CSR Report 2020/21

SPECTRE A/S

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Spectre Corporate Social Responsibility
annual report 2020/21

Data regarding the Environment as well as Social and Governance factors have been collected from the period 1 April 2020 – 31 March 2021 based on an ESG-framework suggested by the CFA society in Denmark (Finansforeningen) in collaboration with Nasdaq Copenhagen[1]. This framework follows the standards and the recommendations set by the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC), the Climate Disclosure Project (CDP) and the United Nations Global Compact (UNGC). Calculations for CO2-equivalents use the conversion factors for each energy source from EN16258:2012. The CSR report targets compliance to EU Directive 2014/95 and the Danish Financial Statements act §99a and §99b in particular.

Past and present initiatives and the status related to current CSR activities as well as the Spectre CSR values are described in the initial sections. In the middle part of this report, ESG metrics and targets are displayed as consolidated figures for the group, and governance issues are elaborated. In the end sections, the risk assessment and mitigation plan are explained, and Spectre's future CSR goals are listed.

Overall, Spectre is on a positive trend regarding CSR. For environmental factors, CO2e emissions, and the consumption of water and energy per produced unit is on a positive (downward) trend despite increasing demand. Binding contracts with the electricity providers in Latvia and Denmark ensures that 100% of the consumed electricity is balanced by an equal amount of produced renewable energy. In Vietnam, an increasing part of consumed electricity will originate from solar power from current business year following our investments in solar panels.

With regards to social factors, the number of sick days and gender diversity remain better compared to the industry average.

For governance factors, compliance to and the number of existing certifications is expected to grow even further in the future, even though the number of CSR-related certifications are already at a high level.

[1]ESG-key-figures-in-the-annual-report-June-2019.pdf
(source: www.cfa.dk, accessed January 2021)

Introduction
Welcome to the Spectre CSR annual report!

At Spectre, we have worked with CSR for decades, even before the concept "CSR" was created. We have always had a mindset of viewing our global operations "through Danish eyes", demanding good working conditions and creating a healthy environment for our employees and support the local communities wherever we have operated.

With this report, we are proud to have achieved the target we set back in 2015 of ensuring compliance with the Danish Financial Statements act §99a. Every year we are trying to make the contents even more relevant, and we are ambitious when setting new goals. We are looking forward to introducing you to the new contents we have added to our annual report structure, which means the visuals and overall contents have been updated. Still in its infancy of a new reporting structure for CSR-data, we have invested, and we will be continuously investing a considerable effort in constantly improving the quality of the reported numbers. The ESG metrics display consolidated figures for all Spectre affiliates encompassing six production sites in Vietnam and Latvia as well as our headquarter in Denmark. As can be seen, metrics and key figures within Environment, Social and Governance (ESG) have been added as a new way to visualise our CSR data.

Lastly, it should be mentioned that some of these ESG-metrics had never been collected before (e.g. for the calculation of CO2e-equivalents). Although the data was pulled together from several locations based on explicit definitions and a shared template, a possible margin of error could be expected, especially regarding the collection of data from previous periods. For now – as an interim period – in some cases the reported CSR figures might have been extrapolated / estimated. If this is the case, it will be mentioned as a note.

Going forward, however, this should be of lesser concern and target-setting should therefore primarily be based on the current year as the base year and should be set with the information known to us today.

This report with its entirety of key figures has not been audited by an external auditor, however, it has been reviewed by external CSR-experts.

Glossary and sources

UN Global Compact

The UN Global Compact is the world's largest corporate sustainability initiative dedicated in helping companies align strategies and operations with universal principles to human rights, labour, environment and anti-corruption, and to take actions that advance societal goals through 10 principles and 17 SDGs .
Read more: https://www.unglobalcompact.org/

Lean and 5S

Lean is a process optimisation methodology aiming at removing non-value adding activities in a business process flow. One of the tools of Lean is the so-called '5S' which is a step-wise approach to tidy-up a workplace and eliminate "mess" that would have a disturbing factor and impeding employee efficiency.
Read more: What is 5S in Lean? I Kanban Tool

Gazelle

For more than 25 years Børsen – the number 1 financial newspaper of Denmark – has been awarding fastest growing companies a "Gazelle" – an acknowledgement for being seen as a role model for job creation, optimism and creativity. To be awarded a "Gazelle" the company must have either doubled its revenue or gross profit for more than four years in a row.
Read more: http://img.borsen.dk/img/cms/tuksi4/media/cmsmedia/2072_content_2_6996.pdf

ISO9001

Quality Management System
The purpose of this certification is quality assurance to products. The benefits include a quality management process system that ensures customer satisfaction and adherence to safety protocols. It further supports the UN SDG #1, #9, #12 and #14.
Read more: https://www.bureauveritas.dk/en/needs/iso-9001-certification

ISO14001

Environmental Management system
The purpose of this certification is to ensure compliance to environmental legislation. The benefits include a documented management system, cost savings, increase productivity and efficiency, and minimized waste. It further supports the UN SDG #1, #2, #3, #4, #6, #7, #8, #9, #12, #13, #14 and #15.
Read more: https://www.bureauveritas.dk/en/needs/iso-14001-certification

Oeko-Tex

The certification aims at empowering the use of sustainable manufacturing of textile fabrics.
Certification programs include "Green production" and "ECO pass-ports", but most well-known to the broader public is the "Standard 100" that targets the removal of harmful chemicals within fabric and leather products.
Read more: https://www.oeko-tex.com/en/

Transparency International

Transparency International is a global organisation that works in over 100 countries. They maintain a standardised set of questions to identify corruption that they send out annually. From the answers received through this standardised questionnaire that they ask respondents to fill out they rank the countries of the world on a relative scale from "least corrupt" to "most corrupt"
Read more: https://www.transparency.org/en/what-we-do

Bluesign

The certification aims at empowering the use of sustainable manufacturing of textile materials.
Their certification has 3 main criteria:
• Highest degree of safety for the consumer
• Manufacturing with lowest possible impact on people and the environment
• Responsible use of resources
Read more about the Blue Sign certification: https://www.bluesign.com/en

Higg Index

The Sustainable Apparel Coalition (SAC) is the organisation that maintains the two Higg indices; the Facility Environmental Module (FEM) and Facility Social & Labor Module (FSLM) respectively.
A set of tools measure the environmental impact on 7 environmental and 9 social categories.
By using the facility tool, it is possible to benchmark the performance with other manufacturing facilities.
Read more : https://apparelcoalition.org/higg-facility-tools/

SA8000

Probably the best-known social certification program, the SA8000 Standard is based on internationally recognized standards, including the Universal Declaration of Human Rights and ILO conventions. The following elements are covered by the standard: Child Labour, Forced or Compulsory Labour, Health and Safety, Freedom of Association & Right to Collective Bargaining, Discrimination, Disciplinary Practices, Working Hours, Remuneration, Management System.
Read more : https://sa-intl.org/programs/sa8000/

Fair Wear Foundation

The foundation aims at ensuring safety and proper payment to garment industry workers. Compliance is checked by external audits and employee can contact the FWF through a helpline. FWF is built on 8 principles.
Read more : www.fairwear.org

Fair Labor Association

Fair labour practices, safe and humane working conditions throughout supply chains are ensured through a Code of Conduct that is divided in 9 areas; Employment Relationship, Non-discrimination, Harassment or Abuse, Forced Labour, Child Labour, Freedom of Association and Collective Bargaining, Health, Safety and Environment, Hours of Work, Compensation.
Read more : https://www.fairlabor.org/our-work/labor-standards

LEED

LEED certification provides independent verification of a building or neighbourhood's green features, allowing for the design, construction, operations and maintenance of resource-efficient, high-performing, healthy, cost-effective buildings "LEED is the triple bottom line in action, benefiting people, planet and profit."
Read more about LEED certification and the different levels : http://leed.usgbc.org/leed.html

Section 99a and 99b of the Danish Financial Statements Act

The Danish Financial statements act describes the formal and legal requirements for financial reporting. Recent changes include §99a and §99b which dictates that the largest companies in Denmark – under which Spectre is categorised – is legally obliged to disclose details of CSR activities including the reporting and discussion of data for i.a. CO2e emissions and waste environment (§99a) and disclose details for employee diversity include target setting for an under-represented sex among employees and managerial ranks (§99b).
Read more about §99a (in English) http://csrgov.dk/file/557863/implementation-of-eu-directive.pdf
Read more about §99b (in Danish) : https://danskelove.dk/%C3%A5rsregnskabsloven/99b

Company facts

Owners: Jesper and Jacob Klausen together with private equity fund;
Dansk Ejerkapital

Years of practice (since the founding year):
74 years

Produced garments:
2,143,523 units

Processed thread:
800,000 km

Nationalities:
6

Energy consumption:
16,503 GJ

Processed Fabric:
3,000 km / 860 tons

Total emissions of CO²e:
776 tons

Suppliers:
366

Water consumption:
11,999 m³

Processed trim:
50 tons

Production sites:
4 in Latvia / 2 in Vietnam

On average, the environmental footprint from the manufacturing of a single garment by Spectre is:
362 grams of CO²e emitted
7,699 kJ of energy consumed
5.6 litres of water consumed

Number of employees (August 2021):
2,418
24 in Denmark
431 in Latvia
1,963 in Vietnam

Locations

SPECTRE LATVIA
Kalnciems (HQ)

SPECTRE LATVIA
Auce

SPECTRE LATVIA
Rezekne

SPECTRE LATVIA
Aizkraukle

SPECTRE DENMARK
Ikast (Group HQ)

SPECTRE VIETNAM
Nam Dinh

SPECTRE VIETNAM
Thai Binh

Executive statement
by the Group Production and
Business Development Director

2020 has been a highly unusual year with the global Corona pandemic as the trigger for a dramatic and unprecedented development in the economic and occupational situation of both countries and businesses around the world. Whilst the entertainment and travel industries have suffered greatly due to forced closure and severe travel restrictions, other sectors such as industries producing consumer goods and the construction industry have been thriving as a direct consequence of the consumers' changed buying behaviour: Money has been spent on physical goods, home improvements and real estate investments instead of travel, leisure and entertainment.

At Spectre, the pandemic situation has caused a true roller coaster effect starting with dramatic reactions from customers during the spring of 2020 where orders and forecasts were reduced sharply because of the uncertainty related with the forced store closure, job losses and uncertain future prospects. Resulting from that, we had to take a dramatic decision postponing the design and construction of our new factory in Vietnam. In our current factory in Vietnam and in the head office in Denmark we reduced working hours, but we did not lay off one single employee.

In parallel, we entered into a special project together with the health authorities in Denmark and three other private companies, regarding the speedy development of a European-produced hospital gown with raw materials supplied by Danish material producers and with the manufacturing of the hospital gown taking place in our Latvian factories and with Latvian production partners. It took less than two months from the first virtual meeting until the first products left our factories in Latvia. It was a dazzling example of a good cooperation, and it showed the power that resides in a true collaboration among actors who set a common goal and prioritize their effort.

The production of the hospital gowns helped save valuable jobs in Latvia and it provided a new and important learning for our organization. Instead of reducing the workforce, we invested in new technology and hired additional workforce. In other words, the Corona pandemic threatened our company and opened new opportunities in one and the same time.

Towards the Summer of 2020 and continuing the trend during the Autumn months until the beginning of 2021, the market situation changed completely as a consequence of the consumers' increased outdoor activity and higher spending on consumer goods such as clothing and equipment for outdoor activities.

As a result, our factories in both Latvia and Vietnam are fully booked for 2021 and we are in the process of designing a new factory in Vietnam with the target of opening during the spring of 2022. When fully developed, we expect to provide good jobs for more than 1500 people in a less developed region of the country where jobs are in high demand.
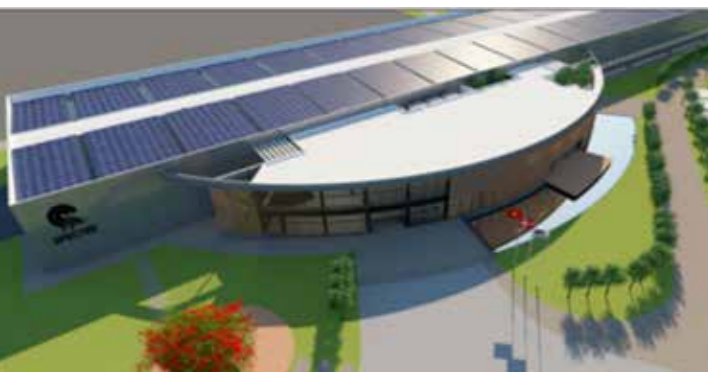
The factory will be another milestone in our company's history. Not only will it be our largest factory to date, but it will also mark the next step of our sustainability journey: The factory will be equipped with a large rooftop solar system that allows us to replace a substantial part of the coal-based energy we buy from the public electricity supplier.

Furthermore, the factory will be our first ever LEED-certified building. We have chosen the LEED standard (Leadership in Energy and Environmental Design) because it is the most widely used green building rating system in the world. LEED provides a framework for healthy, highly efficient, and cost-saving green buildings and with the LEED certification we will obtain a globally recognized symbol of sustainability achievement and leadership.

In the meantime – and until the new factory is ready – our challenge in Vietnam will be to provide sufficient capacity for the over-booked production apparatus and avoid excessive overtime work for our employees.

In Europe, we have established a partnership with a factory in Ukraine to start production in 2021 in close cooperation with our Latvian factory. This will ensure sufficient capacity and a long-term competitive production platform that will allow us to create even more new jobs in the coming years.

After more than 14 months of dealing with the Corona pandemic, we are very pleased with the fact that we have not had a single case of Covid-19 in neither our factory in Vietnam, nor at our office in Denmark. In Latvia, however, almost a fifth of the total Latvian staff have tested Corona-positive. Fortunately, all the employees that were tested positive were able to resume work after their quarantine and none of them have been critically ill.
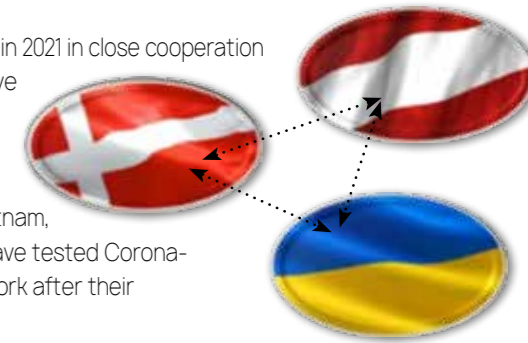
It will be exciting to see how the future market development will turn out after the expected normalization of conditions – post-vaccinations – in our key markets in Europe and North America.

