategy where we take part in the raw material supplier selection process and provide inspiration and recommendations to our customers of preferred suppliers and the products and technologies they offer. To succeed with this part of our strategy, we must form even closer cooparations with the preferred suppliers.

4. Planet

This section describes issues related to the corner stone "Planet" of our CSR strategy which is related to environmental and climate issues.

We have selected three relevant SDGs that form a part of our strategy:
- Goal 7: Ensure access to affordable, reliable, sustainable and modern energy
- Goal 12: Ensure sustainable consumption and production patterns
- Goal 13: Take urgent action to combat climate change and its impacts

4.1. Affordable and clean energy

As defined by the UN: "Working towards this goal is especially important as it interlinks with other Sustainable Development Goals. Focusing on universal access to energy, increased energy efficiency and the increased use of renewable energy through new economic and job opportunities is crucial to creating more sustainable and inclusive communities and resilience to environmental issues like climate change."

4.2. Responsible consumption and production

As defined by the UN: "Sustainable consumption and production is about promoting resource and energy efficiency, sustainable infrastructure, and providing access to basic services, green and decent jobs and a better quality of life for all. At the current time, material consumption of natural resources is increasing, particularly within Eastern Asia. Countries are also continuing to address challenges regarding air, water and soil pollution."

Since sustainable consumption and production aims at "doing more and better with less," net welfare gains from economic activities can increase by reducing resource use, degradation and pollution along the whole life cycle, while increasing quality of life."

4.3. Climate action

As defined by the UN: "Climate change is now affecting every country on every continent. It is disrupting national economies and affecting lives, costing people, communities and countries dearly today and even more tomorrow." and "...The pace of change is quickening as more people are turning to renewable energy and a range of other measures that will reduce emissions and increase adaptation efforts."
Science has exposed that environmental degradation of our planet is occurring at a rapid pace. Carbon emissions, chemical usage, and water scarcity threaten our global population. Human activity is supposedly contributing to an array of challenges – from rising seas to intensifying droughts – that impact billions. Sustainable resource management is essential to the way we live and do business, not least in the textile industry.

The biggest environmental impact of the textile industry appears in the areas of resource use, such as water use, especially in the dyeing process, of fabric and trims, electricity consumption and high solid waste volumes of both raw materials and readymade garments stemming from overproduction and "fast fashion" life-style where clothing live a short life at the consumer level. Furthermore, toxic chemicals are used in pre-treatment, dyeing and finishing of fabrics and trims. It is a real-life dilemma to balance sustainable development challenges and the production cost pressures related to keeping the profit margins in the value chain.

Spectre's primary objective for the next few years is to improve our resource productivity and shift to a greener energy footprint. Energy is the dominant contributor to climate change. Such an improvement would be beneficial both for the business and for the environment.

Performing in synergy with SDG Goal 12: Ensure sustainable consumption and production patterns includes priorities like:

- Resource productivity: Reduction of production waste and safe disposal or recycling of waste. Spectre has invested in modern production technology in the form of automated machinery and software to help reducing the production waste. This is supported by well-trained and experienced employees who follow clear working processes e.g. efficient cutting patterns, consumption targets for cutting departments, reducing and/or utilizing fabric leftovers, continuous improvement of cutting technologies to enable smaller gaps between cut parts, and designing more efficient tooling for cutting laminated and glued parts.

- Green energy footprint: Reduction of energy consumption and shifting to sustainable energy sources. In all factories, we have installed full LED lighting and in Latvia we have shifted to environment friendly wood pellets for heating and phased out all coal and other less environment-friendly energy sources. Further, in Latvia we have signed contracts for 100% supply of green power from wind energy. In Vietnam, our factory has been constructed with a more efficient energy profile than average industrial buildings in the country to reduce the heating impact from the sunlight.

To track progress against our environmental footprint, we are aiming to reduce our environmental impact by also measuring and reporting our key performance indicator - energy consumption – and thereby creating clarity and being able to set specific goals.

As a new step, we will calculate our energy consumption per employee, to establish a trend of the relative energy consumption. Currently we are measuring the energy consumption based on the number of employees end of the year, however, since we might have reduced or increased our staff substantially during the year, we might have to implement a method to measure on monthly basis, or using the average number of employees for the whole year, to have a more correct illustration of the trend of the energy consumption. Alternatively, we might measure the energy consumption per produced garment.

Fig. 14: Spectre energy consumption per employee Kwh/HC (2016-2018)

	Latvia	Vietnam
■2016	1854	0
■2017 base line	1.575	1 122
■2018	1.626	1 508
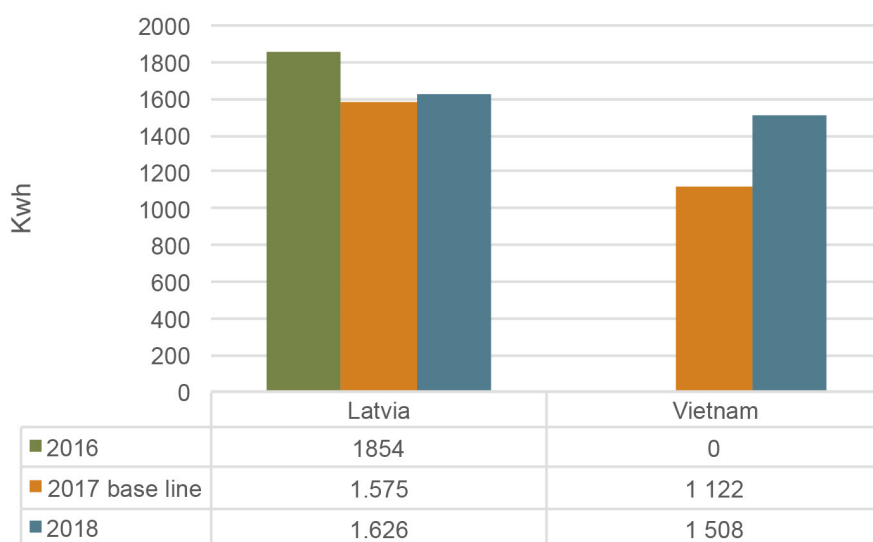
2017 measures are set as a base line to measure our actual energy consumption performance annually. We have taken decision to evaluate the development of the annual energy consumption in total and per employee and currently we are seeing that according to the set base line:

Despite the employee reduction in Latvia from 2016-17, we were not able to reduce energy consumption proportionally. However, in total figures consumption was lower in 2017-18 than in 2016. Therefore, there is still a potential to reduce consumption further. The increase of the relative consumption was due to the two new, small branches with a small amount of staff since it is necessary to have a minimum level of heating etc. no matter the number of staffs.

The relative energy consumption in Vietnam has increased substantially but this might be related to the gradual increase of the number of staffs during the year. Particularly 2017 was an unusual year with a high number of recruitments, i.e. the staff started at a low level and ended at a very high level and since the number of staffs at the year-end was applied for the calculation, it might lead to a distorted result.

4.4. Energy consumption

4.4.1. Latvia

Below diagram illustrates the energy consumption per branch in 2018.

Fig. 15: Energy consumption by location in Kwh, Latvia
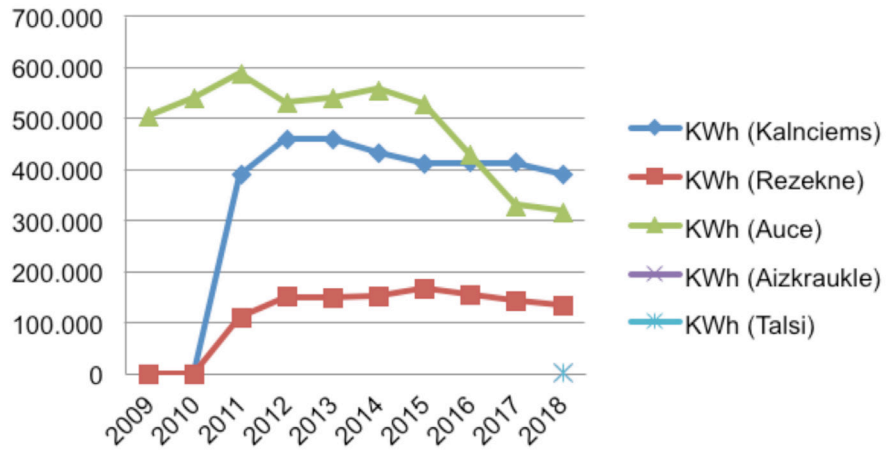
All branches in Latvia achieved further energy savings despite increasing production capacity. Targets have been set to manage production in more energy efficient ways by measuring consumption per production branch and by increasing employee awareness and responsibility etc. However, our target to reduce consumption by 3% per production minute was not achieved which was partly due to breakdown of a power generator and an electric cable.

Due to several reasons as unusually hot and dry weather conditions in the region, with the drought continuing almost throughout the three summer months and a growth in the national economy, Latvia saw an 8,6% hike of the electricity price. Therefore, the cost reduction was not proportional compared with the pure consumption decrease.

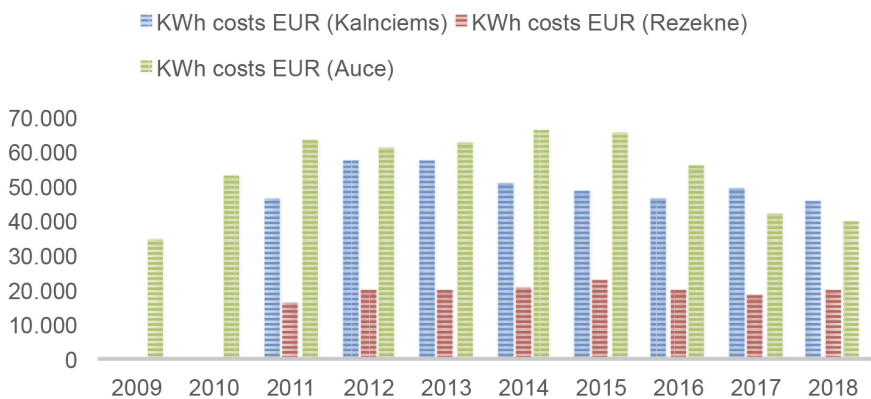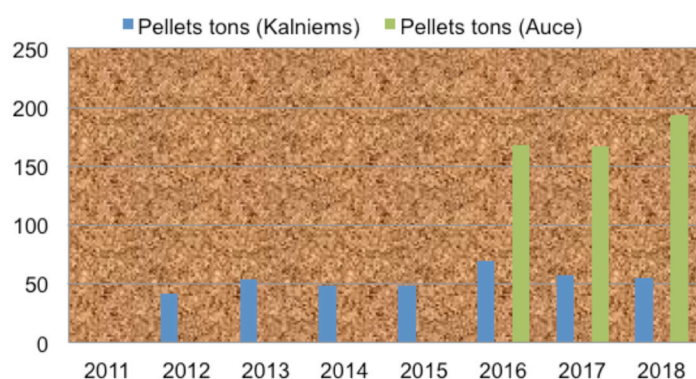*Fig. 16: Energy costs by location in EUR (costs without VAT), Latvia*

Fig 17: Pellets consumption by location in tons, Latvia

European wood pellet prices have risen sharply during 2018 due to raw material supply issues in Russia and the Baltic region resulting in lower availability of wood amid a period of strong demand. In the Baltic region, the weather was very warm and wet in the autumn, which affected the ground in the forests, making it hard to retrieve logs. As a consequence, residue for making pellets has been scarce. At the same time, colder weather over the winter period resulted in stronger demand. Due to these conditions, prices for pellets saw a hike of 3-10% during 2018. Wood pellets are a relatively environmental-friendly source of energy, however, there is some evidence that global warming directly impacts resource availability.

