

DANIEL WELLINGTON

Daniel Wellington

Sustainability Report 2017

DANIEL WELLINGTON

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1. INTRODUCTION

Daniel Wellington is a young company and we recognize that we are also at the beginning of our sustainability journey. This is our first sustainability report and in it you can read about the past years' most important actions. There is still a lot of work to do, but our overall commitment towards running a long-term sustainable business within the limits of our planet is clear. With energy and passion, we aim to make a real difference in the world.

2. THIS IS DANIEL WELLINGTON

OUR BUSINESS MODEL

Daniel Wellington is a global watch and accessories brand; our products are sold in almost every country in the world. The brand represents aspirational, yet affordable luxury. The elegant minimalist design, in combination with stylish straps, make the watches timeless. All the straps are interchangeable giving consumers the flexibility to adjust their style to every occasion.

The company was founded in 2011 in Sweden and has its headquarters in Stockholm. During 2014-2016 operations were established in China, Hong Kong and the USA and in 2017 additional subsidiaries opened in Austria, Germany, India, South Korea, UAE and the UK. The strategy is to continue opening subsidiaries in key sales markets.

A new organizational structure with regional Strongholds, five in total, is being implemented. We expect the Strongholds to create opportunities for greater efficiency in our quest for full vertical integration, enabling markets to easier adapt to local conditions while keeping global alignment.

The brand is marketed primarily through digital channels and social networks. In total we have over 4 million followers on Instagram and every day a large community of followers actively engage in featuring their Daniel Wellington products.

Products are sold through numerous sales channels both online and offline: on our own website and other online market places, as well as through Daniel Wellington branded retail shops and other independent distributors.

The products are assembled by our suppliers in China and the watch movement is produced in Japan. We have a team located in Hong Kong and China working full-time with our suppliers to ensure that the company's high quality-standards are fulfilled.

KEY FIGURES 2017

- SEK 2.65 Bn turnover
- Largest sales regions include Asia and Europe
- 3.7 Million watches sold
- Products shipped to more than 200 countries
- Approximately 900 employees

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WHERE WE ARE GOING

Vision: Together we engage the world

By providing exquisite designs through affordable luxury, we inspire people around the world to become part of our committed and ever-growing global movement. Our community consists of millions of active users who share moments in time with each other. This strong commitment and engagement goes further than beautiful pictures.

We want to keep on growing as a company and community, and we aim to grow responsibly. This is achieved by engaging not only our customers but also our employees, suppliers and other partners. Through our movement, we want to contribute positively to the world – by creating jobs for our employees and in our supply chain. By always looking for better solutions and using our reach to create progress. And by continuing to create connections between people around the world. With our energy and passion, we will challenge the industry and make positive change happen.

This is just the beginning of our story, but together with our community, we will continue to make this journey a successful one. We will push the boundaries of what a community can achieve. Together we engage the world.

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3. OUR WINNING CULTURE & GUIDING POLICIES

OUR PEOPLE

Daniel Wellington's success is fueled by a global workforce of approximately 900 employees (31 December 2017), structured within our five regional Strongholds. The Global Executive team consists of representatives from eight key functions as well as the Directors of the five Strongholds.

At the core of our business strategy we focus on how to attract, retain and develop talented people from across the globe, in order to push boundaries and inspire people to become a part of our ever-growing global movement.

Together we work towards the company's vision with a winning culture that honors innovation, ownership, individual abilities, growth as well as meaningful opportunities to contribute to the company's success.

GUIDING PRINCIPLES

The role of our guiding principles is to enable execution of our vision and business strategy and build a long term successful and healthy company. They define why people should choose and commit the best of themselves to the organization, what the employee 'deal' consists of, and provide a common point of direction for employee management.

Three principles guiding our employees;
CHALLENGE IT - Innovation and growth
OWN IT - Execution and accountability
WIN IT - Emotional Intelligence and collaboration.

KEY POLICIES

Daniel Wellington is committed to conducting a long-term sustainable business within the limits of our planet. We continuously work to reduce our environmental impacts and increase the positive social benefits from our activities throughout the whole value chain.

Our work is guided by the 10 principles of the UN Global Compact relating to Human Rights, Labour, Environment and Anti-Corruption. These principles form the basis of our approach to conducting business responsibly and we have started working with integrating them into relevant internal and external policies and processes. We also want to ensure that our work supports the UN Sustainable Development Goals (SDGs).