As before, we believe that the success of our company is best achieved by respecting the sum of interests of our customers, employees, owners and the surrounding society. This focus, which is not only driven by a desire to reach financial goals but also to strive for better conditions for our employees and environment is an integral part of Spectre's overall strategy. Our CSR strategy forms the basis of the responsible governance we carry out each day. We see CSR as an obligation to do our business in a responsible and sustainable way to keep creating long term value for our stakeholders.

More than ever, it is essential that the partners of the value chain work closely together, and with integrity, to solve global challenges, create and innovate new and better business practices. It takes commitment to change things!

At the end of the fiscal year 2020/21 we have a new partner and co-owner of our company, Dansk Ejerkapital, a private equity company with a good reputation and a mission to invest in small and medium-sized Danish manufacturing companies. Dansk Ejerkapital has a strong management team and ambitious growth plans and together we will take the next step of our journey as a company. The partnership with Dansk Ejerkapital is another landmark event for our company, and it will further strengthen our continuous focus on developing the company in a sustainable and responsible way.

Finally, it is important for us to underline the importance of being loyal to our core "DRIVe" values (Dedication-Responsibility-Integrity-Proactive) as a daily inspiration and behavioural guiding principle for the way we do business.

Sincerely yours,
Jesper Klausen
Co-owner, Director Production and Business Development April, 2021

Picture of Jesper Klausen (left) and Jacob Klausen (right) at the headquarter in Denmark

Status on past CSR goals
2019/20

In an effort to further lift our CSR ambitions, we set a number of new goals every year. For the previous period, we set nine overall goals, of which six goals have been fulfilled, and three goals are still in process.

A detailed status can be seen in the table below:

#	Status	Goal	Where to find in this CSR report	Cornerstone Value
1	🟢	Aligning the certification process across all factories.	Processes are in place, but still room for improvement in terms of aligning processes and do as many tasks simultaneously as possible.	**Reporting**
2	🟡	Implementing best practice exchange between factories.	Our teams in Latvia and Vietnam across departments and functions increasingly share best practice experiences, for example within CSR management, Continuous Improvement and R&D.	**People**
3	🟡	Renew and enroll Anti-Corruption policy in all branches (transferred from 2018).	The policy has been updated and all material is ready, but it has not been implemented yet. This must be done by the end of 2021	**Anti-Corruption**
4	🟢	Higg Index membership and implementation in all factories.	Both the HIGG FEM tool and FSLM tool have been implemented in the years 2019 and 2020 in both Latvia and Vietnam. Reporting is conducted annually, which means that as of 2021 data for all of 2020 has been documented.	**Reporting**
5	🟡	Implement procedure for employee satisfaction survey every 2nd year, analyze results and establish action plan based on 2019 survey.	Employee satisfaction survey was conducted in VN for the first time in 2019/20. Survey questionnaire, methodology and tools (online) must be aligned between the factories.	**People**
6	🟢	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 for each factory.	For the year 2020 a total of 10 NCs were found in Latvia; 5 during an audit in February 2020 and 5 in August 2020. In Vietnam, the number of NCs was a total of 5 for the same period; 3 under audit in February and 2 under the audit in September.	**Reporting**
7	🟢	Developing and implementing a concept for a comprehensive supplier evaluation and risk management system including a digital integration (transferred from 2018).	In our ERP system it has been integrated whether a supplier has signed our CoC, which certification they hold and other necessary information.	**Anti-corruption**
8	🟢	Full embedding of selected UN SDGs into Spectre's CSR goals (transferred from 2018).	Focus has changed from 7 SDGs to 4 more specific and relevant SDGs for Spectre. We have chosen out the goals where we have the chances of biggest impact.	**Planet**
9	🟢	Launch the Spectre "next-level" CSR report for the 2020/21 annual report with the aim of complying with §99a of the Danish Financial Statements Act by 2021/22.	The 2020/21 CSR report will mark the next level and we will approach a practice close to the §99a of the Danish Financial Statements Act. Due to the growth of the company in 2020/21 and expected growth in 2021/22 we will be subject to the regulative requirements as of this fiscal year.	**Reporting**

Table 1

We are satisfied with the results achieved, particularly in the light of the highly unusual year with the worldwide Corona pandemic that caused great uncertainty on global markets and forced massive store closures, booming online sales, job uncertainty in several industries and speculations about the "new normal" in the post-Corona era.

On a company level, the pandemic brought with it many extra tasks that did not necessarily create value but were the result of our own and our customers' need for micro-management in uncertain times. This made it more challenging following existing strategies and goals that were originally set for 2019/20, including CSR goals.

SPECTRE®

Spectre heritage

Spectre was first founded as a small garment manufacturer in 1947 by the Mayor of Ikast city, Thomas Poulsen. In the beginning, his business took place in the basement of his private home. In 1974 the current headquarters of Spectre was constructed as a small garment factory.

35 years later, Anny and Evald Klausen took over the business and developed Spectre even further.

At that time focus was on production of fashion, leisure and kids clothing, but the common denominator then and now has always been the focus on high quality products and throughout time Spectre has had several high-profile European fashion brands in its customer portfolio. Throughout its history, Spectre always invested massively in product innovation and new technology.

In 1989 Spectre took a strategic decision to slowly move focus from fashion to producing functional and technical garments and our first polyester fleece jackets, based on a Polartec fleece fabric, saw the light of day.

In 1992 Spectre outsourced production from Denmark to Latvia. The production was started just months after Latvia's newly declared independence, through an investment in a former state-owned garment manufacturing company. The Auce factory was included in the original company structure, and it was developed thru the end of the nineties. Although troublesome at times maneuvering in the young and fragile political system, the decision on establishing production in Latvia has never been regretted: the quality of the workmanship has been maintained at the core and over time we have built great competences and created a strong organization with many professionals with vast experience.

In 2001, the Kalnciems factory, now headquarter of our Latvian operations, was established on the ruins of an old brick factory.

2003 was the year of the official generational change to Jacob Klausen and Jesper Klausen. Since then, technological development and curiosity to improve and do better, have been drivers to make Spectre even stronger and a preferred manufacturer of functional garments for the international outdoor sports industry.

In 2004 the first Special Technology department was established and **in 2005**, Spectre opened its 3rd branch in the city of Rezekne, Latvia, to increase production capacity and the same year Spectre developed ultrasonic cut and heat glued pockets on a softshell jacket. Shortly after the technology was used on Gore Windstopper fabric and this marked the beginning of a large growth of products with this technology.

Another milestone was the implementation of a fully automated cutting department in Latvia **in 2008** and since then, all Spectre's factories have been adopting this technology.

In 2007 the Spectre ownership started their travel in Vietnam in an effort searching for a potential Asian manufacturing base to complete the company's vision of a two-string production strategy. On multiple trips around Vietnam, the skills and the potential of the Vietnamese garment industry was discovered. The establishment of a joint venture factory was a reality **early 2010. Since 2015**, the production has taken place in a 100% Spectre-owned facility with local management.

In 2010 Spectre became member of UN Global Compact and we are still supporting this global initiative, explained by our Communication-On-Progress report (COP) that can be downloaded from the UN GC web page.

In 2010-11 major investments were done in the Kalnciems factory in Latvia to expand the capacity, install new technologies and make the factory more energy efficient.

In 2012 we introduced lean production systems in our Vietnamese factory, followed by Latvia **in 2013**. Key words being U-shaped production lines, multi-skill operators, team-based wage schemes and 5S principles. Another important step in our sustainability journey was the implementation of the SA8000 social management system **in 2013-14.**

2015 Spectre introduced a "voluntary" annual CSR report driven by a wish to be open and transparent towards stakeholders and to start a learning process for the organization to become more aware of key working environment and external environment data. Moreover, an official company report contributes to describing the real-life dilemmas and tradeoffs when dealing with the many aspects of CSR.

After a rapid growth in Vietnam, a new fully owned company was established **at the end of 2015** followed by the construction of an entirely new manufacturing facility **in 2016**. With insulated walls, thermo-glass and a fully air-conditioned production and office area as well as the latest production technologies, the factory is a modern and efficient workplace.

In 2017, the brand new factory Spectre Garment Technologies Vietnam opened the doors and in the same year, Spectre A/S was awarded with a "Gazelle" statuette by Danish business newspaper "Børsen" – the proof of a long term continuous and profitable growth. A growth that has continued since then.

2020/21 – in the wake of the Corona pandemic, we have managed to grow into an even healthier company, with a lot of new competences. The key to success has been an intensification of our cooperation with existing business partners, customers as well as suppliers.

Today, **in the early Summer of 2021** Spectre has four production sites in Latvia and just opened its second production site in Vietnam. Furthermore, the third and biggest factory to date is scheduled to open in the south of Vietnam in the **Spring of 2022**.

With this growth, our responsibility is growing as well. We remain transparent and strive for an ever-closer cooperation with the premise that the best results are achieved jointly between the parties in the value chain.

Spectre History Mountain
– timeline of key events

ISO9001 certification in Latvia.

SA8000 certification in Vietnam.

ISO14001 certification in Latvia.

Started annual CSR reporting

Became member of UN Global Compact

2012

2013

2010

2014

Donation of furniture and toys to Latvian kindergarten

2005

2009

Joint venture in Vietnam

Implementing LEAN system in production, Vietnam

Implementing LEAN system. SA8000 certificatioin in Latvia

2015

Started annual CSR reporting.

2016

2017

Spectre was awarded with being a "Gazelle"

2018

Implemention of Higgs Index tools

2020

2021

New branch factory in Vietnam, Thai Binh

Charity to help citizens in Ha Tinh Provence after flooding

2022

2003

Opened 2nd branch in Kalnciems, Latvia

1992

2001

Jesper and Jacob Klausen took over the business

Anny and Evald Klausen took over the business

Spectre was founded by the Mayor of Ikast city, Thomas Poulsen

1982

1974

Outsourced production from Denmark to Latvia in Auce

1947

Headquarters of Spectre was constructed

Establing brand new factory Spectre Garment Technologies

New factory was certified ISO 9001, ISO 14001 and SA8000

Expected opening of new factory in South Vietnam

LEED Gold certified building

SPECTRE

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

Figure 1:
The Spectre history mountain
- timeline of key events

Spectre Core Value Model - DRIve

Spectre has a core value set. The values reflect the way we work and our attitude towards colleagues, customers and other business partners. The way we work is determined by our ambition to creating the best possible results, a very good working environment and ensuring our customers are always satisfied. We believe satisfied customers are the best foundation to ensure a strong, long term partnership, stable jobs for our employees and a good working environment.

Although we have redefined and refreshed our value set, the core values remain the same as they have been for decades and they are illustrated in our Core Value Model, DRIve:

- **Dedication:** We show passion and commitment in what we do
- **Responsible:** We care for sustainability and act with honesty
- **Integrity:** Our performance exceeds expectations: "not just to be good, but to be the best"
- **Proactive :** We trust and help each other and live our values

Figure 2:
Spectre's "DRIve"
Core Value model

Even though the Spectre Group now has more than 2400 employees, the spirit of being a small family-owned business since 1947 is still living within the company.

Business model and position
in textile value chain

Spectre's position in the value chain remains the same as in the past years: As a private label garment manufacturer we are in the centre of the traditional textile value chain collecting all the components from fabric and trim producers around the world (mainly Asia and Europe) in cooperation with our transportation and logistics partners. Upon fabric and trim delivery to our factories we are building the readymade product and after quality audit inspection we are handing it over to the customer's transportation and logistics partner as illustrated in the model below.

Figure 3: Spectre's Business model and position in the textile value chain

In a CSR perspective, Spectre's value chain role will be monitoring fabric and trim suppliers' compliance with defined environment standards such as Bluesign and the assurance of good working conditions in our own facilities and the facilities of our direct suppliers (T2 suppliers). Moreover, the reduction and handling of solid waste will be an area of increasing focus in the future.

Logically, due to the absence of chemicals in our manufacturing process, the focus on sustainable fibres and elimination of harmful chemicals will be predominant in the early stages of the value chain with the raw material and fabric and trim suppliers.

With our CSR 4 Corner Stones Strategy (see next section) as the foundation, we seek to manage our 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 value chain.

The Spectre CSR-strategy
in practice

It is Spectre's policy to conduct all our business in an honest and ethical manner. Being a family-owned company is an important part of our identity. By having a strong ownership with passion and daily engagement the core values and ethics are felt by the employees, customers, suppliers and other stakeholders in the everyday life.