Fig. 18: Pellets cost by location in EUR, Latvia
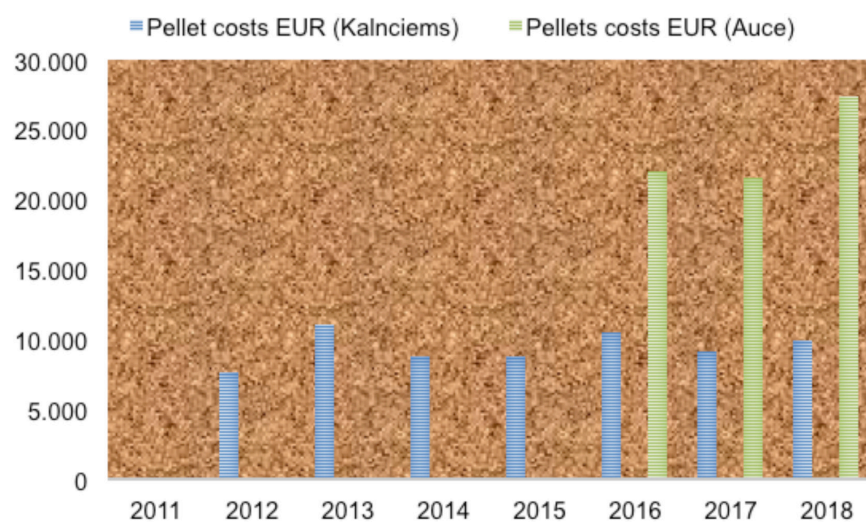
Pellet as heating resource are used in Kalnciems and Auce branches only. The Rezekne and Auce branches, besides pellets, are consuming wood as illustrated below. Unfortunately, we are not able to identify the actual heating consumption for heating in the two new, small branches (Aizkraukle and Talsi) as they are rented premises and the costs of renting and consumption is not specified in detail, but rather a total amount.

Fig. 19: Wood consumption by location in m3, Latvia
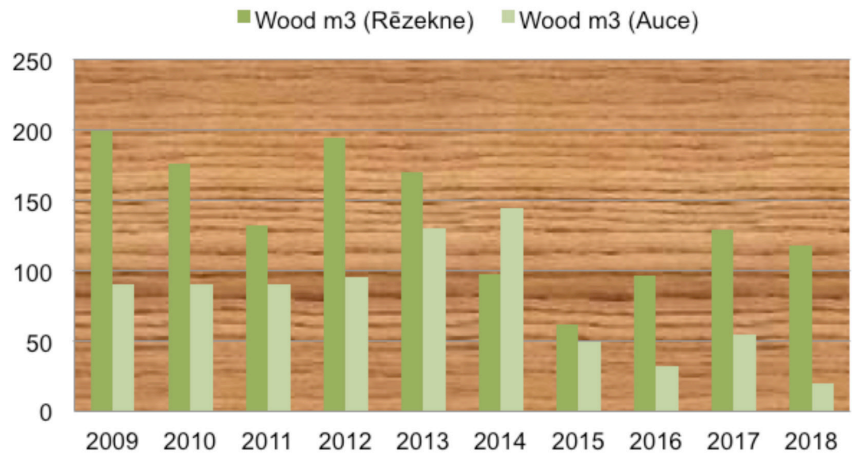
Fig. 20: Wood costs by location in EUR, Latvia
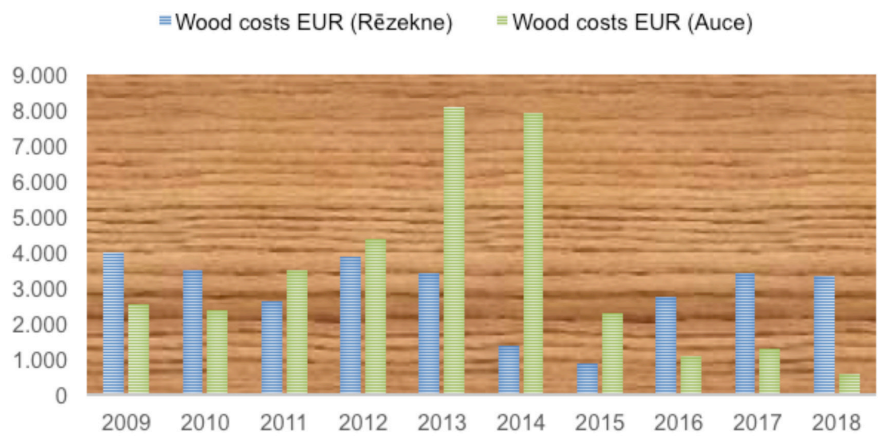
4.4.2. Vietnam

Spectre Garment Technologies has dramatically increased its electricity consumption from 2016-2018 following the substantial staff increase (from 30 employees beginning of 2016 to 750 employee's end of 2018) and parallel increase of the production output. Additionally, due to the factory being fully air conditioned, the energy consumption per produced unit has increased. On the other hand, the working environment has improved significantly because of this, and due to the warm climate in Vietnam there is no heating consumption.

Fig. 21: Energy consumption in Kwh, Vietnam
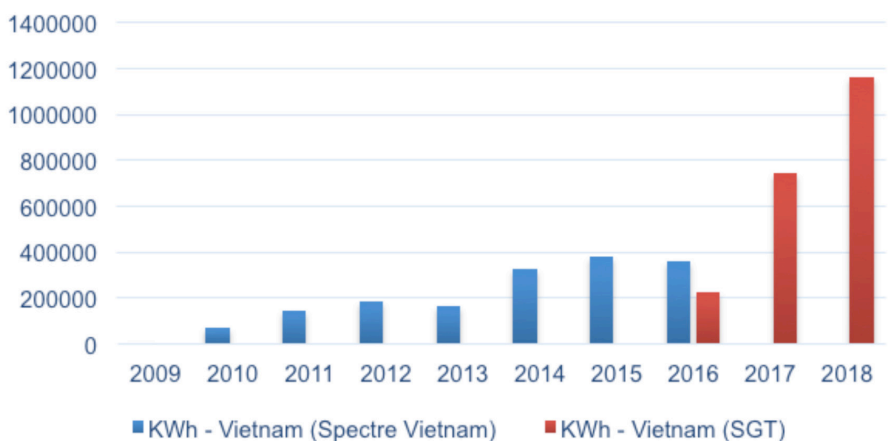
Fig. 22: Energy costs in MillVND
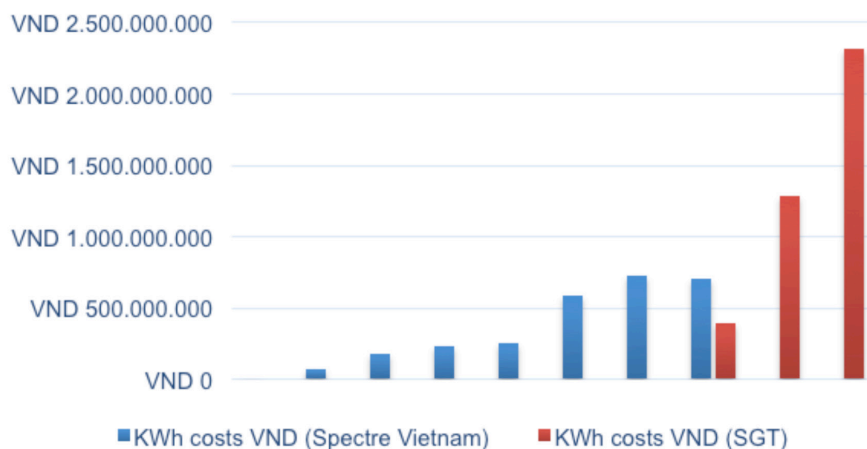
The electricity price in Vietnam is among the lowest in the region of Southeast Asia, even compared with other countries with low income per capita, however, electricity prices saw a hike of close to 8,4% during 2018 to cover the actual energy production cost and the increasing electricity demand and large investments planned by the government in improvement and expansion of the power grids and power stations. Power tariffs for businesses and industrial zones are now divided into two levels: VNĐ3.076 per kWh for peak hours and VNĐ970 per kWh for off-peak hours.

Spectre's strategy includes the switching to renewable energy, such as solar power or wind power but currently there are no such options available in Vietnam. We have been investigating the return on investment in our own solar panel solution but under the current conditions this is not a viable solution. We expect the best solution will be to enter a contract with the public power grid if/when they decide to offer green energy contracts in the future.

Spectre strives to continuously create higher awareness among our employees that as a company we are dedicated to reduce energy consumption and by little daily activities and strategic CSR goals create a positive impact on planet.

4.5. Waste management

Another major battleground is the global war on waste. With concerns about plastic in our oceans and microfibers in our drinking water, combatting waste has never seemed as urgent as today. But a move away from built-in obsolescence, toward circular design for recycling or reuse, is a challenge that the apparel and footwear industry is taking the lead on and Spectre feels responsible to tackle this goal together with the other major players of our supply chain to make the impact even bigger.

While we aren't satisfied with the development to-date, we are confident that our efforts are laying the foundation for better understanding and management of what drives waste generation.

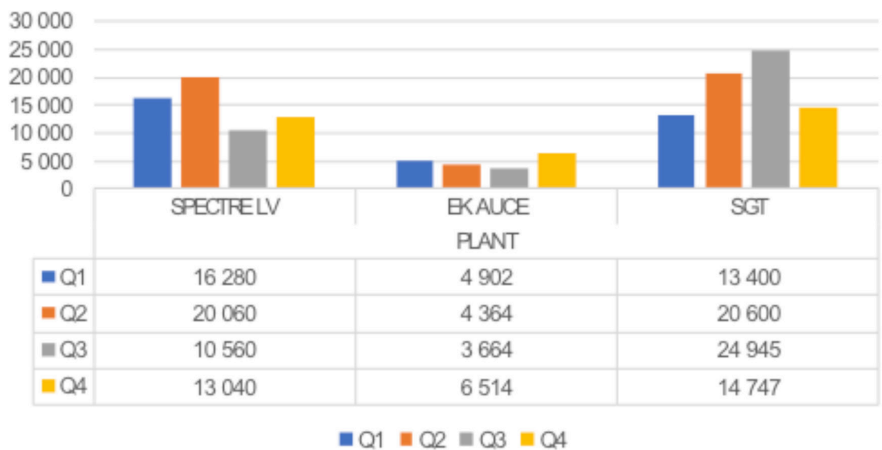Spectre will focus more on reducing waste generation and further improving waste handling in the future:

- Minimizing/reducing the solid waste by ensuring optimum fabric utilization
- Disposing of the waste in a more environmentally friendly way

Fig. 23: Waste recycling hierarchy

The chart below defines waste consumption per year in kg in each Spectre plant in 2018. Directly generated waste deviation comes hand-in-hand with seasonality reflecting the peak periods in our production. Also taken into account should be the fact that the cutting department in which by far the majority of the waste volume is generated are located in Kalnciems, Latvia and in Vietnam, which explains why the waste generation is higher than in the Auce branch.