Policies are published on our Intranet and are available to all employees. These policies cover employee related matters such as gender equality, harassment, as well as environmental principles. An anti-corruption policy is currently being developed and will be finalized during the coming months. During the onboarding of new employees, training on culture and policies are included. We are also in the process of building an internal training department, DW Academy, which will develop focused training programs going forward.

DIVERSITY AND INCLUSION

Being a global organization, we embrace diversity and inclusion, it has been an important part of our success. All aspects of the employee lifecycle are carried out without regard to gender, race, colour,

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religion, sexual orientation or ethnicity. Employment, promotions, training and compensation should always be based on merit and/or individual abilities. We are working against any form of discrimination or harassment and remain committed to ensure diversity in all areas of the business.

Our management plays an important role in managing diversity and inclusion. We want to achieve a common accountability where all employees work for maintaining these values. Our Global Diversity and Gender Equality Policy outlines our approach and the goal is to ensure equal opportunities and equal pay for all employees while promoting inclusion, health, respectful interactions and suitable working conditions.

ENVIRONMENT

Our environmental commitment outlines our ambition to continuously reduce Daniel Wellington's impact on the planet's natural systems, using resources in an efficient and responsible way. To do this we need to continuously explore and deepen our knowledge internally, and make sure sustainability considerations are factored into important business decisions. Decisions should be taken with a lifecycle perspective and precautionary approach in mind.

SUPPLIER CODE OF CONDUCT

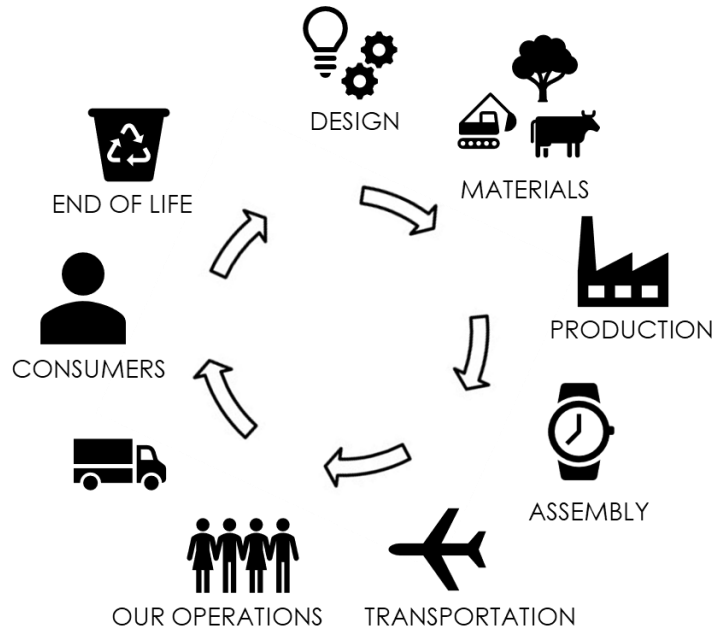
Through the supplier sustainability program, we work in close cooperation with our suppliers to reduce risks and impacts in our supply chain. The Supplier Code of Conduct is the first step and specifies the basic requirements and guidelines that we expect all our suppliers to follow. The document covers the respect and support for human rights as covered by the International Bill of Human Rights and the International Labour Organizations Declaration on Fundamental Principles and Rights at work addressing freedom of association, forced labour, child labour and non-discrimination. It also specifies zero tolerance against corruption. For more information about our Supplier sustainability program, please see the section *Our suppliers*.

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4. SUSTAINABILITY – HOW WE IMPACT THE WORLD

OUR MATERIAL AREAS

The focus in 2017 has been to initiate a sustainability strategy process and increase our knowledge of how the Daniel Wellington Group affects both people and the planet. The following key impacts and risks have been identified throughout our value chain:



Area	Material impacts and risks
Design	A significant part of our impact is a result of the decisions we take at the design table. Therefore, it is important to take sustainability into consideration already at this stage. For example, when deciding what materials to use, where they are sourced from, checking whether there are any issues linked to a specific raw material and that the material is recyclable at the product end of life. Informed decisions can greatly reduce negative consequences.
Materials	Our key raw materials include steel, leather, polyester, gold, paperboard and plastic. We are gradually increasing our knowledge of the sources of materials such as leather and paperboard, materials linked to high environmental impact if not controlled. Traceability of gold is another key area due to the associated supply chain risks. More information can be found in section <i>Responsible Sourcing</i> .
Production & Assembly	From a product life-cycle perspective the environmental impact of the watch assembly factories is relatively low. The sustainability impacts associated with tier 2 factories where the watch-parts are produced are considerably higher. We source our products mainly from China, which increases the risks of labour rights, health and safety issues etc. Our

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	<p>supplier sustainability program is being implemented at both tier 1 and key tier 2 factories.</p> <p>More information can be found in the section <i>Our Suppliers</i>.</p>
Transportation	<p>Our products are sold world-wide in more than 200 countries, so transportation is a significant impact for the company. Watches are sensitive to changes in temperature and humidity so watch shipments are primarily made by air, whereas boxes are shipped by sea. Alternative transportation modes and efficiency measures are being evaluated with the objective to reduce both environmental impact and costs.</p> <p>More information can be found in the section <i>A Resource Efficient Business</i>.</p>
Our operations	<p>Engaged and healthy employees are essential for the company's success. As our business is quickly expanding, we need to make sure that we have processes in place for successfully onboarding new employees, at the same time as we are developing and engaging our full workforce. Treating people fairly and ensuring health and safety standards are met, is key.</p> <p>The environmental impact from our operations also include business travel, electricity use and recycling in our warehouses, offices and stores.</p> <p>More information can be found in the sections <i>Our Talent</i> and <i>A Resource Efficient Business</i> and <i>End of Product Life</i></p>
Consumers	<p>Our customers' satisfaction is important. If the consumer has any problems with our products, we want to support them in resolving these. The customer should be sure that the products they purchase are genuine Daniel Wellington items, and that they are safe to use.</p> <p>More information can be found in the section <i>Safe Products</i> and <i>IP & Brand Protection</i>.</p>
End of life / Recycling	<p>We want our products to be disposed of responsibly at the end of the product life. Consumers are encouraged to recycle the watch components, including the batteries once they are used so that they do not end up in nature where they can cause harm.</p> <p>More information can be found in the section <i>End of Product Life</i>.</p>

STAKEHOLDER INVOLVEMENT

A range of internal and external stakeholders were consulted during the initiated strategy development process in 2017. Our ambition is to take stakeholders opinions and perspectives into consideration on a regular basis to help guide us in the choices we make.

Both management and employees were engaged in a survey linked to the SDGs where they were asked to rank the most important sustainability areas for themselves and Daniel Wellington. The results included being a fair employer, focusing on health & wellbeing, working with responsible suppliers and reducing climate change impacts.

In addition, a survey was conducted among a small group of customers in five key markets. The customers highlighted a wide range of areas including the importance of responsible production and the choice of materials used.

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5. KEY PROGRESS 2017

Numerous actions have been taken during 2017 to address the areas identified as material to Daniel Wellington (please see section 4). Our approach is impact-based, meaning that we have focused on areas with the most significant impacts and where we have the biggest opportunity to make a difference. Below are the descriptions of key strategic areas and actions underway.

Our ambition for the coming year is to finalize our sustainability strategy, putting in place clear short and long-term commitments and targets that cover our material impacts. In many areas we are at the start of our journey and we have numerous challenges ahead of us in order to run a long-term sustainable business within the limits of our planet. We will continue to push ourselves and involve our partners in always looking for better, more sustainable solutions, making sure that we continue to take steps in the right direction.

OUR TALENT

WORKFORCE COMPOSITION & DIVERSITY

In December 2017 Daniel Wellington employed approximately 900 people globally. The total workforce consists of approximately 55% women and 45% men, and the Global Executive team of 42% women and 58% men.

We conduct annual salary reviews which consider industry benchmarks to ensure that all employees are paid fairly, regardless of gender, race, colour, religion, age, sexual orientation or ethnicity.

Our focus going forward is to develop targets and start following up on KPIs such as employee turnover and workforce composition including gender equality. We want to make sure that we continue to drive activities that enhance inclusion and diversity.

TALENT DEVELOPMENT AND TRAINING

One of Daniel Wellington's strategic areas is to attract and retain the best talents. Workplace attractiveness and satisfaction are measured and evaluated through surveys and open discussion forums, "DW Talks". During 2017 we performed two surveys with follow-up discussions in each Stronghold. The evaluations from the surveys, ongoing discussions and feedback from our employees have guided future priorities.