Spectre's CSR strategy is built on four corner stones: Planet, People, Anti-Corruption and Reporting. This model has served as our guideline for many years.
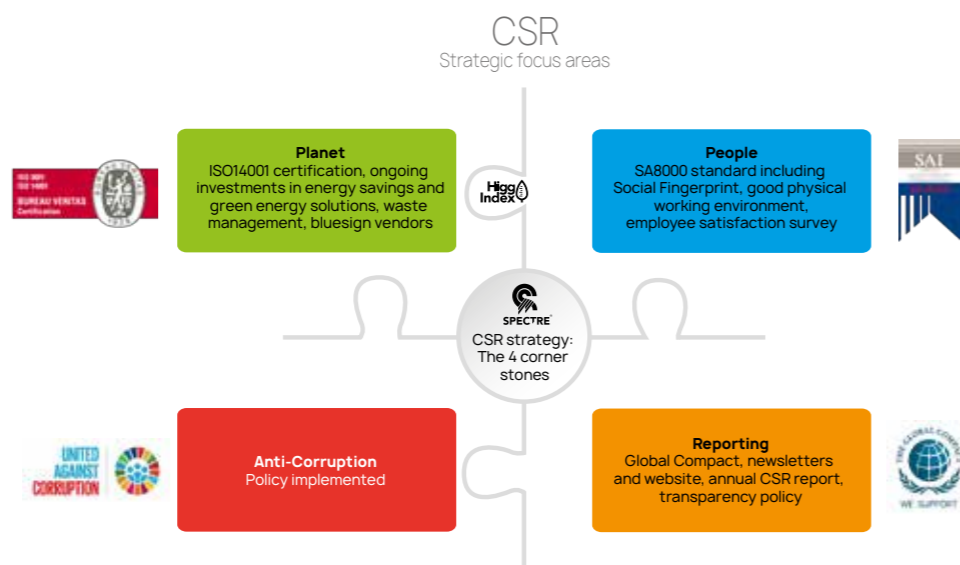
Figure 4. Spectre's CSR strategy – the 4 cornerstones model

CSR
Strategic focus areas

Planet
ISO14001 certification, ongoing investments in energy savings and green energy solutions, waste management, bluesign vendors

People
SA8000 standard including Social Fingerprint, good physical working environment, employee satisfaction survey

SPECTRE
CSR strategy:
The 4 corner stones

Anti-Corruption
Policy implemented

Reporting
Global Compact, newsletters and website, annual CSR report, transparency policy

In the following, a brief on ongoing initiatives within each of the four cornerstones will be given.

PEOPLE

Our employees are our most treasured asset. At Spectre we set a high standard for a good working environment and we listen to the voice of our employees on a daily basis and in the recurring employee satisfaction survey that we carry out on all Spectre locations in Vietnam, Latvia and Denmark.

SA8000 Certification

We attained SA8000 certification in 2013-14 for our facilities in Latvia and Vietnam. Having been on the forefront with the world's leading social certification program for nearly a decade allows us setting high standards regarding the respect of basic human rights, elimination of child labour, focus on continuous improvement and health and safety, offering advancement possibilities and appropriate working hours. The latter being the single most challenging hurdle to overcome due to high seasonality which is a consequence of the old traditions in the industry defining specific, critical market launch dates for new products.

Physical working environment

When we developed our new production facility in Vietnam in 2016, we chose to invest in an air-conditioning system for the well-being of our employees. This does consume more energy yet improves working conditions considerably. This is a classic example of a dilemma that occurs when working with corporate social responsibility where a proper balance must be found between economic, environmental and social-related factors.

In general, we take pride in offering a safe and comfortable working environment with modern machinery and technology, ergonomic workstations, and plenty of natural light.

Overtime work

We do make use of overtime work (OT) in peak seasons, but as an integrated part of our SA8000 certification, we have implemented policies and restrictions on how much OT is allowed.

Sub-contractors can be used, provided they are audited and managed by us and approved by our customers, however, it is easier and more efficient to manage and control the working conditions in-house. Furthermore, we believe it is better to level production and keep full employment the whole year, instead of hiring seasonal workers. Our strategy is therefore to outsource a maximum of 15% of our production volume on an annual basis as.

Remuneration

Wages and salaries remain important. In cooperation with Social Accountability International (SAI), who has developed the SA8000 standard, and stakeholders such as e.g. the Fair Wear Foundation (FWF) and our customers, we regularly monitor and study the remuneration systems of our plants with the aim of ensuring reasonable wages.

Employee-based surveys

In Latvia and Vietnam, we are conducting employee satisfaction surveys every 2nd year. There are some practical constraints due to the fact not all employees at our production facilities have access to a computer on daily basis. However, this is solved via the use of public computers around the company premises. The first surveys that were conducted were based on a manual (offline) questionnaire which made it complicated and time-consuming to collect and analyse the data.

The next target is to reach a harmonized process for our employee satisfaction survey across the group to ensure an efficient data processing procedure and faster preparation of an action plan based on a prioritisation matrix (impact/effort). Furthermore, the harmonized procedure will allow us to do group-wide analyses.

At the headquarters in Denmark, we are conducting a workplace risk assessment (Arbejdspladsvurdering, APV), which is renewed at least every three years. The risk assessment is based on employees answering an online questionnaire anonymously and based on the key findings, we are preparing an action plan to improve the most urgent points.

The Spectre CSR-strategy
in practice

Brainstorming Workshops

To get more information and feedback from our employees regarding daily work processes and general improvement ideas, we have in 2021 facilitated workshops among all locations where groups of employees have been participating in "brainstorming workshops". During these workshops, employees are encouraged to come up with suggestions and ideas that will be subsequently assessed, categorized and prioritized by management as either long- or short-term projects or non-viable ideas. This has been very successful and has contributed to the engaging leadership style that we strive for. Hence, it has been decided to implement these workshops annually henceforth.

Apprenticeships, internships and trainee programs

We believe that all companies must take co-responsibility for continuously developing skilled labor. Consequently, we are supporting young people under education by offering apprenticeships and internships. This is particularly applied in our companies in Denmark and Latvia where many young people have been employed as either student workers, trainees or assistant positions. In Vietnam, we have mainly had international students before the Covid-lockdowns and the cooperation with international students is planned to continue once travel restrictions are lifted again. Ultimately, we have an ambition to create our own talent development program in the years to come.

People-focused initiatives locally in Denmark, Vietnam and Latvia

We pride ourselves of an employee-focused management system with a social fingerprint.

Besides our employees, we also care about the local communities where we interact. In Denmark, we have supported "Team Rynkeby" to support the laudable work of the child cancer foundation (Børnecancerfonden). We support local sports clubs, primarily for children and young people to ensure that everyone has equal opportunities to have an active and social life beyond school. In addition, we support the local, professional sport because we believe it is important to have local lighthouses that create communities and pride for people of all ages and walks of life.

In Vietnam, we took active part in supporting the rebuilding of a local society after the devastating damages by the Saudel Typhoon in the autumn 2020. In Latvia, we temporarily shifted part of our manufacturing capacity to hospital gowns in cooperation with Danish health authorities to secure a stable supply of protective products to hospitals during the Covid-19 pandemic. Furthermore, we have supported animal shelters and educational institutions with donations and gifts.

PLANET

At Spectre we care for our planet! The global fashion industry account for around 4% of global green house gas (GHG) emissions. Within the textile value chain, the garment manufacturing process accounts for roughly 4% of the GHG emissions[2]. As part of the global garment manufacturing industry, we are conscious that our actions have an impact on the environment, and we actively influence and advise our value chain partners to ensure that our final products are delivered with the best possible impact on our local and global surroundings. We keep an eye on our combined environmental impact by updating the Higg FEM[3] index for our facilities in Vietnam and Latvia on an annual basis and share the data with our customers.

ISO14001 Certification

All Spectre facilities have implemented the environmental management system (EMS), ISO14001 in 2016-17. As a result, we are systematically focusing on initiatives to prevent and reduce pollution and waste throughout our value chain.

Initiatives for our planet in Vietnam

Our new factory scheduled to open spring 2022 will be equipped with a large rooftop solar system that allows us to replace an estimated 50% of the mainly non-renewable energy we buy from the public electricity supplier. Similarly, in our current factory we are participating in a group investment program to establish a rooftop solar panel system which is expected to deliver around 30% of our total electricity consumption.

Moreover, we have set the ambitious goal to follow a green building certification program, Leadership in Energy and Environmental Design (LEED[4],) for the new factory.

Initiatives for our planet in Latvia

Since the complete rebuilding of our Kalnciems plant in 2010 we have constantly looked for improvements to optimise energy consumption and reduce waste throughout our operations in Latvia. We have phased out the use of coal at all plants and implemented modern, energy-efficient wooden pellet-based heating systems which provide more and cleaner energy per volumetric unit[5]. Hence, we have created a solution which is much less harmful to the environment. Moreover, we are buying 100% renewable electricity and we have shifted illumination to light emitting diodes (LED) instead of fluorescent lights and incandescent light bulbs.

[2] According to McKinsey Fashion on Climate Report
[3] The Higg Facility Environmental Module (Higg FEM), developed by the Sustainable Apparel Coalition (SAC) informs manufacturers about the environmental performance of their individual facilities. The Higg FEM provides facilities a clear picture of their environmental impacts. It helps them identify and prioritize opportunities for performance improvements.
[4] LEED: https://www.usgbc.org/leed/why-leed
[5] The combustion of wood and wood pellets are similar in "cleanliness", however more energy can be stored in a compressed wood pellet than in firewood. This has an impact on lowered emissions due to predominantly a reduction in the transporting of the energy source to the plants in Latvia. Also, the combustion process of a modern wood-pellet oven is more energy efficient than an older firewood-based oven.

The Spectre CSR-strategy
in practice

Initiatives for our planet in Denmark

Our HQ in Ikast, Denmark, is the smallest of our locations with no production processes but with only office buildings housing our 24 employees[6]. Nevertheless, we changed all our heating thermostats to automatic and more energy-efficient types and we have made an active choice to buy 100% renewable energy to cover our electricity consumption.

Global initiatives for our planet

With the awareness that raw material, fabric and trim production account for around 67% of GHG emissions in the textile value chain and transportation for another 3%[7], focus of our value chain team is to serve as sparring partners for our customers and value chain partners about the best possible options regarding raw materials selection and sourcing – this includes advisory on vendors that are Bluesign certified or have other relevant environmental standards. Further activities include research on and selection of transport and logistics partners offering greener modes of transport and sustainable strategies.

[6]Calculated in number of man-years.
[7]According to McKinsey Fashion on Climate Report

ANTI-CORRUPTION POLICY

In 2015 we implemented a group-wide anti-corruption policy and ever since this has been an area of continuous focus, as corruption and bribery remain critical improvement areas in the global business environment as well as in political organizations.

We have a zero-tolerance approach towards bribery and corruption, and we remain bound to the UK Bribery Act and the national legislations of the countries in which we operate.

We conduct business in an honest and ethical manner. Regardless of the geographical location of our activities, Spectre has a single company spirit and business philosophy which is rooted in our Core-Value Model. Amongst others, our focus on ethics is exemplified in our Supplier Risk Evaluation process as well as our CoC and our systematic monitoring of our suppliers' registered certifications.

In 2020/21 we have not found any violations on our anti-corruption policy.

REPORTING

Explicit communication on ongoing initiatives and the documentation of achievements is the 4th corner stone in Spectre's CSR strategy.

Reporting and Key Performance Indicators (KPI)

Our focus on evidence is implemented through customer specific reporting and management KPIs, as well as this present annual CSR report which we have been publishing since 2015. Details on the specific KPIs and CSR-related metrics can be found in the ESG metrics and targets table.

Web Site and Newsletters

We regularly inform our stakeholders of our CSR-related initiatives through newsletters. On our international website http://spectre.dk/csr/ further details about the group can be found.

Higg Index

In 2019, we started using the Sustainable Apparel Coalition's (SAC) Higg Index FEM tool to report environmental data of our factories in both Vietnam and Latvia, and from 2020 we have implemented the FSLM tool to report about social and labour conditions of our factory in Vietnam.

United Nations Global Compact

Since 2010 we have been members of UN Global Compact and we are annually submitting our Communication of Progress report (CoP). Going forward, we will be combining our CSR-related initiatives into the framework of the 17 Sustainable Development Goals (SDG) defined by the UN. We have selected four specific SDGs which we are going to target and that are closely linked to our overall CSR-strategy:
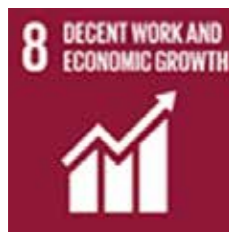
- **SDG#08 :** Decent Work and Economic Growth
- **SDG#12 :** Responsible Production and Consumption
- **SDG#13 :** Climate action
- **SDG#17 :** Partnership for the Goals

On the next pages the CSR-related initiatives within the framework of these four specific UN SDGs are explained in more detail.

UN Global Compact
Sustainable Development Goals (SDG)

The UN Global Compact movement is based on 10 principles within human rights, labour standards, environment and anti-corruption. These principles are fully embedded in our CSR-strategy and on day-to-day business.

Within the UN Global Compact, the Sustainable Development Goals (SDG) were formulated under the guiding principle: "Making Global Goals Local Business". From the total list of 17 goals, we have chosen to focus on and work with four of these as described in the following, although our CSR strategy also involve other SDGs (such as #5 Gender Equality and #7 Affordable and Clean Energy):

SDG No. 8 Decent Work and Economic Growth
The goal is defined by the UN as to: "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all."

The goal also includes the achievement of a higher level of economic productivity through diversification, technological upgrading and innovation which is very relevant to us as manufacturers as we are in a labour-intensive sector. Furthermore, the goal targets that a company works for fair and equal rights to all no matter the sex, age and disabilities of an individual, with the overall aim of reducing unemployment in the local communities.

The UN SDG goal #8 is very closely linked to the People cornerstone of the Spectre CSR strategy. Motivated and satisfied employees are, in our opinion, closely related to driving a successful business with a healthy economy. We are constantly evaluating working conditions and work processes to find ways of improving.

SDG No. 12 Responsible Production and Consumption
The goal is defined by the UN as to:
"Ensure sustainable consumption and production patterns."

The goal also includes the ambition of having companies disclose and publish reports on their sustainability measures (e.g. like this present report) as well as an ambition of phasing out harmful substances, measure the material footprints and actively reduce waste generation through prevention, reduction, recycling and reuse.

The UN SDG#12 relates to two of Spectre's CSR corner stones: Reporting and Planet. For several years we have been communicating openly to our stakeholders on our CSR-related activities and about the progress as well as challenges we face.

Innovation and Technology

With regards to technology, we are continuously investing in the latest CAD/CAM technologies that will help us utilise raw materials in the most efficient way, thereby reducing material waste. We are communicating with customers through the product development phase to discuss alternative solutions if particular pattern designs result in poor raw material utilization.

We are constantly trying to figure out how we can make use of new technology to reuse and upcycle fabric waste. Recently we had a project with the aim of using fabric waste (from our cutting room) to develop a padding material that could be used to insulate jackets. The project gave valuable learnings, but unfortunately it was not possible to develop a commercial product in terms of technical performance and sustainability. We have not given up the idea but have to face that the technology is not fully matured yet.