Fig. 24: Waste delivered in kg by plants, 2018

	SPECTRE LV	EK AUCE	SGT
		PLANT	
Q1	16 280	4 902	13 400
Q2	20 060	4 364	20 600
Q3	10 560	3 664	24 945
Q4	13 040	6 514	14 747

Q1 ■ Q2 ■ Q3 ■ Q4

Spectre ensures that the waste is managed in a reasonable way from the collection and transportation to the waste collecting area in accordance with the law and other requirements. Also UNGC principles serve as guideline: "Businesses should support a precautionary approach to environmental challenges" and "Businesses should undertake initiatives to promote greater environmental responsibility."

We classify waste to determine if the substance is waste for disposal or waste that potentially can be re-used or recycled, and whether it is hazardous waste or regular waste.

The target for Spectre's waste management system is to reduce waste generated to the lowest realistic level, re-use the defective products as raw materials, or as sub materials for next step in the production process. Following are among our company guidelines for waste management:

- Sorting of waste at the source for proper management. __
- Restrictions on the generation of hazardous waste, such as not allowing waste from the chemical use or solvent wash flowing directly into the environment.

- Deliver regular waste to a third-party waste handling company, such as paper from prodution (cutting), waste paper from administration, various plastics from prodution, bottles, leftovers from meals etc. to minimize the amount of garbage that need to be treated.
- The various types of hazardous waste must be collected and stored separately classified in temporary waste storage areas and/or containers dedicated for storing hazardous waste.
- Strictly forbid the intermixing of different hazardous wastes.
- Strictly forbid the mixing of hazardous wastes and regular waste.
- Prohibit littering in the local environment within the factory area or elsewhere.
- Waste to be collected at normal waste bins and dedicated areas.
- Waste generated in the department must be collected, sorted and stored by each production shift.
- Living waste in the department must be put into plastic bags before putting into containers or garbage vehicles.

4.5.1. Waste classification

- Waste: Any waste material in solid, liquid or gas, discharged from the production process, other business activities, or other activities taking place as a side effect of the company's business activities.
- Solid waste is waste in solid or paste (also called sludge).
- Regular waste: waste which is not on the list of hazardous waste or is under the hazardous waste category but below toxic elements hazardous waste.
- Non-hazardous solid waste: is solid living and industrial waste not containing or containing a very small amount of substances or compounds that can cause harmful to the environment and human health
- Hazardous waste (HW) is waste containing substances or compounds with one of the characteristics of the direct hazard (flammable, explosive, poison, corrosive, infectious and other hazardous properties), or with the possibility to interact with other substances harming the environment and human health (according to the regulations for hazardous waste 155/1999/QD-TTg. (hazardous waste list harm is defined in Circular No. 36/2015 / TT-BTNMT).
- Solid living waste (also known as municipal waste) is the solid waste generated in the daily life.
- Industrial solid waste is solid waste generated from production activities, trading and services.
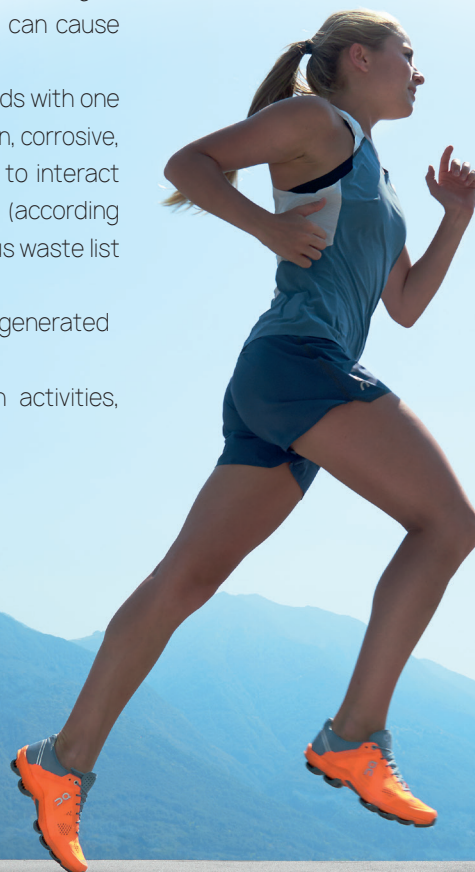
4.5.2. Fabric waste

Fabric waste accounts for ›90% of our total waste. Most of textile fabric waste are burnt in the public incinerator or sent to landfills. Therefore the potential of minimi-zing the negative impact of textile waste is enormous and clearly a field that has the opportunity to develop further. The scope of this global challenge requires a close cooperation between the various parties in the supply chain and one assumes that technological advances in both the private and the public sectors are needed to address this problem.

Spectre for the 3rd consecutive year, in cooperation with an external partner specialized in recycling industrial waste for the creation of new raw materials, is working on the development of a textile product that can potentially be applied for the production of outdoor jackets. Our partner's competencies are based on deep knowledge of and experience with many kinds of fibers, process control and quality assurance related to the recycling of varous industrial waste. The central production is based on patented technologies.
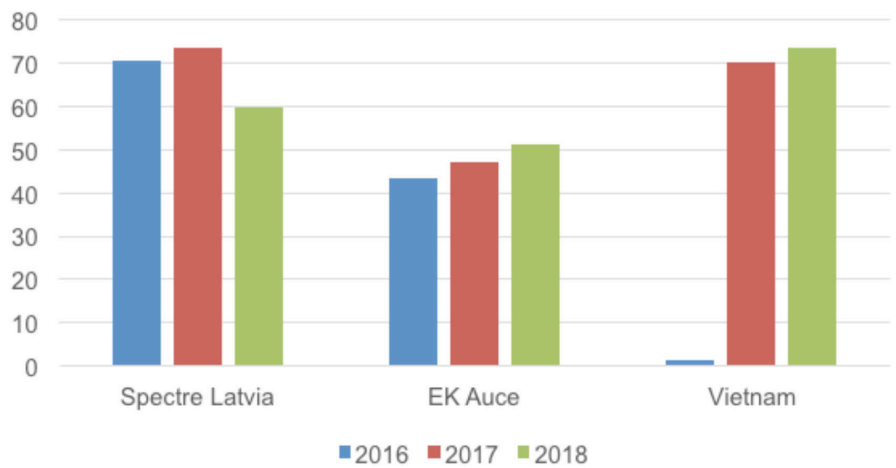
This is a first step on the circular journey: taking a readily available waste stream, redefine its use, transform it into a new raw material and invite designers to turn it into something interesting even despite the fact that fabric waste have to be shipped to Denmark to make it happen, since the technology applied for this pro-cess is only at an early development stage and therefore not yet widespread.

Fig. 26: Recycled Spectre fabric waste to molecular level (early proto sample mate-rial) and circular economy idea

We aim to eliminate waste wherever we can, beginning by designing waste out of our products and optimizing manufacturing processes. Eliminating waste reduces material consumption and cost, and the upstream environmental impacts associated with making products. We wish to play an active and relevant role in transforming the outdoor garment industry into the mindset of circular economy.

4.5.3. Hazardous waste

Spectre ensures working with local recycling providers that are professionals and certified to handle more hazardous waste as batteries, chemical containers (spot cleaning, oil etc) and ink cartridges. By hazardous waste understanding any industrial by-product, especially from the manufacturing process or related processes, that is destructive to the environment or dangerous to the health of people or animals.

4.5.3.1. Spectre Hazardous Waste Management procedure:

1. Sorting, collection and temporary storage of hazardous waste.
2. Hazardous waste must be identified.
3. The department generateing hazardous waste must organize the sorting, collecting at designated places.
4. Hazardous waste must be stored temporarily in dedicated containers (batteries, bulbs and oils) to ensure that no leakage, spillage, with lids to avoid dispersal into the environment.
5. All hazardous waste containers must be labeled with the colors and symbols written in accordance with regulations.
6. The departmentsmust have plans and means of prevention and control of incidents caused by hazardous waste and must not mix hazardous waste with regular waste.
7. Hazardous waste is stored only temporarily in specified areas in accordance with the company policies.
8. The time limit for temporary storage is generally not more than 06 months.
9. Transporting hazardous waste must be handled by certified party.
10. Vehicles transporting hazardous waste must have facilities to avoid leakage, spillage or incidents caused by hazardous wastes.

An important step is to choose our waste supplier based on our values, quality demands and transparency requirements. Spectre will control whether the waste handling company is certified to conducted services and whether they have appropriate equipment and means of transport to ensure safe transportation. As a proof of evidence of the waste handling company's qualitifications also serve recognized management systems such as ISO9001:2015 and ISO14001:2015.

Specific hazardous waste procedures include:

4.5.3.2. Ink cartridges

Our cartridge service provider in Latvia is one of the first in the country to produce "GO Print" cartridges, which allows us to save money and be more environmentally friendly. It is possible to refill and reuse. After last refill service provider come to Spectre and collect hazardous ink-cartrige and transport it to disposal, ensuring us with appropriate act as proof of evidence. Also ink-supplier management system is audited and recognized as compliant with ISO9001:2015 and ISO14001:2015 certificates.

Fig. 27: "GO Print" cartridge reusable and refill

4.5.3.3. Chemicals

The management of chemicals is very crucial in order to protect people and planet during and after the production process. The Restricted Substance List (RSL) specifies chemical limits based on legislation, best practices in industry, and voluntary reductions in hazardous chemicals, including substances that our customers voluntarily restrict from use during the production process.

Zero discharge of hazardous chemicals requires more than the implementation of our internal procedures and processes. It demands our continued commitment to collaborate with industry peers, aligning on how we manage chemicals across a shared supply chain. We also follow standards from our customers regarding primarily consumer safety in terms of chemicals used during production. We are following recommendations particularly regarding water emission, occupational health and resource productivity in order to provide risk free products. All used chemicals are having safety data sheets indicating right usage of chemical, warning signs and information on risks and health damage that can occur from leakage or wrong handling.

Only few dedicated and trained employees are allowed to handle the chemicals includingreleasing and disposing them according to procedures. Generally, it is employees from technical department who are trained how to deal with these chemicals eg. oil for maintenance of sewing machines or air-compressors. These employees collect and tansport the hazardous waste to dedicated areas in special marked containers with MSDL on it.

4.5.3.4. Batteries

Around Spectre departments is put special boxes or small containers for used or damaged batteries that allows any employee to dispose used batteries any time, even batteries from their home. After collecting all batteries, a certified supplier collects and disposes them according to legal requirments and provides proof of evidence in the form of a document. Spectre is rising awareness and motivating employees to "think green" and take care of nature arround.

Fig. 28: Used or damaged battery collection box available in Spectre premises in Latvia

Spectre avoid, minimize and reuse waste as much as possible and maintain, assess and inspect our waste disposal facilities according to national regulations and internationally accepted guidelines.

5. People

Spectre's workforce is one of our most valuable assets. The workforce must be supported, valued, and enabled correctly to perform well. Important factors in the HR management are worker engagement, H&S, compensation policies and daily well-being of employees in the form of good physical working conditions and a psychologic working climate characterized by cooperativeness, empathy and a solution-oriented mindset. Although there are times with high workload, a busy working day should be exciting and motivating by ensuring the right working atmosphere which is a mutual responsibility of management and employees.

5.1. Human Rights

Human rights as defined by the Universal Declaration of Human Rights, recognizes that "all human beings are born free and equal in dignity and rights." Respecting human rights is one of the most essential values of a company. We believe business must be conducted ethically and sustainably. We have selected two SDGs related to human rights that are relevant for Spectre's CSR strategy:

Fig. 29: Sustainable Development Goals (SDGs) of primary relevance for Spectre

- Goal 5: Achieve gender equality and empower all women and girls
- Goal 8: Promote inclusive and sustainable economic growth, employment and decent work for all

5.1.1. Gender equality

As defined by the UN: "Gender equality is not only a fundamental human right, but a necessary foundation for a peaceful, prosperous and sustainable world.... "and"... Providing women and girls with equal access to education, health care, decent work, and representation in political and economic decision-making processes will fuel sustainable economies and benefit societies and humanity at large."

5.1.2. Decent work and economic growth

As defined by the UN: "A continued lack of decent work opportunities, insufficient investments and under-consumption lead to an erosion of the basic social contract underlying democratic societies: that all must share in progress..."and"...Sustainable economic growth will require societies to create the conditions that allow people to have quality jobs that stimulate the economy while not harming the environment. Job opportunities and decent working conditions are also required for the whole working age population."

The garment industry provides many jobs worldwide and is characterized by labor intensive work predominantly by female workers. There are many shadow sides of the industry since production costs for many years has been an absolute key parameter for the international buyers, although focus is changing gradually for the better in recent years. In many of the typical garment sourcing destinations, the political environment is weak and corrupt, and many companies are not respecting basic human rights and regulatory requirements. It has been a race to the bottom.

We believe, that by creating jobs offering equal opportunities to men and women and by offering good working conditions, respecting human rights and treating all people equal as described above, we can do our part to ensure a positive and sustainable development of the less developed economies around the world.

Further, we can achieve higher levels of economic productivity through diversification, technological upgrading and innovation and through focus on the value adding process.

More countries are likely to follow the U.K.'s lead in requiring mandatory disclosure of gender pay gap statistics. As a company, we are already practicing an "equal-pay-for-equal-work" policy.

Other areas of focus are the radically changing expectations and regulatory requirements around the use and protection of personal data, the use of the internet and social media, and freedom of information. This development is putting greater pressure on companies to build management systems that protect people's rights Organizations that embrace diversity, transparency and accountability will thrive as a new model for the 21st century organization. At Spectre we want to use our DRIve values (see Executive Statement section) and our existing people management systems to create and sustain equal opportunities for all employees.

Spectre group employs more than 1200 employees in Europe and Asia and rapid growth is foreseen the next years. The daily efforts and dedication of each and every employee to play their part in the development of the company enable us to deliver the best products and solutions to our customers. Customer satisfaction is the best way to ensure future business and thereby create work to employees. It's all about people!

Spectre's organization has grown from approx. 400 employees in 2010 to an estimated 1400 employees in 2020.

Fig. 31: Spectre employees at their working places in Latvia and Vietnam
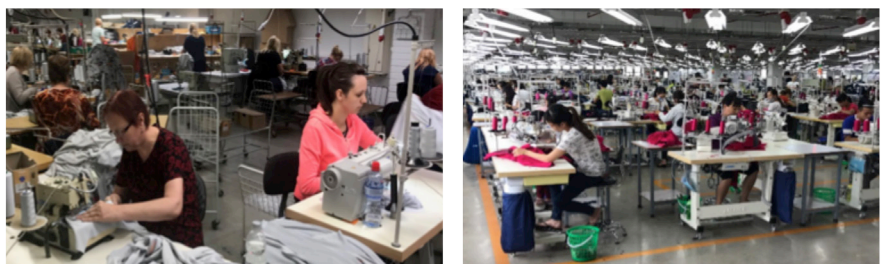
The head count in Denmark has been stable, Latvia has been fluctuating around +/-20% and Vietnam has experienced a constant growth during the period.

Fig. 32: Spectre head count development 2010-2020(f)
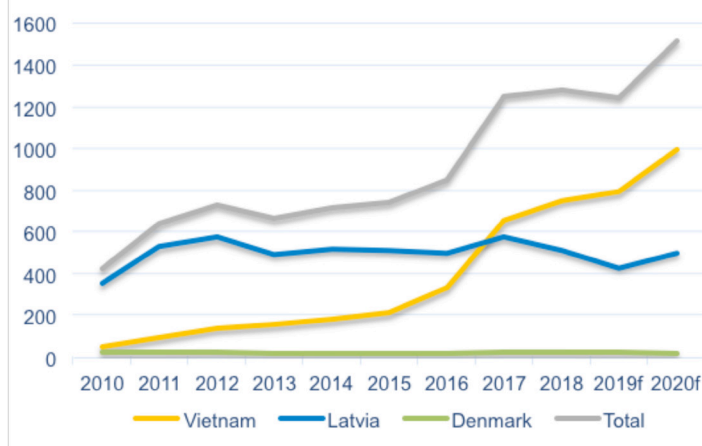

5.2. Fair Ware Foundation

Some of Spectre's strategic partners and key customers are members of Fair Wear Foundation (FWF), an independent non-profit organization that pledge to only deal with products manufactured under humane working conditions. FWF's "Code of Labor Practices" (CoLP), which – like SA8000 – is based on the International Labor Organization (ILO) Conventions and the Universal Declaration of Human Rights, sets out eight guiding principles. Spectre as manufacturer is a signatory of FWFs „Code of Labor Practises", and thus commits to the progressive implementation of the principles:

GP 1) Transparent recruitment process and onboarding

There is no discrimination in employment. To attract and develop an increasingly diverse, engaged, and competent workforce, we have to ensure a culture of inclusion with equal opportunities for all employees no matter the race, gender, age, sexual orientation, disability, union membership, political affiliation, national origin or religion. In addition, we must ensure a competitive, equitable and equal pay and benefits. Employees should be offered opportunities to develop and grow in line with the company's development and the employee's skills and ambitions.

Qualified supervisors and department heads help and assist employees to strengthen their work skills, professional abilities and knowledge through practical and specific job trainings at the very beginning of onboarding process and throughout the employment.

GP 2) Providing safe and healthy working conditions

We believe that the protection of life and health in the workplace is a fundamental right. Our ambition and policy is to provide a healthy, safe and hygienic workplace and to develop proper safety management systems and foster a strong culture of safety that is in line with International Labor Organization (ILO) standards.

Achieving this requires an active and engaged workforce that is properly informed and adequately trained on the hazards of their job and how to perform their work safely. Organizational health and safety (OH&S) compliance is a constant focus for Spectre owned facilities and the safety management system is focused on developing and implementing a risk-based prioritization of OH&S concerns, supported by SA8000 guidance. E.g.:

- Mandatory health checks to assess suitability for the job and the general physical well-being of employees. Doctors costs, medical costs and transport costs to/-from the doctor, if needed, are covered by the company.

Fig. 33: Mandatory, biannual health check organized by Spectre in Vietnam

- The labor market situation in Latvia (especially in the profession as seamstress) of the pre-retirement age group shows that health issues and disability are an obstacle to labor market participation for older people and people who have spent many years on the labor market. As the current demographic situation in Latvia indicates ageing and depopulation trends (migration), especially among the working-age employees, the efficient use of the existing labor force potential becomes even more important.

The company is dedicated to continuously improve the workplace and the working environment for a healthier and longer working life. Furthermore, the company is identifying those employed persons who are in need of additional support, including adult education or some workplace-related health services and ergonomic workplace adjustments, partly cost coverage of glasses or awareness building about the importance of an active lifestyle for one's health and life expectancy

- Annual fire and safety trainings are conducted to rise employee awareness and attention on the importance of a safe working place to their lives in case of an emergency. Our procedures are in compliance with local legislation.

Fig. 34 & 35: Annual fire and safety training in Latvia and safety training presentation in Vietnam
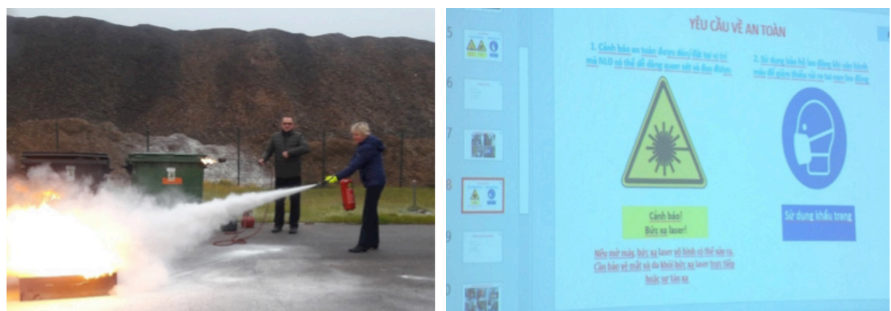
Despite our safety goal of zero injuries at the working place including efforts in training and awareness building, unfortunately we faced one work injury in Latvia due to an unauthorized removal of a safety device on a machine. Specifically, it was a sewing machine needle guard that was removed, causing the injury of a seamstress at the work place.

Subsequently, strong corrective actions were taken, a root cause analysis was conducted and repeated training was organized for all employees.

GP 3) Ensuring fair and equal pay.
Spectre will "ensure that wages paid for a standard working week, not including overtime, shall always meet at least legal or industry minimum standards, or collective bargaining agreements (where applicable) and shall be sufficient to meet basic needs of personnel and to provide some discretionary income" (SA8000 8.1).

We put a lot of effort in building up our knowledge and know-how concerning living wages. Every Spectre production site worker in our supply chain has the right to a standard of living which is adequate to support them and their families. Every year, we are consolidating data that is generated by FWF's Wage Ladder software and other sources of information to keep track of Living Wage recommendations and Basic Needs Wages – two concepts that are used interchangeably. Both methods cover a consumer basket taking into consideration the basic nutritional needs of a worker. The overall needs are defined to include food, housing, and other essential needs such as clothing.

There is a decentralized wage setting system in Latvia and one minimum wage level that is binding for all employers. As part of the Tax Reform the minimum monthly gross wage has been increased by 50 EUR thus reaching 430,00 EUR in 2018.

In addition to the national regulation of the minimum wage, independent organizations may specify or recommend other wage levels (including higher minimum wages) at company or industry level collective agreements. Upon fulfilment of specific criteria, industry level collective agreements can be extended to all the sector. According to the principle of labor rights that a collective agreement may not impair the status of an employee in comparison with laws and regulations (Section 6 of the Labor Law), thus only a higher wage and better working conditions may be specified in collective agreements.

In Vietnam 2018, along with most ASEAN countries Vietnam faced a rise in minimum wages to support the rising costs of living. Vietnam operates with four levels of minimum wages depending on the development status of the city/area. Our current production facility is located in a level II city which means the minimum wage in 2019 is VND 3.530.000/month (approx. 153,00 US$).

The region's growth in the past few years has been largely attributed to the manufacturing industry, driven by low labor costs. As more international buyers adopt the "China plus One" strategy (diversifying their sourcing strategy), understanding the rise in wages was crucial for maintaining the delicate balance between labor costs and productivity in Vietnam and its neighboring countries. Low labor costs as the dominant competitive factor, might not be sustainable in the long-term.

We believe there is room for a reasonable rate of wage increase corresponding to the increase in productivity. In general, Spectre maintains and supports Promotion-Pay-Performance Evaluation for our employees. For example, our salary system for seamstresses in both Latvia and Vietnam includes a higher incentive bonus for highly efficient seamstresses (from daily wage to average monthly pay, on top attendance bonus and skills bonus). What we can do more is reviewing the pay structure to incentivize productivity during regular working hours.

OT work is paid according to national regulations.

GP 4) No Exploitation of child labor
Spectre Latvia does not employ children under the age of 15 following the ILO Conventions, the UN Conventions on the Rights of the Child and the national law. Child labor is preventable via the implementation of proper procedures.