Our industry still generates large amounts of solid waste. Often as much as 15% of the raw materials end up as production waste and in many cases the waste ends up as landfill or taken to a public incinerator for burning and recovering energy because there are no better solutions available in our production countries. In many places the lack of investments into technologies that can be used for the purpose of recycling or upcycling the waste is the main impediment for doing something about waste. At Spectre, we have taken up the challenge of looking into how we can reverse the issue of waste generation from negative environmental impact to a meaningful product – please refer to the section on Error! Reference source not found. (page Error! Bookmark not defined.) for details.

SDG No. 13 Climate Action
The goal is defined by the UN as to:
"Take urgent action to combat climate change and its impacts."

Hence, the goal implicitly requires that as a company we should target greener fuels and types of renewable energy which will lower greenhouse gases.

This goes hand-in-hand with one of the corner stones in our CSR-strategy – Planet – and some of the initiatives targeting cleaner energy sources throughout the global operations of Spectre was described earlier. As a growing manufacturing company, we are aware of the fact we are consuming considerable amounts of energy every day and our long-term success is depending on stable and sustainable sources of energy. Using more sustainable and green energy is therefore a natural choice to us.

UN Global Compact
Sustainable Development Goals (SDG)

17 PARTNERSHIPS FOR THE GOALS

SDG No. 17 Partnerships for the Goals
The goal is defined by the UN as to: "Strengthen the means of implementation and revitalize the global partnerships for sustainable development."

The goal also includes several different initiatives to strengthen the economic growth of developing countries and their position and terms in markets through cooperation, investments, knowledge sharing and technology upgrades – all of which has the aim to support a sustainable and healthy environmental growth.

Displaying Spectre's ethical codex in all our interaction with our customers, suppliers, employees and other stakeholders is key in our understanding of a good and sustainable partnership. The UN SDG#17 partly relates to our cornerstone in the Spectre CSR-strategy, Anti-Corruption, partly to our desire bringing the parties of the value chain closer together to solve the larger, global challenges.

As a small player in the global value chain, we cannot lift the burden alone. Our ambition is to remain at the forefront in terms of social responsibility and to lift a disproportionate share of the responsibility in relation to our size. However, to create results we need to keep strengthening the cooperation across the value chain that we are all part of, thus we need true partnership thinking to succeed in the long run.

Balancing out workload in co-operation with our customers
An ever-present challenge in our industry is seasonality which is defining when garments must be delivered to retailers for the season opening. We are struggling with the levelling of work during peak seasons, and we are investing considerable resources to have daily cooperation with customers ensuring a balanced workload throughout the year. The ambition is offering our employees stable work throughout the year and with no excessive overtime.

The strong growth among online retailers may drive change in the future since consumers do not necessarily follow the old buying patterns in the retail industry. This might open the possibility to have more gradual product development, hence a more successive market launch of new products.

Partnerships for a positive impact on the environment
Projects with other companies and industries will be increasingly important. Besides the example with the attempt to develop padding material from fabric waste where we worked closely together with an external technology partner, we are also teaming up with colleague factories in our industry for the rooftop solar panel project in Vietnam. We are in a group of five garment manufacturers within the same geographic area and with the support of an environment agency supported by Western governments to reach economy of scale and bigger positive impact on the environment.

A growing supplier base calls for consolidation
The current nature of business partnerships with our customers results in our customers nominating a large part of the fabric and trim suppliers. Current fabrics are often replaced by new fabrics after a single or a few seasons. That, in combination with our general growth as a company has led to a rapid increase in the number of suppliers in recent years. On the positive side, this development has enriched us with new suppliers with potential to develop relations further and allowing us to expand our network.

On the negative side, the large number of suppliers with small leverage increases the logistics activities and it prevents us from establishing a close and partnership-based cooperation with the long tail of small suppliers. A certain leverage is required for the value chain partners to mutually invest in the cooperation – and investments are needed to keep improving our industry and reducing our carbon footprint: The fabric manufacturing process accounts for an estimated 21% of the total GHG emissions in the textile industry[7].

Resulting from this development, a new project has been launched in our value chain department with the aim of consolidating the number of suppliers in our portfolio, so that we can batch orders together at the same suppliers which will increase our leverage with remaining suppliers. Additionally, it means less transportation because we may be able to reduce the number of shipment destinations. This will hopefully also give an even better business relation between us and our suppliers and the possibility to intensify the cooperation in the value chain.

[7] According to McKinseys Fashion on Climate Report

(ESG) metrics and targets
Environment, Social and Governance

This year we are reinforcing our reporting structure by adding specific ESG metrics as means to quantify our efforts further on relevant CSR-related data and further it will allow us to define a baseline. The reporting of ESG metrics is based on a format proposed by The Danish Finance Society / CFA Society Denmark, FSR – Danish Auditors, and Nasdaq Copenhagen with the aim of remaining in compliance with §99a and §99b of the Danish Financial Statements Act[8].

By measuring and reporting relevant data, we will make it easier to set targets and measure progress and eventually the data will give us the possibility to benchmark ourselves against other comparable manufacturing companies.

The source of the data is our factories in Latvia and Vietnam as well as our HQ office in Denmark. Targets are based on the projected growth of production which is approx. 22% for the fiscal year 2021/2022.

The ESG metrics and data are presented in the following table which displays ESG-data for the combined sites (Denmark, Latvia, Vietnam)[9]:

Notes:

Note 1: CO2e scope 1 is expected to remain stable since no new buildings or vehicles are planned, except for one small truck for local transportation of goods between factories in Vietnam.

Note 2: CO2e scope 2 is expected to rise by 22% according to the forecasted production output as more shipping transports will be required.

Note 3: Energy Consumption is expected to increase linearly with the rate of increased production; by +22% for 21/22.

Note 4: Since 2020 the local electricity company, Energi-Ikast, has a contractual obligation with Spectre to ensure that the entire 100% of supplied electricity originates from renewable resources.

Note 5: Since 2020 the local electricity company, Latvenergo, has a contractual obligation with Spectre to ensure that the entire 100% of the supplied electricity originates from renewable resources.

Note 6: According to the local energy-provider EVN in the Nam Dinh province 42% of the electricity are from renewable resources. Upon installation of rooftop solar systems, the share of renewable energy will grow.

Note 7: The water consumption follows the projected growth in employees, and a consumption of 7.7 m3 per employee in 2021/2022.

Note 8: In 2021/2022 full time employees are expected to grow by +400 in VN, +20 in LV and a minor growth in DK.

Note 9: The global garment industry is comprised by a minimum of 75% women. Acknowledging that it is difficult to do something about this fact short term, Spectre expects to keep a level of 70-75% female workers in 21/22.

Note 10: In 21/22 the count of full-time management is expected to grow similar as for regular employees; by +28%.

Note 11: Spectre expects to have an equal distribution of men and women on a managerial level in 21/22.

Note 12: Spectre targets a further 10% reduction of absenteeism in Latvia and 3% in Vietnam. In DK it is assessed that absenteeism cannot be reduced further. Combined with the projected growth in FTEs, this leaves a projection for sick days per FTE of ‹7.3 for 21/22.
Please note that other types of leave – e.g. high level of maternity leave and other planned leave – are registered separately.

Note 13: Despite all members being male, and there are therefore no short-term plans for changing this, hence the target gender diversity on executive management level is 0%.

Note 14: The amount of CSR-related certificates are described in the report – a complete overview can be seen on page 57.

Factor	Unit of measure	Fiscal Year 17/18	Fiscal Year 18/19	Fiscal Year 19/20	Fiscal Year 20/21	Fiscal Year 21/22
Environment						
CO_2e, scope 1 (local cars and local heating) Note 1)	Tons	745	770	639	607	607
CO_2e, scope 2 (transport of goods, external heating) Note 2)	Tons	-	-	-	170	207
Energy consumption Note 3)	GJ	14,405	15,869	16,241	16,503	20,134
Energy Consumption DK		1,164	1,116	1,251	1,172	1,430
Energy Consumption LV		7,858	7,777	6,484	6,308	7,695
Energy Consumption VN		3,184	4,776	6,308	6,825	8,327
Energy Consumption External Shipping		2,199	2,199	2,199	2,199	2,682
Production Minutes	million minutes	68.4	85.3	91.9	106.1	129.5
Energy per Production unit	GJ/million minutes	210.6	186.0	176.7	155.5	155.5
Renewable energy (% of total consumption)	%	24%	25%	34%	36%	40%
% Renewable Energy DK Note 4)		47%	41%	39%	44%	50%
% Renewable Energy LV Note 5)		21%	20%	39%	42%	40%
% Renewable Energy VN Note 6)		39%	40%	41%	41%	50%
Water consumption Note 7)	m3	8,762	12,758	12,122	11,999	14,838
Social						
Full time employee[8] Note 8)	FTE	1,008	1,108	1,376	1,507	1,927
Gender diversity FTE Note 9)	%	74%	75%	74%	74%	70-75%
Full-time Management Note 10)	FTE	24	23	23	28	36
Gender diversity Management Note 11)	%	50%	57%	52%	50%	50%
Sick leave Note 12)	Days/FTE	8.6	7.4	7.3	7.6	‹7.3
Sick leave	Days/FTE	8.6	7.4	7.3	7.6	‹ 5.4
Governance						
On-site inspection of high-risk suppliers	% High-Risk	-	-	6	-	10
Supplier self-assessment questionnaire filled-out	% suppliers	-	-	-	12	15
Signed CoC	% suppliers	-	-	-	80%	85%
Members of the Board	#	5	5	5	5	5
Gender diversity of the board Note 13)	%	0%	0%	0%	0%	0%
Number of CSR-related certifications upheld Note 14)	#	4	6	8	9	9
Annual CSR report published and compliant	YES/NO	YES	YES	NO	YES	YES

Table 2:
ESG metrics and targets

ESG-data
related to Environment factors

Details of ESG data focusing on the environment – i.a. Energy consumption, CO_2, Renewables, Water consumption, Waste management – will be described in this section.

Energy and Renewables
When it comes to the effect of possible emissions of GHG (greenhouse gases), the unit Carbondioxide equivalent (CO_2e) is used. With CO2e, the equivalent effect of CO_2 is calculated based on known conversion factors for the combustion of each of the fuel sources that are used for the generation of energy.

Two scopes of CO_2e are introduced – ''Scope 1' and 'Scope 2' respectively – or "internal" and "external" emissions.

Scope 1 explained
Scope 1 considers the effect from the direct combustion of fuels or manufacturing of energy, locally at the company site to either manufacture the goods or support the manufacturing process. An example could be the wood-fired ovens used for heating in Latvia or the fuel consumption from the company cars on all Spectre locations.

Scope 2 explained
Scope 2 are emissions that are created externally from the company's own reach, but nevertheless support the manufacturing of the goods. Examples of Scope 2 are the emissions created during the inbound and outbound transport of raw materials and finished goods, the electricity or heating consumed locally at the site but for which the power sources have been combusted elsewhere by an external supplier.

Energy consumption
In the following, the energy consumption will be described by energy type: electricity, heating, and transport for each country and divided by Scope 1 and Scope 2.

Electricity
Until today, electricity has been defined as Scope 2, however, due to investments in rooftop solar solutions in Vietnam within current business year, there will be considerable amounts of electricity generated as Scope 1 in the future.

Spectre Latvia has entered a contract with energy company Latvenergo to supply electricity from 100% renewable energy sources to our facilities in Latvia. Data has been collected regarding the consumed electricity from each of Spectre's Latvian sites. Data was provided initially as consumed MW hours (MWh) or kilowatt hours (kWh) and re-calculated to Gigajoules (1 billion Joules) by using a 0.0036 conversion factor.

In Vietnam, the electricity is supplied by energy company EVN NPC. According to both EVN [10] And 3rd party statistics the proportion of renewable power sources that EVN uses to generate electricity is 42% of the total produced energy – hydropower and wind are the most prevailing sources of renewables, however, coal is the single largest power source and in a likely scenario the relative proportion of coal might increase in the future at the expense of renewables. Since it is not (yet) possible to enter contracts for 100% renewable energy in Vietnam, our assumption is that Spectre's electricity consumption corresponds to the overall energy mix of renewable and fossil fuels produced by EVN NPC.

At the HQ office in Spectre Denmark, the electricity is supplied by energy company Energi Ikast with whom we have a contract for 100% renewable energy. For one of the two locations in Denmark, it has not been possible to collect historical data and therefore the consumption has been estimated. Since it is a smaller and usually unmanned warehouse, the energy consumption is very moderate.

Heating
In Latvia, the facilities use primarily local wood-pellet based ovens for heating and to lesser extent firewood In the case of additional electric heaters needed the consumed electricity is included in the figures in the previous section. It has not been possible to have receive information on the exact type of firewood and pellets used for each of the Latvian plants.

The "caloric content" (energy content combustion) of firewood depends mainly on the dryness of the wood, the type of wood as well as the efficiency of the combustion process [11].

It is assumed that all wood consumed for heating purposes in Latvia generates an average of 10.5 MJ/kg and that 1,83 kg of CO_2 is produced for each kg of firewood or pellets combusted to generate heat[12].

Due to the warm climate in Vietnam, there is no energy consumed for heating. For the occasional – and practically non-existing – requirement of heating in the Vietnamese plants, this is covered by the air-conditioning system. The energy consumption for air-condition is included in the above section concerning electricity.

Heating of the office premises in Denmark is supplied through district heating by supplier Energi Ikast. This is defined as Scope 2, and 48 gram CO_2e/kWh is used as conversion factor [13] for CO_2e.