In Spectre we occasionally employ young people in the age of 15-18 years during summer, paying special attention to training, education and limited working hours of maximum 35 hours/week according the local labor law. Employment is always agreed with their parents that are mostly Spectre employees. In such a way the company strives to support the personal development of people by letting young people work and earn some money for themselves. Age is identified based on personal documentation and always compensated according to the local laws. In Spectre there is no permanent young people employment.

GP 5) Freedom of association and the right to collective bargaining
Spectre respects the right of all personnel to form and join trade unions of their choice and to bargain collectively. We inform our employees about their rights as part of our yearly SA8000 training and tell them that they are always welcome to seek advice from external parties if any doubts or questions in relation to working conditions, including our partner organization for labor protection questions, auditing agencies, Fair Wear Foundation, Fair Labor Association etc.

Union density in Latvia is app. 15% and is much higher in the public than the private sector. This means that our employees are not accustomed to use this kind of institution and may even have little knowledge of its function. However, in Vietnam a collective agreement has been signed between the Trade Union and the factory management.

GP 6) No excessive working hours
As described in detail earlier in this report, one of the general issues and focus areas is seasonality which leads to OT work in peak seasons. We follow rules and regulations for OT management including the need for mutual agreements between management and workers and respecting it must be distributed equally between employees.

Spectre follows national legislation and SA8000 requirements, whichever is stricter. General definitions state that OT work must not be conducted on a regular basis or the majority of the time. In the outdoor industry, the peak seasons at manufacturer level is usually in May-July and November-December since retailers are having their main launch of the new season in August-September and February-March respectively for the fall/winter season and the spring/summer season.

Employment contracts describe in detail and in a transparent way the number of working hours that apply to the employee. In general, our employees are interested in the opportunity to earn extra money, and we usually do not experience difficulties in agreeing the extra hours.

The planning of peak season production should consider the number of extra hours needed to balance capacity supply and demand and the maximum OT hours as defined by Latvian and Vietnamese law must be respected: In Latvia, a maximum of 144h over a four-month period are allowed and in Vietnam a maximum of 30h per month are allowed. Further, the production planning and the financial budget should take into consideration the financial consequences of OT work.

During the peak season we use different instruments, besides OT work, to increase our capacity: We agree on early-bird orders with our customers, we may organize shift work in certain departments, we are cooperating with subcontractors to manage up to 15% of our annual output and we regularly extend the production season by shipping late-season orders by air from Vietnam to buyers in Europe.

Spectre has different tools that allow us to ensure we don't work excessive OT hours, e.g. reminding management of the importance of compliance, using electronic time tables, having internal and external audits including employee interviews.

GP 7) Legally binding employment relationship
All employees in Spectre have entered into employment agreements compliant with labor or social security laws and regulations.

GP 8) Employment is freely chosen
Spectre does not engage in or support any kind of forced labor within the company, neither with subcontractors or other partners.

Employment contracts are standard contracts, which are clear, specific and transparent in terms of working conditions and termination options. Personal identification papers like birth certificates, passports or work permits cannot be kept by Spectre, according to our policies.

SPECTRE®

5.3. Social audits

Spectre maintains the standards through regular announced and unannounced audits conducted by internal and external parties. This includes SA8000 audits by external or internal auditors, FWF audits and FLA audits and other audits organized by customers. Our internal monitoring activities are conducted according to an annual schedule and audit reports on each manufacturing site's social performance are prepared.

In 2018 the production sites were externally audited three times in Latvia and two times in Vietnam based on SA8000:2014 and the FLA standard. The FLA is a US non-government organization concentrating mostly on sewing workers and like FWF and SA8000 it is based on the ILO code. The focus of FLA is to check and review the factories' social management system and its compliance.

5.4. Participating in and supporting the local environment

By investing in the skills and capabilities of our employees and by supporting their ability and desire to collaborate among themselves and between employee-manager, we positively impact the business.

- Together with our employees and external partners and stakeholders, we are committed to creating a future for the children and the young in the communities where we operate our business. E.g.: in both Denmark, Latvia and Vietnam, we are permanently employing students via shorter or longer internships for students in many fields of study. In some occasions, internships lead to permanent employment.

  Another example was Spectre Latvia organizing a site tour for local community kindergarten children as a social tour and to rise their awareness about a working place where community members and their family members are working and of course informing about potential professions.

Fig. 36: Positive moment with community children during the Spectre site tour in Latvia

- In Denmark, we are supporting "Team Rynkeby", a Nordic charity cycling team that supports the children's cancer fund by riding bike. Every summer the team cycles to Paris to raise money for seriously ill children. Besides this initiative, Spectre is sponsoring various local sports clubs in our local area in Ikast, as well as the International School of Ikast-Brande. The non-profit, association culture in Denmark is strong and we wish to support this culture to ensure children and youth have a wide choice of recreation and sports activities they can join, as well as educational possibilities.

WE SUPPORT 2018
børne | cancer | fonden
Rynkeby
Riding for children with critical illnesses

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5.5. Communication, awareness building and engagement of employees

Dialogue between employees and the factory management forms the basis for working together with the purpose of constantly improving working conditions.

Spectre has built lot of communication channels to engage and empower employees to speak up. Worth mentioning are:

- Open dialogue between the management representative, worker representative and trade union representatives
- Face-to-face talk between employee and HRA Manager and/or plant manager
- Written complaints submitted to the HR or CSR team. This can be done openly or anonymously
- Internal electronical data base with opportunities to follow status suggestions of grievance handling. In addition to these formats, a information boards around the factories are also available for publishing and exchanging information on social topics
- We also support FWF initiatives and communication materials are displayed in all our production locations, which inform the workers about their rights in local language and give them guidance how to proceed if they feel they are not treated correctly

Seldomly, complaint letters are received in the physical complaint boxes which we attribute to the good, overall dialogue between management and employees.

5.6. Empowering the organization

Empowerment is the process of enabling individuals to adopt new behaviors that further their individual aspirations and those of their organization.

Engaged and curious employees are key to our ability to innovate and produce and to service our customers and are therefore also our key to success. We need a corporate culture that broadens the knowledge base of our employees, one that creates exciting opportunities and motivates them to take a proactive role in shaping the development of our company. Candid feedback from every individual helps showing us where we have room for further improvement.

Spectre encourage employee training via many different kinds of trainings, such as GDPR, brand value for Latvia, safe usage of equipment and machinery training, , vocational training, IT skills and competences etc.

Fig. 37 and 38: Annual trainings conducted for Spectre employees in 2018

We are creating commitment for the staff to provide their experiences, ideas and suggestions by introducing ways in which workers can suggest ideas for changing or improving things. In Latvia, we have introduced an improvement suggestion data base with quarterly awards for best suggestions.

Manufacturing with world-class standards that ensure our products are made responsibly and sustainably, we involve employees in decision making processes. Decisions are delegated to staff, involving employees and motivating them to actively participate in decision-making and project organization is as one of the effective methods of empowerment. This stimulates the job satisfaction, and ultimately create the basis for further empowerment.

To create job satisfaction and raise enthusiasm among employees Spectre conducts an employee satisfaction survey every two years. In 2018 we started to prepare for a new employee satisfaction survey that was originally scheduled for end of the year. Compared with the first survey a few years ago, the second survey has been developed on a digital and more user-friendly platform. Due to a high work load in the HR and CSR team during 2018, we decided to postpone the survey to early 2019. The survey allows workers to provide factory management with confidential, anonymous feedback on their experiences and give constructive suggestions.

Fig. 39: Celebrating international women's day in Latvia

5.7. Social activities

Encouraging people to live a healthy, active lifestyle is also part of Spectre's value culture. It is an area we have not prioritized very highly in the past, but we believe it is important to put more focus on this topic in the future. It is in harmony with the general focus on public health and specifically it goes hand-in-hand with the products we produce that are designed and developed for an active lifestyle.

To make people connect beyond traditional work relationships and take part in healthy and engaging activities, we organize activities every year such as team building, fun competitions, various company parties, and participation in local community events such as running events or city celebrations. In each country of our presence, we follow and support local traditions and festivals.

Fig. 40-43: Spectre employees at company social events in Latvia, Vietnam and Denmark

6. Anti-corruption

Businesses can play a major role in contributing to economic, environmental and social progress both nationally and internationally, especially when they minimize the adverse impacts of their operations, supply chains and other business relationships. Transparency is a key success factor in private sector efforts towards eradicating poverty. Businesses must have a way of measuring, monitoring, and communicating their commitment and impact on poverty alleviation.

We have selected two relevant SDGs that form a part of our anti-corruption strategy:
- Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
- Goal 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development

Fig. 44: Sustainable Development Goals (SDGs) of primary relevance for Spectre

Peace, justice and strong institutions
Among the defined targets of the UN SDG 16 are:
"Substantially reduce corruption and bribery in all their forms" and "Develop effective, accountable and transparent institutions at all levels."

Partnerships for the goals
As defined by the UN: "A successful sustainable development agenda requires partnerships between governments, the private sector and civil society. These inclusive partnerships built upon principles and values, a shared vision, and shared goals that place people and the planet at the center, are needed at the global, regional, national and local level."

Further, corruption as defined by non-governmental institution Transparency International (TI):

"Generally speaking as "the abuse of entrusted power for private gain". Corruption can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs."

Petty and political corruption are the two most common risks of corruption within the scope of our business. TI: "Petty corruption refers to everyday abuse of entrusted power by low- and mid-level public officials in their interactions with ordinary citizens, who often are trying to access basic goods or services in places like hospitals, schools, police departments and other agencies.

Political corruption is a manipulation of policies, institutions and rules of procedure in the allocation of resources and financing by political decision makers, who abuse their position to sustain their power, status and wealth."

Transparency International's three guiding principles are:
"Build partnerships, proceed step-by-step and stay non-confrontational. We (TI) have learned from experience that corruption can only be kept in check if representatives from government, business and civil society work together to develop standards and procedures they all support. We also know that corruption can't be rooted out in one big sweep. Rather, fighting it is a step-by-step, project-by-project process. Our non-confrontational approach is necessary to get all relevant parties around the negotiating table."

Fighting corruption for us is not only crucial for building peaceful, just and inclusive societies, it is also one of the conditions for accelerating progress towards the achievement of all SDGs. From a global development perspective, resources lost through corruption, bribery, money laundering or illicit financial flows could have been invested in healthcare, education, social security and other public goods and services.

It is Spectre's policy to conduct all our business in an honest and ethical manner. We have a no-tolerance policy towards bribery, whether direct or indirect, and towards corruption and we remain bound to the UK Bribery Act, other national and international legislations of the countries in which we operate and by the guiding principles of non-government institutions such as Transparency International and The Organization for Economic Co-operation and Development (OECD).

Bribery and corruption are punishable for individuals and any company found having taken part in corruption could risk an unlimited fine and face damage to its' reputation. We therefore take our legal as well as our ethical responsibilities very seriously.

In 2014-15 we implemented a group wide anti-corruption policy, and this will be an area of continuous focus since corruption and bribery remain critical improvement areas in the global business environment, in the daily interaction between public officials and ordinary citizens as well as in the political institutions.

We are aware of risks of bribery and corruption and have identified the most critical areas of risk and informed our organization clearly about the company policy and responsible conduct on anti-corruption.

Our 2018-target to renew and implement an updated Anti-Corruption policy in all branches was not achieved due to other urgent priorities and limited resources to ensure execution. However, the task has been prioritized for 2nd and 3rd quarter of 2019.

Following steps are part of our 2019 action plan:

- Review, update and implement anti-corruption and bribery policy
- Conduct a new risk assessment
- Conduct training to all managers and relevant staff
- Increase awareness by organizing campaigns or communication posters

Studying and using recommendations of internationally recognized, non-governmental institutions fighting against corruption e.g. Transparency International, (OECD) and UN program "Uniting-against-corruption" we have identified that certain activities create particular risks for our company:

- Import/export of goods including cooperation with customs authorities
- Purchasing of goods and supplier cooperation including price negotiations
- Sale of goods and cooperation with customers including price negotiations
- Quality audits by customer auditors and 3rd party auditors
- Social audits by customer auditors and 3rd party auditors
- Financial audits
- Payments of invoices
- Tax payments and contacts with tax authorities
- Salary payments
- Employees with managerial duties

Hence, all employees engaged in tasks in these areas will receive training in our company policy and they will be asked to read the company policy and confirm with their signature they have been informed about the policy and understand its content and consequences.

On a global level, effective anti-corruption efforts provide a huge potential for unlocking large levels of financing for development. By following our internal procedures and policies that are based on national and international legislation and recommendations by non-governmental institutions, we believe we are able remaining true to our fundamental values of integrity, transparency and accountability.

7. Reporting

7.1. Annual CSR report

Despite the fact we have not yet exceeded the limits for mandatory reporting on CSR issues according to the stricter requirements of the Danish Financial Statements Act (§99a), we have chosen to do so since 2015. Partly because transparency is a key element of one of our CSR strategy corner stones, "Reporting", and partly because we see a strategic advantage of establishing a management system for the collection and processing of CSR related data. Deep knowledge about data that help drawing a picture of the actual situation in our company as well as our performance within working environment and our footprint on the planet (environment, climate), supports us in prioritizing efforts within the CSR area and setting relevant targets.

Communication and reporting on performance are drivers for change, externally as well as internally: We are fulfilling our accountability obligations in relation to addressing human rights issues and impacts on our planet, we openly inform stakeholders and we train managers in our desired company management style towards sustainable conduct of business. We consider these actions as means to help building trust towards internal and external stakeholders. Communication and reporting are increasingly important as a stimulus for the development of our company and it has positive impact on business decisions and outcomes.

During the preparation of our CSR report, we are considering the legal requirements defined in the Danish Financial Acts §99a:

- The company's business model, including coherence between strategy, core areas and approach to social responsibility
- Corporate social responsibility policies, as a minimum for climate, environment, social conditions and employee relations, respect for human rights and laws on anti-corruption and bribery
- Documentable actions, procedures and due diligence for each policy area
- Risk assessment of the company's operations, products and value chain within each policy area
- KPI indicators for non-financial areas
- Documented results and description of expected results in the future.

Following this structure helps us moving towards a full compliance according to §99a once we exceed the limits for mandatory reporting, expectedly within the next 2-3 years.

7.2. UN's Global Compact

Besides our annual CSR report, we are member of the UN's Global Compact and follow our obligation to prepare an annual report on progress, in UN terms called "Communication on Progress (COP)". The COP is a key component of our commitment to the UN Global Compact. There are several powerful drivers of non-financial reporting that are pushing us to act responsibly and report on our actions: Mainstream investors are considering environmental, social and governance (ESG) information in their strategies, customers chose suppliers based on CSR performance and consumers and local communities alike are increasingly forming their opinions and making decisions based on a company's CSR actions and strategies.

7.3. CSR certifications and initiatives

Our participation in a range of internationally recognized initiatives and cooperation with certification institutions and customers supports our commitment to continuously improve our approach and performance across sustainability topics and helps increasing our transparency.

Fig. 45: SA8000 logo, ISO14001 logo, Global Compact logo and SDG logo

Spectre is audited twice per year by external auditors according to SA8000 requirements and further audits are carried out on customer initiative following requirements from Fair Wear Foundation (FWF), Fair Labor Association (FLA) and others.

Compliance and certification based on SA8000 and ISO14001 constitute a proper management system, but our ambition is to go much beyond compliance: We want to stay at the forefront of the global sustainability agenda together with our customers and other key business partners ensuring we take our part of the responsibility.

We have adopted the agenda of the UNs Sustainable Development Goals (SDG) and every year we are gradually incorporating selected, relevant SDGs into our CSR strategy as can also be seen in this year's report.

As mentioned in the Executive Statement, we will become members of another initiative, the Sustainable Apparel Coalition's (SAC) Higg Index in 2019. Becoming a member of this initiative fits perfectly with our strategy and provides us with further tools for the active work with CSR performance measures.

7.4. Communication channels

The communication channels we use to report are multiple as summarized in the following:

- Annual CSR report integrated in our annual financial statement
- As UN Global Compact members, we are required to communicate our progress on an annual basis. The UN Global compact CoP report is uploaded on the UN GC web page
- www.spectre.dk web page contains information on our CSR strategy and priorities
- We openly share our SA8000 audit reports with customers upon request and systematically follow up via Corrective Action Plans (CAP) based on audits required by SA8000 an audit initiated by our customers.
  - Together with our customers that are members of FWF, a focus area was to improve the FWF audit reporting to our customers. By disciplining and improved the reporting process we are supporting the drafting of country reports and also enable FWF to analyze common problems and formulate guidance for resolution
  - We also openly work together with Fair Labor Organization that serves as CSR auditing and development platform for other customers
- We briefly inform our stake holders bi-annually on current CSR focus areas via electronic newsletters and our web page
- We keep ongoing and open dialogue with our customers, we are in contact with CSR responsible people from our customers' organizations on a regular basis to exchange and supply information, plan auditing visits and follow up on current topics.
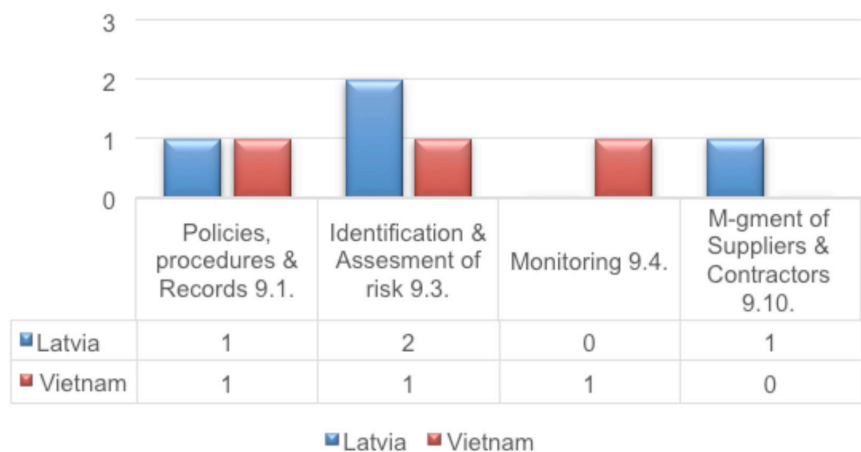
8. SA8000 update

The SA8000 standard is the leading social certification standard for factories and organizations across the globe and therefore enjoys widespread recognition. Our decision to become SA8000 certified in 2013 was based on our ambition to introduce the strictest social management system that exists. Doing so, we are able complying with any customer social requirement.

With the aim of making monitoring more effective and ensuring compliance with the requirements of the SA8000 standard, we are cooperating with an independent third party and accredited certification body which conducts biannual audits and a re-certification process every 3rd year. In addition to SA8000 audits, we are also audited according to Fair Wear Foundation (FWF) standards and Fair Labor Organization (FLA) standards, organized by our customers. These are non-profit organizations that work with garment brands, trade unions, NGOs and governments to improve working conditions for garment workers across Asia, Europe and Africa. Further, we are openly sharing SA8000 audit reports with customers upon request as part of our CSR strategy. Besides signaling openness, our information sharing policy also potentially reduces audit costs since customer-initiated audits can be minimized.

Spectre's facilities were externally audited three times in Latvia and one time in Vietnam in 2018 based on the SA8000:2014 management system. The results of the audits were as follows:

Fig. 46: Identified minor NC's in 2018 during external SA8000:2014 audits

	Policies, procedures & Records 9.1.	Identification & Assesment of risk 9.3.	Monitoring 9.4.	M-gment of Suppliers & Contractors 9.10.
Latvia	1	2	0	1
Vietnam	1	1	1	0

Latvia   Vietnam

Our latest and smallest branch in Aizkraukle, Latvia, was successfully certified for the first time according to SA8000:2014, with only one identified minor Non-Conformity, proving the well-functioning management system.

Following the audits, we make an internal review on management level and in our social performance teams and based on this we prepare Corrective Action Plans (CAP) that are reviewed and approved by the external certification body. During the course of the audits we also strengthen our capabilities and awareness on areas that can be improved further, by considering recommendations and suggestions from the auditors. Focus areas and improvement opportunities noticed in 2018 are following:

- Living wage formulation and calculation methods
- Working time regulation for second shift workers in Latvia
- Social Performance team playing a more active role in the company
- Clear overtime communication in order to reach mutual agreements with employees

### 8.1. The Social Fingerprint tool

Under the SA8000 standard a set of tools, the Social Fingerprint®, has been developed to continuously rate the company's management system performance. On a scale from 1 to 5, the tool measures the management system in ten key areas of the SA8000 standard. Hence, the tool is used to define the maturity level of an organization's management system and to identify areas for improvement. The ratings help companies go beyond looking at code violations, to evaluating the processes that are essential to a high-level of social performance.

The Social Fingerprint program complements the SA8000 standard by breaking the management system concept into component processes. It allows us taking more targeted steps towards improvement and it is used to create a baseline rating, as well as help identifying specific areas for improvement. This program's process-based approach is a practical way to drive improvement.