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[10] The EVN NPC Nam Dinh Web Site – accessed January 2021: http://pcnamdinh.npc.com.vn/ - the annual report for 2018 details % of renewables. Asked directly in a separate email, EVN NPC state that "in Vietnam energy is produced by 60-70%: hydroelectric (water energy), the rest is generated by coal and solar energy", however, this statement has been hard to verify by a reliable 3rd party elsewhere.
[11] "Green" wood is about 10 MJ/kg (megajoule per kilogram), air-seasoned wood about 16 MJ/kg, while kiln dried wood is about 19 to 20 MJ/kg. The potential heat content per kilogram of wood is roughly equal for all wood varieties. The heating potential of firewood per cubic meter or per log, however, varies widely, depending upon the species of tree from which the wood is cut and thus the density of the log. Finally, in order to generate the amount of energy produced the calculations need to be corrected by a factor for the combustion efficiency, typically around 70%.
[12] The CO2e resulting from the combustion of Fire Wood and Pellets are both 1.83 kg CO2 / kg fuel – source: Engineering ToolBox, (2001) accessed January 2021 : https://www.engineeringtoolbox.com/co2-emission-fuels-d_1085.html
[13] In their declaration for 2020 Energi-Ikast informs that 1 kWh of heated water will generate 48 gram of CO2e

ESG-data
related to Environment factors

Transport

Apart from electricity and heating we also consume fuel for company cars used for the local transport between sites within Latvia, for the Danish company cars and for the single company car in Vietnam. Data on the consumed fuel in the period has been collected and 34.2 MJ/l and 38.6 MJ/l used as the energy density for petrol and diesel respectively to calculate the total energy produced from local transport by the company cars. The factors 2.4 kg/l and 2.7 kg/l are used to calculate the CO2e from the combustion of petrol and diesel [14].

All inbound and outbound transport and shipment of goods are handled globally by Spectre's third-party logistics provider, who has provided the data regarding CO2e, Scope 2.

Renewable energy%

As of the current fiscal year the portion of renewable energy is expected to increase slightly from the current level of 36% due to the expected establishment of the rooftop solar system in Q3 or Q4 2021 in Vietnam.

Although in all countries, the share of renewable energy for electricity is high, the percentage across all energy sources remains lower, due to the local fuel-based cars and local Latvian wood-fired heating systems. Hence these are obvious areas to further explore in the future in terms of energy saving investments.

[14] The CO2e resulting from the combustion of 1 litre of petrol and diesel respectively is explained on e.g. the web site of the Danish Engineering society – accessed in January 2021: https://ing.dk/artikel/hvordan-vejer-man-co2-udledningen-109457CO2e

Graphs

The following graph illustrates the development of the total, combined energy consumption from 2017/18-2020/21. Moreover, the graph illustrates the growth of the share of renewable energy and as can be seen, renewables have increased by 50% from 2017/18 to 2020/18 (from 24% to 36%) with further growth in sight.
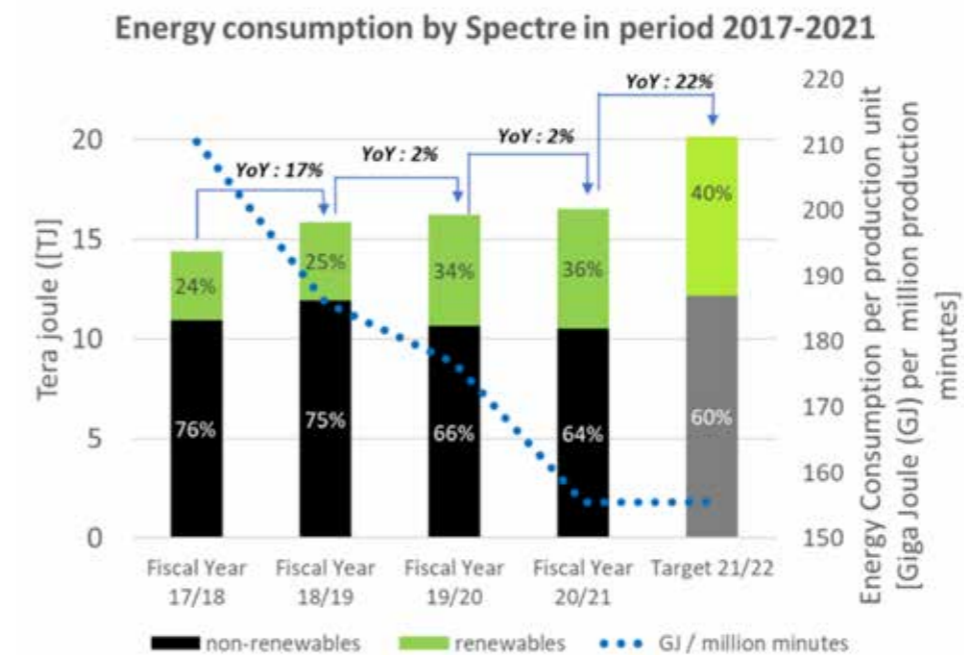

Figure 5: Total, annual energy consuption in TJ and per production units for all Spectre facilities in the period 2017/18-2020/21

The next graph illustrates the share of each energy type: car fuel and heating and within Scope 1 and 2 (see below section) in 2020/21 and projected for 2021/22:
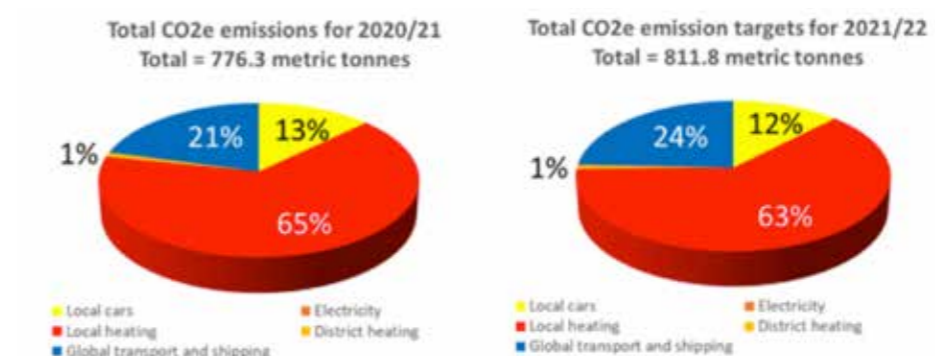

Figure 6: Total CO2e emissions per energy type heating and car fuel in 2020/21-2021/22 (target)

ESG-data
## related to Environment factors

Water consumption

The water consumption in Spectre Group is driven primarily by employees, for drinking and toilet visits, and in lesser amount for the washing of garment samples. Hence, water consumption is closely linked to the development in the total amount of employees. This explains the development in especially Vietnam, where the increase in recent years in closely linked to the increase of the employees. Similarly, in Latvia for 2019/20 a temporary drop in water consumption was seen as a result of the local company restructuring in Latvia, which led to the resignation of a number of employees.

The steady decrease of water consumption at the Kalnciems site in Latvia is due to the installation of new and more energy efficient washing machines combined with a reduction in the number of garment samples being washed. Due to lack of historical figures for Rezekne, Aizkraukle and Talsi branches, 2017/18 and 2018/19 are estimated to be the same as for 2019/20.

Combining the employee numbers in the ESG table above the following graph with a "water consumption per employee" key figure can be derived.

Figure 7:
Total, annual water consumption in m³ and per FTE for all Spectre facilities 2017/18-2020/21
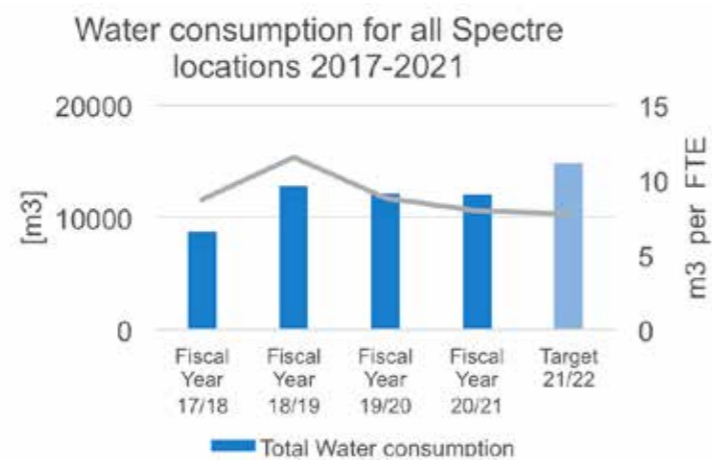
From this graph it is suggested that the 7,7 m³ of water per employee in a year is used as a benchmark and as a key figure to set the target water consumption for the following years as the planned development in employees is known. If 270 working days are available in a year (weighed average Vietnam/Latvia), 7,7 m³ (7.700 litres) means an average consumption per day of 28,5 litres for each employee. This could be sought further reduced by the additional installation of water saving devices in bathroom sinks and toilets.

ESG-data
related to Governance factors

This section will cover Governance Factors related to supplier management and gender diversity which are the key risk areas of the ESG metrics table.

In-depth information will be provided for the on-site inspection of high-risk suppliers, supplier self-assessments and Spectre's CoC.

Moreover, gender diversity of the executive board will be accounted for and more information on Spectre's CSR-related certifications will be provided.

Supplier Management

Our goal is to continuously build an even better value chain that minimizes negative environmental footprint and ensure proper working conditions. We are dealing with a variety of suppliers and the primary suppliers are fabric and trim producers supplying components to our factories in Latvia and Vietnam.

In the following, we will describe the development in our supplier base, how we evaluate risk and finally what measures we have taken in 2020/21 to ensure a high CSR-performance with our suppliers.

The UN SDG goal #12 of responsible consumption and production is very much related to our work with supplier management. Tracing the products back through our value chain allows us to make better decisions about the selection of sustainable fabrics and trims.

With the purpose of having full transparency, we monitor the development in our supplier base closely and register the certifications of suppliers as well as keeping ourselves informed about important CSR-related steps taken by suppliers, thereby making it easier to choose the right suppliers in terms of sustainability.

We also make risk assessments based on the geographical location of the supplier and the significance of the purchase amount. By focusing on primarily high-risk areas, we know where to invest our efforts in the follow-up process.

Overview of suppliers

As mentioned, our primary suppliers are fabric and trim producers. These are referred to as tier-2 suppliers (T2) in the textile industry. Tier-3 and tier-4 suppliers are producers of yarn and raw materials, respectively, but these are out of our scope. We, as garment manufacturers, are referred to as tier-1 suppliers (T1). In the outdoor industry, the T2 suppliers are predominantly nominated by the brands – i.e. our customers. This means we have limited impact on the choice of suppliers, however, strategically we see ourselves having a role putting our supplier network into play as a sparring partner for both customers and suppliers.

From a total garment value perspective, the fabric is roughly 80% of the total raw material value whereas trims make up the remaining 20% of the total value.

The increase in the number of suppliers in the years from 2016 to 2020 is +74%. In the same period our turnover has increase by +63%. Our turnover has increased due to increasing number of styles with existing customers plus onboarding new customers. The supplier base has increased significantly mainly due to the fact the majority of T2 suppliers are nominated by the brands and not so much due to our turnover increase.

Even though we have many T2 suppliers, the purchase volume with top-10 suppliers in 2020 for fabric is 55% and for trim 60%. This means that a few suppliers are responsible for the delivery of more than half of our total value of raw material. These are primarily suppliers that we have worked with for more than 10 years and we therefore have a good knowledge about their way of doing business and their CSR profile.

The brands we partner with all prioritize CSR as an increasingly important part of their strategy. This means the brands also choose suppliers that live up to their own CSR standards and requirements. Often, the brands choose suppliers that are well-known in the industry and with whom we already cooperate with. Hence, already before nominating this supplier, the brand will have evaluated the supplier's CSR performance, and likewise as part of our own supplier-onboarding process, we will evaluate the T2 supplier's CSR performance. This increases the validity of the evaluation process of the supplier regarding CSR standards.

Below figure illustrates the development of the Spectre supplier base in recent years – the trend suggests a potential for a rapid exponential development in the nearest future.

Figure 8: Development in the Spectre supplier base by Fabric and Trim suppliers from 2016-2020.

ESG-data
related to Governance factors

Due to almost a quarter of our purchasing volume (down from 28% in 2019 to 25% in 2020) coming from suppliers located in high-risk countries, corruption is probably the single largest risk element when it comes to T2 suppliers, and it could potentially trigger a deterioration of overall conditions in either of Corporate, Social and Environmental aspects, unless appropriate supplier management systems are in place.

To evaluate risk of suppliers in terms of CSR, we apply the Transparency International (TI) index of corruption (CPI). This index rates and ranks 180 countries on several criteria from best to worst, the score is based on 1 to 100 where 100 is the best. The entire world map is coloured according to this risk score, enabling a quick visualisation of risk countries as can be seen below:
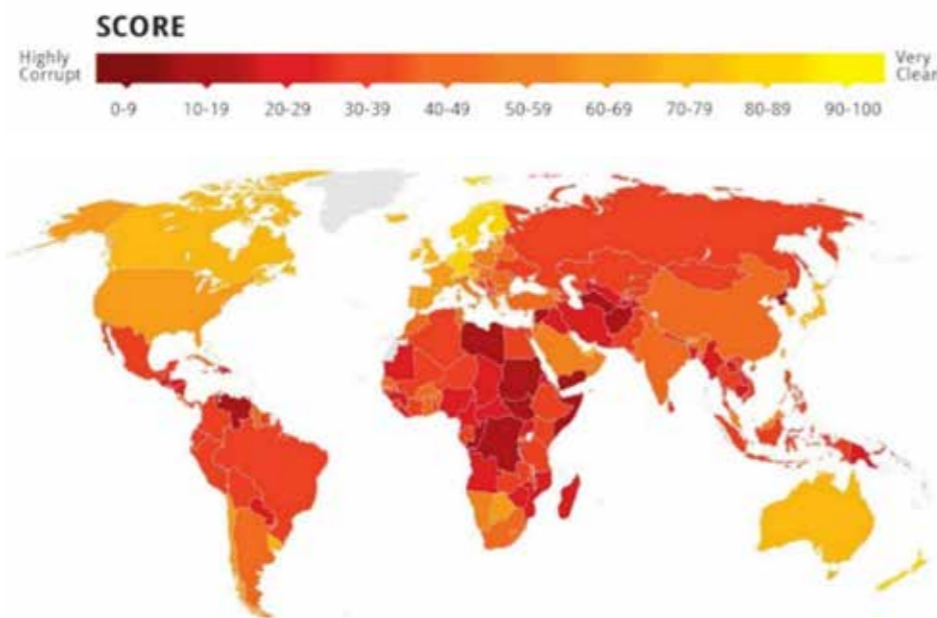
The reason why this index is relevant for us to use is, as stated by Transparency International, that countries performing well on the index invest more in health care, have a better ability of providing universal health care to its citizens and are less likely to violate democratic norms and institutions or the rule of law [15]. Having said that, it is clear there are very large differences between companies in the individual countries and any country has companies scoring either low or high, hence it is important to know one's business partners beyond the buying-selling process.