To assess progress in Spectre's performance based on self-assessment versus previous time of measuring and versus the Spectre base line, which was measured and set at the SA8000 re-certification process in 2016, a new self-assessment process was organized and measured in 2018. The results are displayed below:

Fig. 47: Social Fingerprint score development 2018 vs 2016
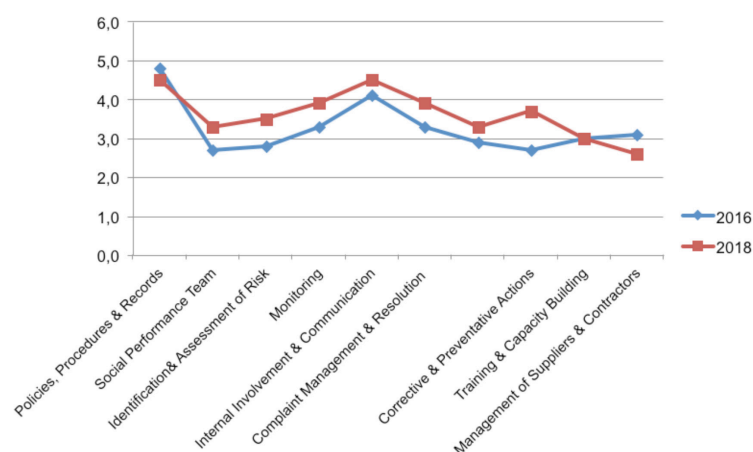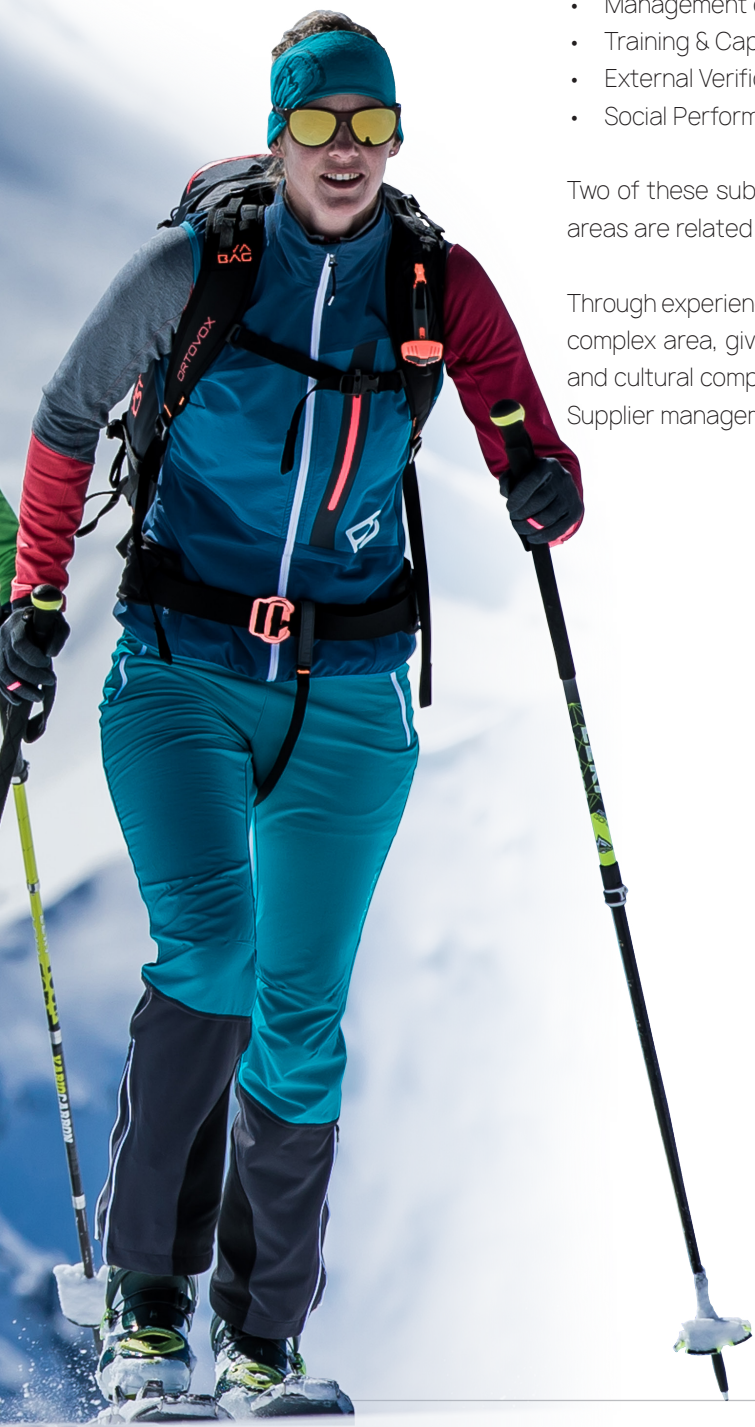
At the first self-assessment in 2016 the total score was 3,3. This score serves as a baseline for the organization's management system maturity and to evaluate yearly progress.

The 2016 rating identified us as a company whose management system is developed but not fully implemented. Within the following two years until 2018 we have managed to improve the self-evaluation score to 3,6. Our expectation is to improve and develop the social management system into a consistent and living part of our daily operation. Our overall target score for 2019 is 3,8 and for 2020 or target is 4,0.

Based on the lowest scores in the self-assessment in 2018, we have identified four sub SA8000 management system improvement areas for the years to come:

- Management of Suppliers & Contractors (2,6)
- Training & Capacity Building (3,0)
- External Verification & Stakeholder Engagement (3,3)
- Social Performance Team (3,3)

Two of these sub areas are related to managing external partners and two sub areas are related to internal activities.

Through experience, we know that supplier and contractor management is a highly complex area, given the large number of suppliers and the diverse geographical and cultural composition of these. This area is further described in the section 11. Supplier management (read more on p51).

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9. Review of CSR goals for 2018

Following table provides a status overview of last year's CSR goals. From a workload point-of-view our administrative organization including our HR & CSR management has been understaffed considering the extensive number of tasks that had to be managed during the finance year. A substantial amount of resources has been allocated to the merger process of our two Latvian factories. Furthermore partly due to the merger, partly due to a decrease of the order volume, we have been forced to reduce staff as explained elsewhere in this report.

This situation has led to a re-prioritization of certain strategic objectives as illustrated in the circle diagram.

Fig. 48: CSR goal status update for 2018

CSR GOALS FOR 2018	PROGRESS STATUS	COMMENTS
Reviewing and implementing the "Next-level" Spectre CSR strategy 2020-22	DONE	
Developing our management system for SA8000 and ISO140001 more criteria and data based	DONE	
Developing and implementing a concept for a comprehensive risk management system of supplier evaluation including a digital integration of the new supplier evaluation system	IN PROCESS	Evaluated existing information and improvement areas identified for Spectre supplier evaluation concept. Goal prolonged for implementation in 2019.
Enroll and implement group absenteeism policy in all branches	DONE	
Quantify and visualize non-conformances (NC) and/or observation points related to external audits. Goal is zero NCs	IN PROCESS	No major NCs. A total of 7 minor NCs in Latvia and Vietnam is a satisfactory result.
Certify new branches in Latvia according to SA8000 standard	DONE	Aizkraukle branch successfully SA8000 certified
Renew and enroll Anti-Corruption policy in all branches	NOT FULFILLED	Target postponed to 2019.
Fully align Spectre CSR goals with UN Sustainable Development Goals	IN PROCESS	Goal prolonged for implementation in 2019.
Designing and implementing every two years employee satisfaction survey group wide (transferred from 2017)	IN PROCESS	Satisfaction survey was developed, but execution postponed to 2019.
Investigate the relevance and measurability of the company's environmental footprint using the carbon footprint method	DONE	

Fig. 49: CSR goal progress status for 2018
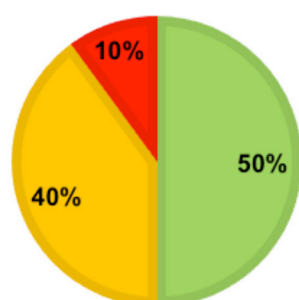
10. CSR goals for 2019/20

With the aim to further progress our CSR effort, we have set a number of new goals for the business year 2019/20 – see below. The overall ambition is to implement the Spectre Model Factory principle, ensuring all factories work 80% according to the same business model, the same standards and management systems. We want to be true to our company culture and key values and build all factories on the same business foundation. On certain areas, where it makes sense, there will be a flexibility to localize the standards in respect of local legislation and cultural aspects.

• Aligning the certification process across all factories
• Implementing best practice exchange between factories
• Renew and enroll Anti-Corruption policy in all branches (transferred from 2018)
• Higg Index membership and implementation in all factories
• Implement procedure for employee satisfaction survey every 2nd year, analyze results and establish action plan based on 2019 survey
• Quantify and visualize non-conformances (NCs) and/or observation points related to external audits. Goal is zero major NCs for 2019/2020 and maximum 10 minor NCs across all factories
• Developing and implementing a concept for a comprehensive supplier evaluation and risk management system including a digital integration (transferred from 2018)
• Full embedding of selected UN SDGs into Spectre's CSR goals (transferred from 2018)
• Launch Spectre CSR report "next-level" for the 2020/21 annual report with the aim of complying with §99a of the Danish Financial Statements Act by 2021/22

11. Supplier management

Tracing products back through our value chain allows us to make better decisions around which materials to use and which preferred suppliers to work with to drive our use of sustainable materials. We need to continuously build better supply chains that minimize our environmental footprint and ensure proper working conditions for workers at all steps of the supply chain.

Spectre recognizes that supplier management is an important part of minimizing risks in the supply chain. We are dealing with many different suppliers, primarily for fabric and trims and we are taking necessary steps to monitor and make sure that suppliers live up to our CSR requirements. In this section we will describe our general supplier management practices and policies as well as the measures we have taken in 2018 to follow up on supplier CSR performance.

We have selected below SDG related to supplier management that is relevant for Spectre's CSR strategy:

Fig. 50: Sustainable Development Goal (SDG) of primary relevance for Spectre

- Goal 12: Responsible consumption and production

Responsible consumption and production
This goal is also part of our "Planet" strategy described in section 4, p16 of this report.

Taking into consideration Spectre's commitment to the SDGs and our sphere of influence on the supply chain, our role is ensuring a decent supplier management and an efficient, sustainable and well-balanced transport planning of raw materials and readymade garments. This is related to two of the corner stones of our CSR strategy: Planet and Anti-Corruption.

11.1. Overview and selection of suppliers

In the apparel industry, raw material suppliers (fabric and trim) are commonly called Tier 2 suppliers (T2), and garment manufacturers are called Tier 1 suppliers (T1). The main group of suppliers for Spectre by number and purchase volume are fabric and trim suppliers. In 2018 we have used totally 235 different fabric and trim suppliers divided in 120 fabric suppliers and 115 trim suppliers. In value, fabric suppliers account for 80% of the purchase value and trim suppliers for 20%. Spectre's focus in relation to supplier management is therefore primarily focused towards fabric suppliers. The development in number of suppliers can be seen in below figure.

Fig. 51: Number of fabric and trim suppliers 2014-2018

From 2014-18 the number of suppliers has increased from 159 to 235. This is an increase of 48% within a period of five years. This growth has happened parallel with Spectre's overall turnover growth (45%), and our growth in the number of customers we are serving. The selection of suppliers is done by the brands in 95% of the cases i.e. most of the raw materials we are using have been nominated by our customers

All brands we work with, prioritize selecting high-quality fabric and trim suppliers which also produce for other top level outdoor and sports brands. Most of these brands, if not all, are very conscious – and this trend is increasing – about CSR as part of their strategy and this means they are only nominating suppliers that live up to strict CSR demands. Thereby the risk is lower for Spectre: we can, to a large extent, rely on brands having assessed the CSR level of the chosen suppliers. We are still taking several actions to make sure that the suppliers' CSR level is high.

11.2. Supplier risk evaluation

It is important for Spectre that suppliers (T2) and sub-suppliers that we are working with live up to similar values and standards as we are. The strategical and daily goals of the suppliers, their mitigation of risks and compliance must be at the highest level.

Based on recognized risk analysis research that has been conducted of national ability to comply with the first eight areas of the SA8000 and other social standards (child labor, forced labor, health and safety, freedom of association and collective bargaining, disciplinary practices, working hours, remuneration (worker rights), and discrimination (human rights)) and looking into issues such as freedom of speech, complaint systems, corruption and judicial systems, we have listed and categorized the top 90% suppliers starting with the largest (sorted by amount).

On a national level, our existing supplier countries are categorized as follows in terms of risk level as defined by SA8000:

Fig. 52: Spectre indicator for supplier and sub-supplier risk assessment based on geographical location

List of Countries by Risk in relation to the SA8000 standard

High Risk	Medium Risk	Low Risk
Taiwan	Hong Kong	Denmark
Korea	Slovenia	Sweden
China	Japan	Germany
Vietnam	USA	Italy
		Portugal
		Switzerland
		Great Britain

Our chosen method of evaluating the CSR risk in dealing with certain suppliers is based on a study and categorization of the geographical origin of the suppliers and the purchase volume by supplier country. The Transparency International (TI) index rates 180 countries according to the corruption level in the country. Number 1 is thereby the least corrupt country in the world. Below tables illustrate the geographical distribution of our main suppliers and the rating of the supplier countries according to the TI corruption index in 2018. Moreover, there is often a correlation between corruption in a country, poor working conditions and lack of environmental protection which is the reason it makes sense to have particular focus on the bottom ranking countries of the corruption index.

Fig. 53: FABRIC, top 5 countries with Transparency International corruption index 2018 rating

Fabric	2014	2015	2016	2017	2018	Corruption index
Italy	14,8%	11,9%	13,5%	21,3%	29,0%	53
Taiwan	18,5%	20,4%	22,1%	21,4%	21,4%	63
China	4,5%	5,1%	5,8%	11,1%	12,3%	87
Switzerland	0,0%	5,2%	4,2%	6,6%	11,1%	3
Germany	15,9%	14,4%	12,4%	7,1%	5,5%	11
Top 5 Total	53,6%	57,0%	58,0%	67,5%	79,4%	

Fig. 54: TRIM, top 5 countries with Transparency International corruption index 2018 rating

Trim	2014	2015	2016	2017	2018	Corruption index
Hong Kong	30,8%	38,6%	36,1%	38,6%	36,9%	14
Denmark	36,2%	32,4%	32,8%	27,9%	22,8%	1
Vietnam	0,0%	0,0%	3,2%	5,7%	9,1%	117
Taiwan	3,8%	5,0%	5,8%	4,8%	8,1%	63
Sweden	8,7%	10,1%	11,0%	8,0%	7,6%	3
Top 5 Total	79,4%	86,0%	89,0%	84,9%	84,5%	

As the tables show 79,4% of the value of purchased fabrics comes from 5 countries. All these countries are in the top half of the TI corruption index.

For trims, the top 5 countries account for 84,5% of the value of purchased trim. All countries except Vietnam is in the top half of the TI corruption index. Only 9,1% of the purchase volume comes from Vietnam and since trims account only for 20% of purchased value in total, this is seen as limited risk. However, from other perspectives it is a positive trend that the amount of sourcing from Vietnam has increased from zero to nine per cent within the past three years. By sourcing close to our factory, we can reduce the lead time for the raw materials and the environmental impact of transportation is also reduced.

Even though a large part of our raw materials are sourced from countries on the higher end of the corruption index, we do take several actions to control and improve the CSR performance of suppliers.

11.3. Supplier assessments
Every year we conduct supplier trips to visit some of our main suppliers. When visiting suppliers, we use an observation list as part of our visit, and we ask the suppliers to fill in a self-assessment form. In case of red alerts we take immediate action towards the supplier and, if the supplier is nominated by our costumer, we will contact our costumer in order to arrange corrective action plan immediately. If we observe any yellow alerts we claim corrective actions within a limited period of time according to the character of the issue.

Sub-supplier management is new according to SA8000 standard and the sub-supplier management system is similar to our supplier management system: If the sub-supplier is selected by our costumer, we contact our costumer in order to approve their sub-contractor compliance and/or arrange corrective action plan immediately in case of red alerts. If we observe any yellow alerts we claim corrective actions within a limited period of time according to the character of the issue. If a sub-supplier is chosen by Spectre then equal system as for supplier management applies.

In 2018 we have visited suppliers in Italy, Taiwan, Hong Kong, China, Vietnam and Denmark. The suppliers visited account for totally 59% of the purchase volume of Spectre. During these visits we visit both the headquarters/showrooms of each supplier, and the production premises, so we can assess the social conditions and its compliance. Particularly in Asia, production premises are often located separately and therefore it is important scheduling time for visiting several locations.

During these visits we complete a visit report where we log certain CSR relevant issues. This report is stored in our intranet so that it can be used for later selection of suppliers. In case we find non-conformances during these visits we inform the supplier immediately and ask them to prepare an improvement plan. For the supplier visits conducted in 2018 no red alert issues were discovered. We have observed and complained about certain issues related to insufficient chemical waste management with textile print suppliers in Vietnam.

11.4. Code of conduct

In addition to transparently communicating expectations and Spectre values within the CSR area, we have updated our Code of Conduct and Code (CoC) to elevate key expectations around the environment, building and machine safety, gender equality, nondiscrimination and chemical management and other. The updated CoC is a better representation of the breadth of our work with suppliers in sustainability and our requirements for continued partnership.

All suppliers and their sub-suppliers are obliged to sign the Spectre CoC. With their signature, suppliers confirm that they provide their workers with safe working conditions and treat workers with dignity and respect. Also, suppliers sign that their production processes are responsible and environmentally friendly. Our objective is that suppliers representing ›80% of our total purchase volume must sign our CoC and in 2019 we have taken the initiative to resend the updated CoC to all active suppliers. Currently about 75% of our suppliers have signed our CoC and the rest are being updated.

Spectre continually engage in dialogues with our partners about issues relevant to the SA8000 standard, the CoC or environmental management system, especially if any concerns about breach of compliance.

11.5. Supplier certificates

Many customers and brands are demanding that suppliers have certain CSR standards and certificates. Common standards are:

Bluesign is a holistic system that provides solutions in sustainable processing and manufacturing to industries and brands. Based on strict criteria, auxiliary material and services are developed to support the company specifically in its sustainable development. As an independent authority, Bluesign checks the progress that a company has made in this effort, provides continual further development of solutions and continuously optimizes its criteria. Approximately 75% of all garments Spectre make is made with fabric from Bluesign certified fabric suppliers and an increasing number of trims are supplied from Bluesign certified suppliers. Bluesign is a widespread standard in the outdoor sports industry.

Oeko-tex is a worldwide consistent, independent testing and certification system for raw, semi-finished, and finished textile products at all processing levels, as well as accessory materials used. Oeko-tex is frequently used in the fashion industry and less in the outdoor sports industry, but we do have customers requiring this standard.

In 2018 we have initiated that all suppliers will send us any relevant CSR certificate on regular basis to be able establishing an overview of the current status of the suppliers and do a meaningful categorization of their performance. Furthermore, we are saving these documents on the vendor card in our ERP system so that certificates are available for all inside the organization and upon request from customers.

11.6. Supplier management conclusion

Considering Spectre's internal score in the Social Fingerprint self-assessment and one of the defined focus areas for improvement, supplier management, we are happy to report that already in 2018 we have taken important steps to improve our CSR supplier management system. Social compliance is an integral part of our supplier performance review. We believe that we are on the right track, but more can be done and we will continue to improve looking forward.

12. Freight and transportation strategy

In our supply chain, there is a considerable environmental impact of transportation of both raw materials and readymade garments. Therefore, we take care that we do not do transport material unnecessarily and take actions to use transportation methods with least environmental impact. The transportation routes we have are indicated in the below figure.

Fig. 55: Spectre transportation scheme by factory locations
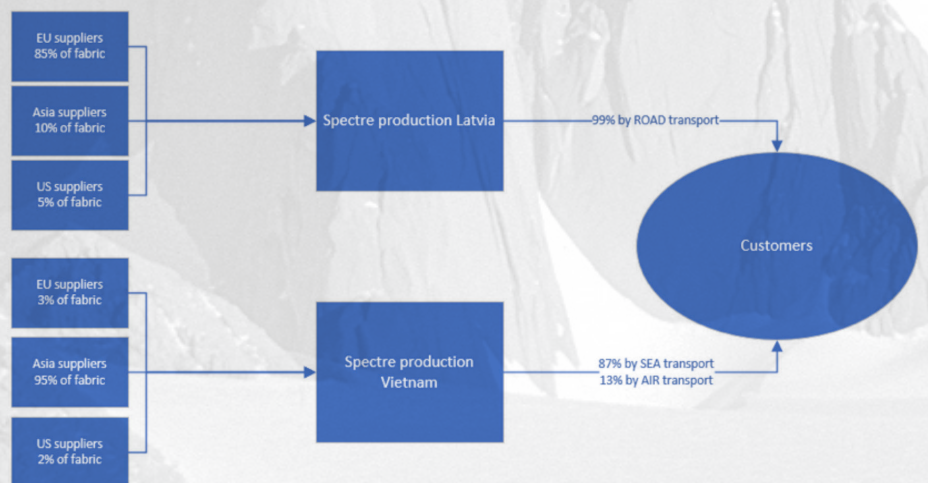
Main part of transportation of raw material is fabric. For Latvia production we use 85% fabrics from EU transported by road transport to Latvia. This means that sourcing is done as local as possible and with least possible environmental impact. For Vietnam production 95% of fabrics come from Asia and this is transported by sea to Vietnam. Again, this minimizes the impact of transportation to our production facilities.

When we deliver garments to customers from our factory in Latvia this is done 99% of cases by road transport to companies in EU. Our products from Latvia therefore have less environmental impact as majority of the goods are delivered to EU countries and just a minor part to other continents.

When we deliver garments to customers from our factory in Vietnam they are delivered primarily to EU, but also directly to customer locations in both Asia and North America. The transport method is sea transportation for 87% of our production in terms of number of garments delivered. The last 13% of garments are delivered by air which has a considerable higher negative environmental effect. This is, however, a CSR dilemma that must be seen against levelling the workload for factory workers due to seasonality issue (more about this in section "Spectre CSR general issues and focus in 2018").

With the purpose of keeping a levelled production flow and thereby keeping people employed throughout the year, we choose to postpone a certain production volume during our peak season with requested shipment in June/July until August/September. This means that garments must be transported by air to meet the customers' requested in-house delivery dates. This dilemma is something we often explain to customers and in collaboration with them, we seek to minimize this by levelling delivery dates. In the future we will continue working closely with customers and ask them to take this into account in their CSR strategy as well.

Another CSR dilemma related to transportation is the fact that by far the most of forwarders use so-called "slow-steaming" boats to save fuel and energy costs which is good for the planet. On the other hand, it is not good for the manufacturers that production time is shortened to compensate for the additional days on the sea.

12.1. Selecting logistic partners

When Spectre choose logistics partners there are a number of important key criteria that must be respected: Price/cost, reliability, service and communication, competence to provide advice on customs issues, international business setup and not least CSR standards. As for any other supplier, we require that logistic providers live up to our CSR standards and our CoC. Although the price/cost parameter is important we take responsibility to challenge any logistic provider regarding CSR standards.

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As proof of Spectre striving to build a sustainable procurement and supply chain, we have just entered a cooperation agreement with a new logistics provider for our sea, air and road transport. We have chosen DSV as partner which is one of the major transportation companies in the world and with a marked CSR profile:

- well-defined CSR strategy (more on: http://www.dsv.com/responsibility)
- collective approach to sustainability and responsibility
- commitment to the UN Global Compact and Sustainable Development Goals

Our logistics provider mainly handles import shipments from our raw material suppliers to our factories. Our common delivery terms are ex works / fob and therefore our customers handle export shipments including the selection of logistics providers, of readymade garments from our factories to the customer's logistics centers.

We expect to intensify our work with CSR related issues in the coming years as part of our supplier and transportation strategy. There is a potential for the continuous reduction of our footprint on the planet but as described in previous sections of this report the breakthrough results are achieved only via a close partnership cooperation between the main parties of the value chain.

The Spectre Way

OUR JOURNEY TO THE SUMMIT - NOT JUST TO BE GOOD, BUT TO BE THE BEST

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CSR Report 2018

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