Internally at Spectre, we have chosen to group the complete list of countries of the CPI into 4 colours, each of which represent quartiles of the ranking – i.e. the top quarter of the countries in the CPI-ranking are green, next quarters yellow and orange respectively and finally the last quarter is red. The colours are indicative of various level of corruption risk as can be seen below:

Quartile	Rank	Definition
Q1	0-45	Green is low possibility of corruption
Q2	46-90	Yellow is some possibility of corruption
Q3	91-135	Orange is significant possibility of corruption
Q4	136-180	Red is high possibility of corruption

Summarising the information by these colour codes yields the information the next diagram:
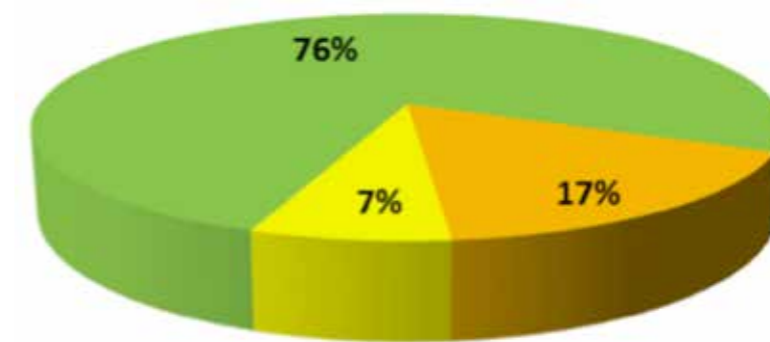
The illustration shows that around 76% of Spectre's purchase volumes originate from countries in the top quartile of the Transparency International ranking (low risk of corruption) and that the remaining 24% have some or significant risk of corruption (7% an 17% respectively).

We use this risk analysis to evaluate which suppliers are placed in areas where we must have extra focus on their CSR performance. This does not mean we do not care about the suppliers placed in countries with low risk, but simply that we focus more on suppliers in the high-risk countries.

For fabric, most of our purchase volume is sourced in countries with a high rank on the CPI (i.e. low risk). Only 4,6% of our purchase value originate from a country ranked low on the index (i.e. higher risk) which is attributed to some larger fabric suppliers in Indonesia.

For trim, most of our purchase volume is sourced in countries with a high rank on the CPI (i.e. low risk). 18,9% of the value is sourced in China and Vietnam that indicate some risk.

ESG-data
related to Governance factors

Supplier assessment

According to our SA8000 certification we have an obligation to make supplier assessments on an annual basis. We do several steps in this assessment of suppliers. First and foremost, we send the supplier self-assessment questionnaire to a selected number of suppliers every year. The suppliers above a certain threshold in purchase volume are selected from the above-described risk assessment areas. In 2020 we have sent the self-assessment questionnaire to 12 suppliers; 9 fabric suppliers and 3 trim suppliers. For fabrics, the chosen suppliers accounted for 37% of our purchase volume and for trim 18% of our purchase volume.

The chosen fabric suppliers were 6 from Taiwan, 1 from Indonesia, 1 from South Korea and 1 from Italy. This is in accordance with the high-risk countries in above. For trim we chose 2 in China and 1 in Hong Kong, again in connection with the high-risk countries.

All self-assessment questionnaires were returned to us and there has been no significant findings and/or actions necessary based on the replies from the suppliers. We will also in 2021 choose 15-20 suppliers to send self-assessment questionnaires to and continue this practice. Furthermore, we also regularly arrange supplier visits. No matter the purpose of the trip we always fill in a CSR visit report with the observations we have made. This visit report is shared internally in the company and in case of any findings we first of all interact to improve the conditions. If no improvement is observed within a reasonable amount of time, we may recommend our customer to nominate another supplier. Our last supplier visits were conducted in 2019. Due to COVID-19 we have not been able to do supplier visits in 2020-21.

Our visits are partly related with our focus on the high-risk countries: China, Vietnam, Italy, but we also visited suppliers in low-risk countries as Taiwan, Hong Kong and Denmark. The visits did not result in any non-compliances with suppliers.

In later part of 2021, we are planning to implement virtual supplier visits as part of our supplier assessments. As we are still limited in travelling, we will do on-line visits in supplier factories where we will also prepare an observation list with regards to CSR. This will help us evaluate CSR performance even though we are unable to travel.

CoC

To clearly communicate our expectations to suppliers in terms of CSR and way of doing business, we have a CoC (CoC) for suppliers. This CoC contains key expectations about environment, safety, gender equalization, non-discrimination, chemical management, anti-corruption and other.

As seen from above data we have on-boarded many new suppliers in 2020. We have a strict system securing new suppliers are presented to our CoC and returning it signed.

About 80% of our suppliers have signed our CoC. The remaining suppliers represent a small purchase volume and very often this purchase volume is so small in their total portfolio that they do not prioritize processing and signing our CoC. As a further comment, some of the 20% non-signing suppliers also state that they have signed the CoC from the brand (our customers) and thereby do not wish to also sign our CoC. We have no reason to believe that any of our suppliers have not signed because they do not comply with the content.

If you wish to read our full CoC, please visit our website through the following link:
http://spectre.dk/media/1180/spectre_code_of_conduct_v2_june_2019_eng.pdf

Monitoring supplier certificates

Within our industry there is a myriad of CSR standards and certificates. To most of our customers it is a requirement that the T2 supplier or its products offer certain certifications. The most common standards are Bluesign and Oeko-Tex. Approximately 75% of garments that Spectre are producing are made from Bluesign certified material and trims. Bluesign is a widespread standard in the outdoor sports industry. We do have some customers demanding Oeko-Tex standard on T2 components, however, it is not as frequently used in the outdoor sports industry as in the fashion industry.

There are also other industry standards, and as part of our supplier management system, we ask suppliers to update us on any standards/certifications they might have. These data are used to update the vendor card in our ERP system and thereby we can use this as a monitoring system for certifications. Furthermore, if a customer asks us to recommend suppliers, we use the CSR certificates as one of the important search criteria.

Spectre's own certifications are illustrated later in this report.
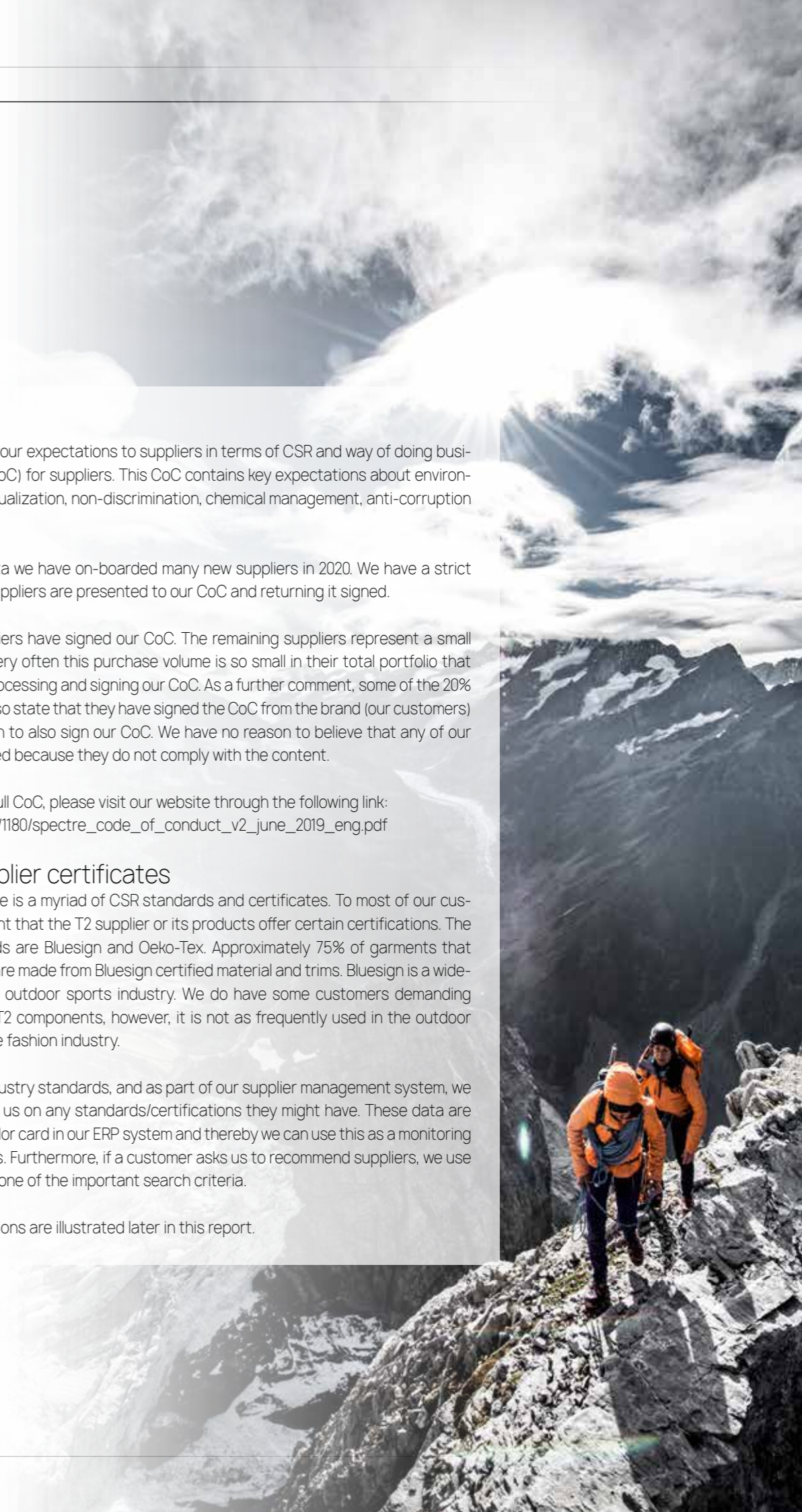
ESG-data
related to Governance factors

Gender diversity

We consider the gender diversity healthy with around 75% female workers measured on all FTE, since it is a female dominated industry worldwide, and 50% measured on management level. In fact, our ability to create jobs for women, as well as high overall CSR standards, were key criteria set by the Danish Government to qualify for Danida program support in 2009-10 when our first factory was established in Vietnam.

On management level, we would like to ensure a balanced interest among the sexes. However, it must be emphasized that the highest priorities during the recruitment procedure are the candidate's professional qualifications and an assessment of the personal profile.

Executive board

Since the 1980s, Spectre has had an Executive Board consisting of professional board members supplementing the owner representatives. Despite all members currently being male, there are no short-term plans for changing this. However, it must be emphasized when new forces are needed in our Executive Board, the target is to have a better gender diversity provided the right candidates can be recruited.

Table 4: Gender diversity in the Spectre Executive Board for the period from April 1, 2017 to March 31, 2021

Metrics related to Spectre's Executive Board	Fiscal Year 17/18	Fiscal Year 18/19	Fiscal Year 19/20	Fiscal Year 20/21
Members in the Spectre executive board team	5	5	5	5
Women in the executive board	0	0	0	0
Gender diversity board members	0%	0%	0%	0%

Waste Management

Waste hierarchy

Following figure illustrates the waste hierarchy that Spectre targets in our considerations to clarify whether we are making the right choices when it comes to handling waste.
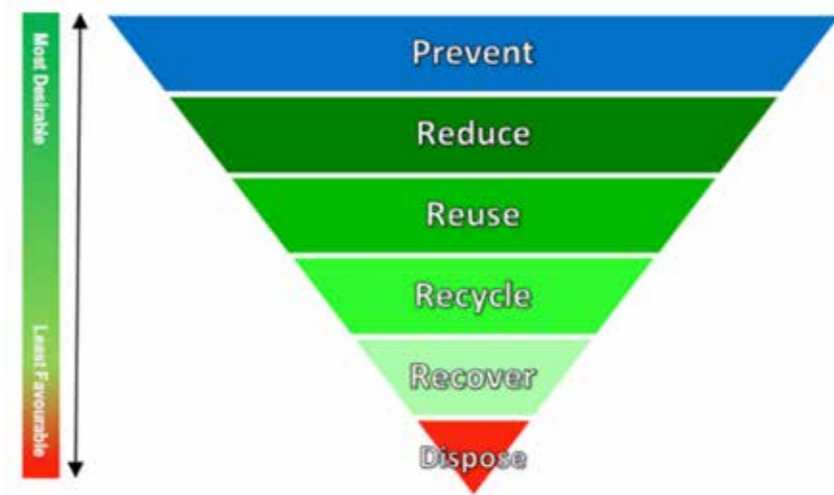

Figure 11: Waste Hierarchy model

The best option is to prevent waste entirely, however, waste is an inevitable by-product of our production. Instead, our ambition is to ensure that we reuse and recycle as much as possible.

This is illustrated by Figure 11: Waste Hierarchy model above.

Our targeted priorities are described below:

1. **Preventing** waste entirely is not a realistic option.
2. **Reducing** waste is our 2nd preferred option – we focus on preventing waste by applying the latest innovations in CAD/CAM technologies as well as efficient purchasing tools combined with the experience of our team and close planning cooperation with our customers.
3. **Reusing** is our 3rd preferred option – if waste cannot be avoided or reduced sufficiently, we investigate how fabric waste and leftover fabrics can be utilized for the production of garments or other products or sold to alternative buyers. Examples include employees in Vietnam and Latvia that use small pieces of fabric to create blankets, stuffed animals and other creative projects.
4. **Recycling** whatever waste possible. Current technologies do not offer efficient, global solutions for the recycling of fabric waste. However, we do recycle paper, cardboard and plastic waste as described in our ISO 14001 action plan.
5. **Recovery** of waste is done in large scale through the incineration of fabric waste in Vietnam and in small scale via e.g. employees in Latvia taking home broken pallets that are used for heating. Also in Denmark disposed waste is burned and energy recovered.
6. **Disposal** is the last step in the hierarchy and hence the least preferred option. This is our reported metric on waste generation (as part of the ESG-data overview). Currently, our production waste in Latvia (fabric waste) ends up as landfill which is not a long-term sustainable solution.

We have set an ambitious goal to keep working on managing waste in more environmentally friendly ways. We do not have an exact measure for our fabric utilization which will be part of our goal to develop a common data train collecting all relevant CSR related data.

Our roughly estimated fabric utilization, based on mini markers applied for the calculation of fabric consumption per style, is around 85%, hence indicating a waste around 15%. In addition to this must be added fabric leftovers from production which are not utilized by customers, hence it is fair to estimate that at least 20% of the purchased fabric ends up as waste, and a large part of it as landfill.
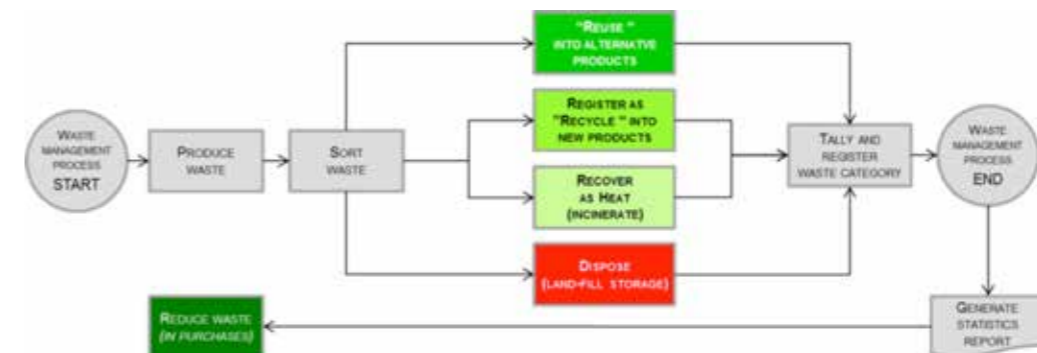

Figure 12: Internal waste management process

Above figure illustrates the process for the tallying and registration of the waste data that will be shown in the following country-specific sections – Spectre's waste hierarchy shown in the beginning of this section.

Waste Management in Denmark

As previously mentioned, the headquarters in Denmark does not include any manufacturing processes and the generated waste therefore originates from office and warehouse activities.

On a country level it is rare that waste ends up in landfill in Denmark – if recycled the disposed waste would typically end up being incinerated and the energy will be recovered as electricity and heating [16].

Below table shows the combined registered waste from the two Danish locations. No hazardous waste is generated from the activities in Denmark.

Waste classification	Waste type	Description	Weight [Tonnes]	Waste Hierarchy Category	Waste management and disposal processes for this source:
Non-Hazardous	Cartons	Papers and Cardboard	0.4	Recycled	All paper and cardboard waste is placed in a separate dustbin at each office desk which is emptied daily into a larger container
Non-Hazardous	General or unspecified waste	Small combustible waste	2.3	Recovered	All waste which is not paper or cardboard is placed in a separate dustbin at each office desk which is emptied daily into a larger container

[16] Restaffald/dagrenovation - affald.dk

Table 5: Waste generated in the headquarter in Denmark from April 1, 2020 to March 31, 2021

Waste Management

Waste Management in Latvia

Spectre Latvia focuses on the re-use and recycling of the produced waste from operations. To do so, a considerable effort is invested into the proper sorting of the waste.

The most significant source of waste is fabric waste which is created under the cutting process. Despite having spent time in various projects to find solutions for reusing the waste in alternative products, these have not been successful to scale up to a level beyond a pilot study. One such example is to use granulated left-over fabric waste as filling material in beanie bag chairs.

Leftover fabric strips are used within the company work process of tying together cut parts for fabric transportation as well as for voluntary employee craft projects, like e.g. fabric rugs and bags seen below.

Examples of the reuse of fabric waste for creative "2nd life" projects in Spectre Latvia

Campaigns during the year are held, where employees are encouraged to take these bags from fabric waste to the day-care and schools of their children or in other way think about how fabric waste can become a useful tool for the craftwork of children, decoration and artwork in the premises, as work material for creative teachers, or any other usage giving the fabric a meaningful "second life". As sympathetic these initiatives are, they only make up a small proportion of the total waste.

Several years ago, we were able to dispose of a large part of our fabric waste to a local cement manufacturer who used the waste for creating energy in their own incinerator. Regretfully, this cooperation stopped years ago, hence despite all attempts of reuse, most of the fabric waste is still being disposed of in landfills.

Another significant source of waste is paper originating from both administration and production. Since it is a fully re-usable and recyclable waste source all discarded paper is recycled. It is still a high priority to reduce paper consumption and it is one of our annual, local ISO14001 goals to decrease the use of office paper by 2%. The goal was reached in 2019, but in 2020 the target was not met. However, this should also be seen in the light of a substantial business increase. Plastics and cardboard waste received from suppliers are treated with the same logic: initially these are used by Spectre as containers for internal transportation – broken cardboard and plastic boxes are ultimately being disposed of for recycling.

Household waste [17] created by the employees – predominantly in relation with the lunch – are being brought to a sorting station and the non-recyclable items are being disposed of as landfill. Hazardous waste [18] is a negligible portion of the overall waste produced in Latvia. Oil Waste from the sewing machines as well as batteries used in electronic devices are the only items that can be classified as hazardous waste.

The following table shows our 7 different types of waste and how these are handled:

[17-18] This will not be included in the combined ESG-data overview for waste as it is not directly related to the garment manufacturing process

Table 6: Waste generated at the combined sites of Spectre Latvia 2020/21

Waste classification	Waste type	Description	Quantity	Unit of Measure	Waste Hierarchy Category	Waste management processes
Non-Hazardous	Materials	Fabric waste	74,7	Tonnes	Disposed	Small fabric leftovers created in cutting process are disposed in landfills
Non-Hazardous	Plastic	Packages of fabric rolls, trim bags	2,5	Tonnes	Recycled	Recycling is organized by sorting waste, reuse is promoted among employees
Non-Hazardous	Paper	Plotter and office paper, paper packaging	5,8	Tonnes	Recycled	paper not containing confidential information is reused and disposed together with carton for recycling, employees are encouraged to re-use the paper
Non-Hazardous	Cartons	Boxes, plotter and fabric roll tubes	1,4	Tonnes	Recycled	Carton boxes are reused within the company, carton container was emptied by our recycling partner
Non-Hazardous	General or un-specified waste	Rest of waste created by employees (including food waste - lunch leftovers)	500	m3	Disposed	Domestic waste created by employees in all 4 affiliates (approx. 500m3 in 2019) and picked up by waste management company to be brought to waste sorting station and landfills
Hazardous	Expired/ unused /used chemicals[20]	Waste oil from machines	112	litre	Disposed	Waste oil from manufacturing machines like sewing machines etc. Treatment in accordance with national legislation regarding toxic waste.
Hazardous	Batteries[21]	used batteries from different sources	24,5	kg	Disposed	Old batteries are collected and submitted to authorized institution Lautus ltd. to be disposed of according to national regulations

Waste Management

Waste Management in Vietnam

In Vietnam we use ISO14001 as a management system and guideline for handling waste and the process in practise is considerably more detailed than the simplified waste management process in the internal waste management process figure illustrated earlier. This is due to the fact waste is classified and sorted several times both internally and externally.

In the below table the six different types of waste and how these are handled is described:

Waste classification	Waste type	Description	Quantity	Unit of Measure	Waste Hierarchy Category	Waste management processes
Non-Hazardous	Household waste [19]	Tree branches, nylon bags, etc.	8	Tonnes	Recovered	Burned portion of total household-waste estimated as 20% of 40 tonnes total.
Non-Hazardous	Household waste [20]	Waste created by employees (e.g. food leftovers)	32	Tonnes	Disposed	Landfill portion of total household-waste estimated as 80% of 40 tonnes total.
Non-Hazardous	Fabric	Fabric waste	279	Tonnes	Recovered	Fabric waste was generated from cutting work. Collected 2-3 times per week by external service provider.
Non-Hazardous	Carton	Boxes, plotter and fabric roll tubes	40	Tonnes	Recycled	Fabric waste was generated from cutting work. Collected 1-2 times per month by external service provider
Hazardous	Electrical equipment; hard metal packaging [21]	Led light, paint can	259	kg	Disposed	Waste generated from maintenance work. Collected and stored in hazardous waste storage and collected and handled by qualify external service provider
Hazardous	Expired /unused /used chemicals [22]	Waste oil from machines, clout, cartridge	84	kg	Disposed	Waste generated from maintenance work. Collected and stored in hazardous waste storage and collected and handled by qualify external service provider

[19-22] This will not be included in the combined ESG-data overview for waste as it is not directly related to the garment manufacturing process

Waste Management - combined

This is the first time Spectre combines waste reports from all sites into the same framework. With the aim of deriving a single ESG key figure to express "waste" and generate a data base which can be used for creating an action plan. As a starting point focus will be setting a target of an annual reduction of the combined portion of disposed waste as shown in below table.

Going forward, we will strive to move "upwards" in the waste hierarchy with specific focus on maximising fabric utilization – ideally, there will be no data in the "disposed" category in the future.

Waste Hierarchy	Denmark		Latvia		Vietnam	
	Tonnes	%	Tonnes	%	Tonnes	%
Input Total	0.4	100%	294	100%	1,053	100%
Prevented	-	0%	-	0%	-	0%
Reduced	-	0%	-	0%	-	0%
Re-used	-	0%	1	0%	-	0%
Recycled	0.4	100%	8	3%	41	4%
Recovered	-	0%	-	0%	279	27%
Disposed	-	0%	75	25%	32	3%

Input (SPECTRE Total)	1,347.5	100%
Disposed Waste (SPECTRE Total)	107	8%

Freight and transportation strategy

Our value chain has a considerable environmental impact in terms of transportation of raw material to our factories and transportation of garments from our factories to customers. An estimated 3% of GHG emissions in the textile value chain are derived from transportation [23]. In particular, the effects of air transport can be seen: despite the fact air freight was a mere 1% of all cargo transported in the previous year, it ended up contributing 69% of Spectre total CO_2e emissions related to the transport of goods.

We therefore aim at designing the logistics flow to minimize the need for air transport, although beforementioned seasonality in our industry makes it necessary to apply air transport for a certain amount of goods in the peak season. The negative impact on the environment of air transport is offset to some extent by the fact that we can level our production by extending the production period through the saved transportation time by using air transport. This has a positive effect on our workforce who will achieve a more stable work throughout the year.

[23] According to McKinsey's Fashion on Climate Report

Schematically, our designed logistics architecture for the flow of goods from raw materials to the end-customer can be illustrated by the figure below:
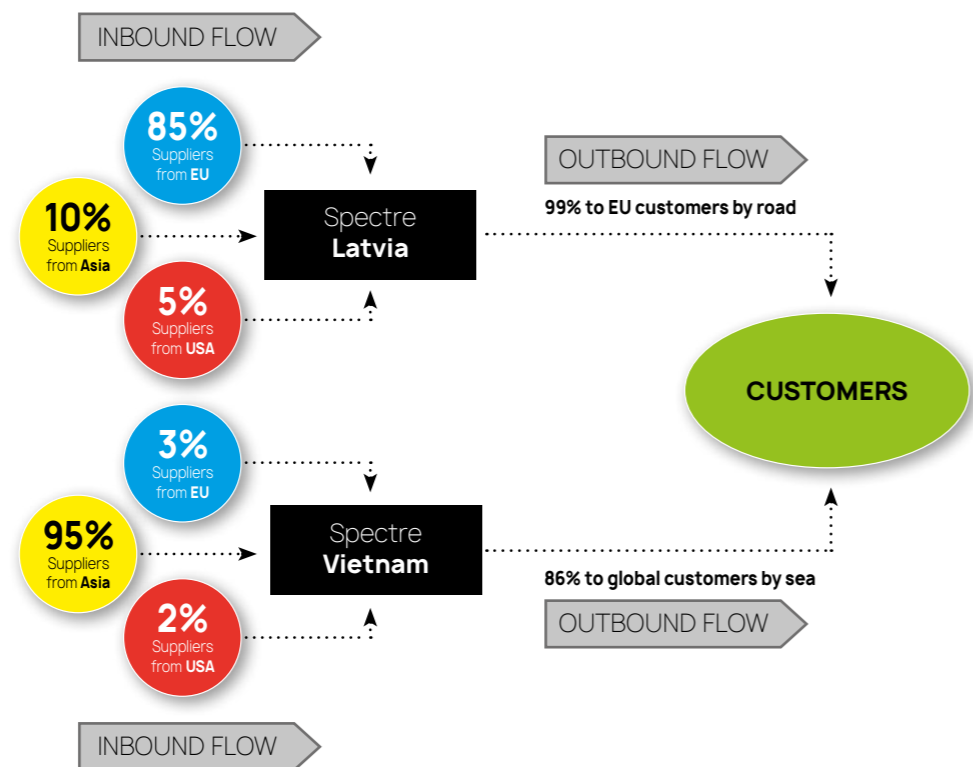
Figure 13: The Spectre inbound and outbound freight flow focuses on local suppliers and reduction of air freight

Inbound freight
The raw material flow for our factories in Latvia and Vietnam are handled by our internal logistics team.

We aim at sourcing locally, meaning that 85% of materials for our Latvian location are supplied by local suppliers from the EU and 95% of materials for our Vietnamese location are supplied locally from Asia.

The EU materials are mainly transported by truck to the factory in Latvia and the parts originating from Asia and the US are delivered by sea freight. All materials are delivered to our production site in Vietnam by sea.

In rare cases we are forced to use air freight to keep customer delivery dates, but these are exceptions and only in cases where raw materials are transported across continents.

To save on both freight cost and to limit the carbon footprint, we consolidate shipments from suppliers. In this manner, we make sure that containers and trucks are fully loaded, thereby eliminating empty space in the containers and transport vessels.

Outbound freight
The outbound freight covers shipment of garments from our factories to our customers.

From our facilities in Latvia 99% of the garments are transported by road to customer distribution centres in the EU. In this part of the world, road transport is the mode of transport with the lowest possible carbon footprint, and we further aim at consolidating full truckloads in the distribution of goods to our customers.

For our facility in Vietnam the freight is done by sea in 85% of the cases and by air transport in the remaining 15%. The roughly 110 km from our factory site to either the Haiphong harbour and container terminal or the Hanoi Noi Bai airport is covered by energy efficient lorry transports.

The reason for the relatively high 15% air freight rate is that our customers frequently demand an early delivery of garments. This, however, leaves us with a CSR dilemma; keeping our lines fully loaded in order to keep our employees busy year-around, or following the customers' request for early deliveries (leading to overtime work followed by regular sea freight). We often prioritize the former, leading to an increased volume of air freight. This priority conversely compromises our aim for reducing our carbon footprint.

Freight and transportation strategy

We are continuously debating this with customers so that we jointly can make levelling solutions to limit the carbon footprint. Several customers have a solution-oriented approach. Resultingly, in 2020 we have succeeded in more production levelling leading to a reduction in air freight compared to earlier years. This is very satisfactory and very much in line with the UN SDG no. 17.

Another factor in our outbound freight consideration is the shipping destination itself. In the past, garments were only shipped to customer distribution centres in e.g. Europe after which our customers forwarded the goods to all parts of the world (primarily Asia and US). The latest trend requires us shipping directly to the customers' final destinations. In this way we limit the carbon footprint (scope2), lower lead-times and at the same time provide a value-adding service to our customers.

Selection of partners for logistics

In our selection of logistics partners, we include criteria as e.g. cost, reliability, service, communication, international business setup and last but not least CSR standards and strategies. As for any other supplier we are asking our logistics partner to comply with our CSR standards and sign our CoC. Although cost is admittedly an important parameter, CSR is becoming an increasingly important parameter and logistics partners are now asked to present their CSR strategies to demonstrate they can contribute to the reduction of CO_2 emissions.

In the coming years we will also work on getting more detailed carbon footprint emission reports from our logistics partners to collect data and set new goals. This will allow us to continuously measure the carbon footprint for each garment type with regards to transportation and work on reductions.

Certifications and process management

Our factories are audited according to international social audit schemes several times every year both by internal auditors and external auditors. As a direct result of our SA8000 certification, we have mandatory bi-annual external audits, and we share the audit reports with our customers upon request. In addition, our factories are audited by various other external auditors according to Fair Wear Foundation (FWF) and Fair Labor Association (FLA) audit schemes which are similar to the SA8000 auditing schemes. Furthermore, some customers who are not members of the FWF or the FLA have their own auditing schemes.

A common denominator for all auditing schemes is that they are based on the ILO Declaration on Fundamental Principles and Rights at Work.

Although we respect and fully support any external auditing scheme, there is a further potential to reduce cost and time invested in the factory audits by aligning requirements and sharing the findings between Spectre and our customers and across the customers (brands). Some data sharing does exist, for example across brands who are FWF members and between Spectre and those of our customers who are members of the Sustainable Apparel Coalition (SAC) via the Higg Index. However, there is a significant – and increasing – redundancy in the CSR related data that we are reporting to our customers.

More details on each certification can be seen in the "Glossary and sources" section in the beginning of this report.

Spectre Group certifications and audit schemes
The following table provides an overview of all current certifications of Spectre Group facilities:

Certification	Logo	Area	Compliance	LATVIA Obtained	LATVIA Renewed	VIETNAM Obtained	VIETNAM Renewed	Initiated by
SA8000		Social responsibility management system	External audit	2013	2021	2014	2020	Spectre
ISO9001		Quality management system	External audit	2014	2020	2017	2020	Spectre
ISO14001		Environment management system	External audit	2016	2020	2017	2020	Spectre
LEED		Secure healthy, highly efficient, and cost-saving green buildings	External Rating			2021/22		Spectre
HIGG Index FEM		Environment management system	Annual reporting	2018	2021	2018	2021	Spectre/ Customer
HIGG Index FSLM		Labour and social responsibility	Annual reporting	2020	2021	2019	2021	Spectre/ Customer
Fair Labor Association		Ensure good working conditions for employees	External audit			2019		Customer
Fair Wear Foundation		Ensure good working conditions for employees	External audit			2020		Customer
UN Global Compact		Partnerships for development within CSR	Annual reporting		2021			Spectre

Table 10: Overview of social and environmental certifications and/or audits initiated by Spectre and 3rd party audits initiated by customers in 2018-21.

Risk Assessment and Mitigation

Risk	Risk Description	Effect on CSR	Likeliness of Occurrence	ACTIONS FOR MITIGATION
R 1	Same peak seasons for most customers does not allow a levelled production, thereby causing low season with lack of orders and peak season with production overloading	Too much overtime in peak seasons and lack of work in low seasons leads to wage fluctuations	High	Implementing production levelling activities together with customers
R 2	Employ temporary staff / young workers (students) for peak periods	Risk of increased CO2e	High	Implementing production levelling activities together with customers
R 3	Use of too many suppliers. Customers nominate many new suppliers some of which only for one or a few seasons	Unstable order situation for T2 suppliers lead to unstable work for their employees. CO2e could be reduced to batch. Good for closer partnerships	High	Establish a supplier consolidation plan aiming at increasing business with preferred suppliers and phasing out marginal suppliers
R 4	Too many different types of reporting, it takes a lot of time and resources. Many different, though overlapping demands etc. from customers	Increasing cost and waste of resources in HR&CSR department	High	Aligning reporting requirements across customers and developing standard reporting package
R 5	Too much fabric waste and leftover fabric from the production	Too much waste ends up as land fill	High	Develop new concepts with customers and other business partners with the aim at utilizing leftover fabric and re- and/or upcycling of fabric waste. New technologies to be explored
R 6	Too long working hours may lead to employees being less attentive around safety, risking injuries	Increased risk of work accidents	Low to medium	Implementing production levelling activities together with customers, ensure production schedules are based on reasonable OT
R 7	Risk of Corona infection in factories. Will immediately have a negative impact on the factory output	Office staff works from home, positive-tested employees and their contact group have been home in quarantine	Medium to high	Company policies on Corona control implemented (social distance, hygiene etc.)

Table 10 - Risk Assessment and Mitigation Plan for Spectre's CSR-related activities

CSR goals

2021/22

For current business year we have set even more ambitious goals with the aim of accelerating the development towards a leadership position within CSR standards for global garment manufacturers.

Visualized via our CSR strategy model, the 4 corner stones, the short term goals for 2021/22 can be presented as follows:
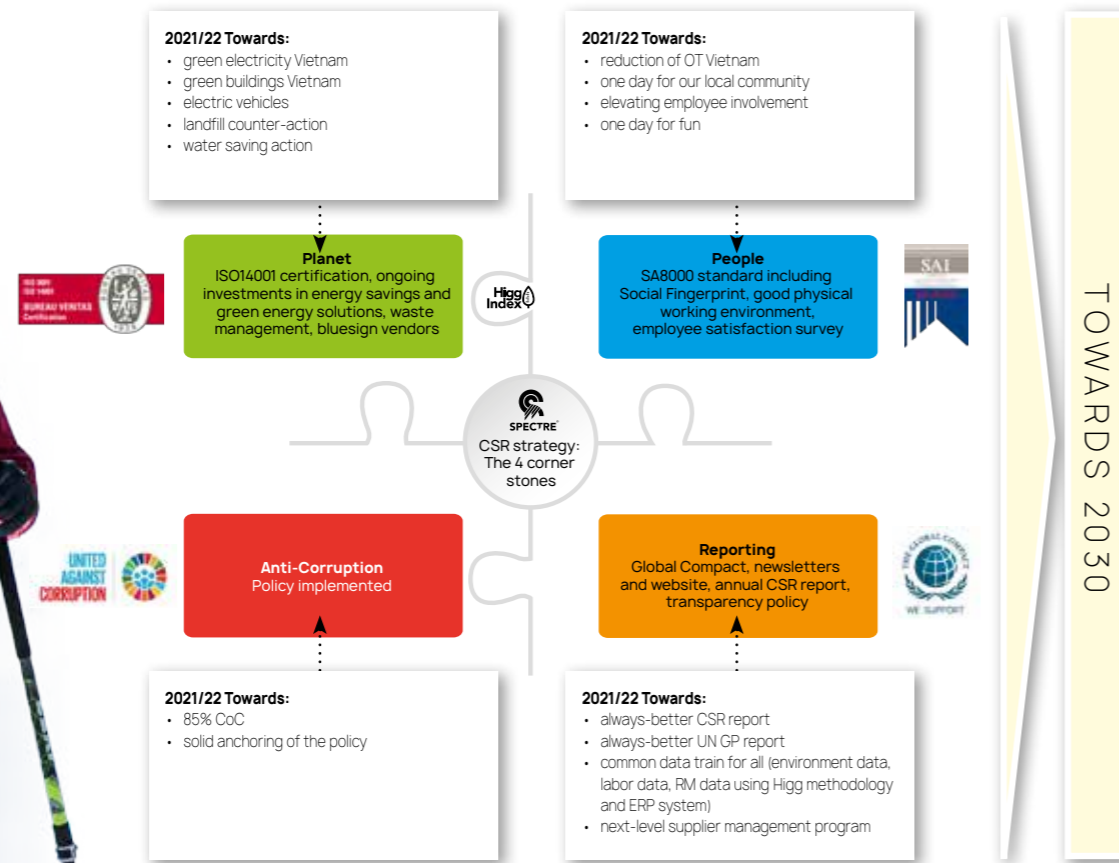
CSR goals – towards 2030

The 2021/22 goals with the common denominator "Towards..." indicate that same goals will be valid in a long-term perspective, however, with increased ambitions and expanded scope.

Long term CSR goals will be defined more specific in Spectre's next strategy plan, plan25, which will be launched in Q3 2021.

2021/22 Towards:
- green electricity Vietnam
- green buildings Vietnam
- electric vehicles
- landfill counter-action
- water saving action

2021/22 Towards:
- reduction of OT Vietnam
- one day for our local community
- elevating employee involvement
- one day for fun

Planet
ISO14001 certification, ongoing investments in energy savings and green energy solutions, waste management, bluesign vendors

People
SA8000 standard including Social Fingerprint, good physical working environment, employee satisfaction survey

SPECTRE
CSR strategy: The 4 corner stones

TOWARDS 2030

Anti-Corruption
Policy implemented

Reporting
Global Compact, newsletters and website, annual CSR report, transparency policy

2021/22 Towards:
- 85% CoC
- solid anchoring of the policy

2021/22 Towards:
- always-better CSR report
- always-better UN GP report
- common data train for all (environment data, labor data, RM data using Higg methodology and ERP system)
- next-level supplier management program

Figure 14: CSR goals 2021/22

Basecamp interview

Antoņina Zelča
Operator in the cutting department

I have been working for Spectre Latvia since the first day the company was established in Kalnciems.

The best thing is that work is located close to home. But everything is well thought for the employees; good working hours and the pay is accordingly good as well.

In my daily work I feel it is a good working environment, lighting in the workplace, the devices and equipment is appropriate for the work to be completed efficiently. Employees are provided with drinking water and coffee machine for employees to use.

Company provides employees with transportation to and back from work. Spectre Latvia constantly thinks of the employees, also by providing the employees accident insurance.

I am proud that the company produces modern and competitive garments. The company keeps evolving, improving and inventing.

I am also proud that all kinds of events are being organized. We do not only think about production, but also about the people. Production and quality is important, but humans are least as important.

Hoang Thi Thu
QAC, Cutting department

I started working in Spectre 4 years ago in 2016

What I like the most about working with Spectre is the cooled and clean working environment. I think we are being well compensated and gets different benefits.

Some of the best social events I have been to is food festivals, company birthday party and "Year End" party.

The thing that makes me most proud of working in Spectre is that our opinions matters and suggestions is handled

with feedback from our supervisor, team leader or HR manager.

Sintija Želve Bergmane
Technologist, training young seamstesses

I started working at Spectre on May 21, 2013 as a seamstress. Then I was offered to work in the Sample Department as a seamstress and other functions after. Now I am training others.

My personal favorite thing about this company, which I really like, is that we think about the environment. For me, this is the

number 1 priority. Even in spite of anything, not even the salary. I really like that we have an 5S certificate. We are learning to organize workplaces and protect the enviroment, we turn off the lights when exiting the premises. Spectre is a company that I want to work for also because it is not far from home and the schools for children are nearby as well. Spectre is a very good, favorable place for me to work in.

I am undeniably proud of the growth I have achieved and that people around me were

right, seeing it before I did and believed in me.

It is extremely important to me that we protect the environment, that we sort waste and organize. I like it so much, because we haven't worked like that before and I didn't know it was so exciting!

Within this company, people have focus on environment and opportunities to do better. You can always speak your mind and express your opinion. Employees are encouraged to speak.

Phan Thi Kim Thoa
Special Technology Worker

I have worked here for more than 4 years now, I started in 2016

What I like about working with Spectre is that we get good compensation, a stable income and benefits. Some of the best social events has been team building but also the company birthday and the "Year End" party.

It makes me proud to be a part of Spectre because it is a good company, good benefits and bonusses, good working conditions with cooled working enviroment, even though there are hot areas since the air condition capacity is not quite enough.

It is nice that we have high quality requirements to our work and that we are always treated with respect and decency.

Tran Thi Thanh Thuy
Seamstress Production floater team

I have worked for Spectre since they started operation in Nam Dinh in 2016

What I like about Spectre is that it's a friendly working environment and it is comfortable working conditions with air conditioner.

It makes me proud to work for Spectre because all the machines and equipment is brand new and in general I feel they are taken good care of employees and ensure benefits but overtime here normally is out of plan so it can be difficult to arrange my family affairs.

Spectre plan many activities for their employees, so it is a pity that due to Covid we almost haven't had activities for 2 years within the company, but we can understand the situation.

Some of the best social events I have been to was team building, the annual food festival and at new year when we have "lucky draw".

SPECTRE®

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CSR Report 2020/21

SPECTRE A/S