The three principles guiding our employees *Challenge It, Own It, Win It*, form a strong foundation for our employee Learning & Development Strategy. The strategy is built on four pillars;

- Ownership: with commitment and passion learning will be more impactful.
- Learning Culture: the world is moving fast, and we need to create the conditions for continuous learning and development to stay ahead.
- Social Learning: the company consists of many great talents with super-skills, we need to create an environment where learnings can be shared.
- Agile and flexible: based on the individual's needs and offered when and where it will be most impactful.

We value lifelong learning, supporting employees to stay agile within their field as new challenges impact our business. We offer various short- and long-term international assignments and believe in transferring knowledge across our five Strongholds. Formal trainings are offered through both internal and external training programs; from leadership trainings to language courses and on demand

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workshops. To expand the impact of our Learning and Development we are in the process of building an internal DW Academy.

Overall, our aim is to foster a learning and growth mindset, where continuous development is owned and driven by each individual. This is also part of all employees' regular one-to-ones and performance reviews.

HEALTH AND SAFETY

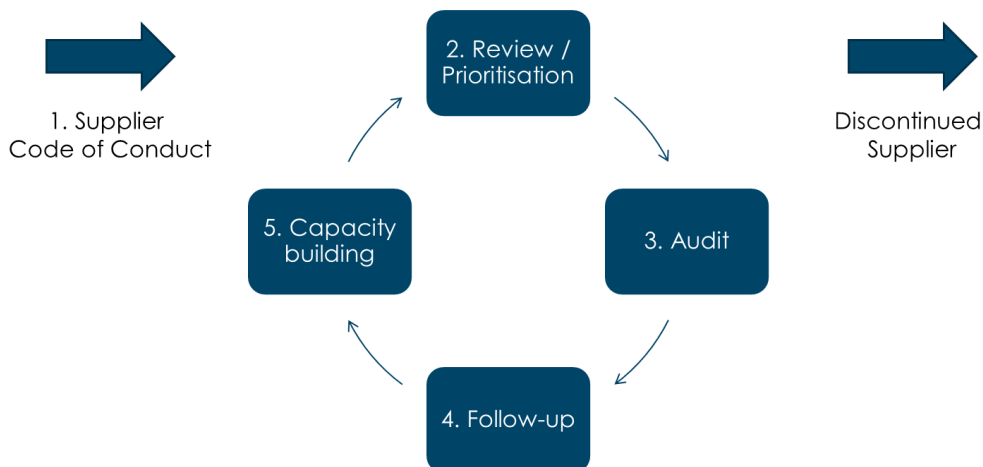
Health and Safety is promoted at every level and we raise awareness of our guidelines through different channels, including training programs as well as on our intranet. Occupational health and safety guidelines are today determined at a local level and are implemented with some variation depending on region. A coming task will be to implement group level Health and Safety guidelines and to include compliance trainings via a new e-learning platform.

In our Stockholm office, we operate a Safety, Health and Environment committee comprised of both management and employee representatives. The committee meets twice annually to discuss emerging topics and current/coming health and safety activities. If any issues arise, the committee informs the senior management with proposed actions. Employees can raise any related issues, risks or suggestions through the defined channels.

To develop a stronger sense of well-being, Daniel Wellington offers a variety of engagement programs for all our employees, both from a physical and psychosocial perspective. In most of our locations we offer internal athletic events to promote physical activity.

OUR SUPPLIERS

Daniel Wellington's supplier base is mainly located in China. To manage the sustainability impacts and risks associated with our supply chain, we have set up a five-step process to help us prioritize and focus our actions.



As a minimum standard our suppliers should follow local laws in the country where the business is conducted. In addition, our Supplier Code of Conduct sets forth the minimum requirements for how we expect our suppliers to act. All our direct product suppliers have signed the code.

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Once the supplier has signed the Supplier Code of Conduct they are part of our audit program. We plan and prioritize our work based on input such as the supplier spend, the product type and previous history with the supplier. In the past two years audits have been executed at all our direct product suppliers, including all watch assembly factories, using external third-party audit firms. The most common issues found during audits include excessive working hours, incomplete insurance coverage and limited subcontractor controls. Following the audit, we work together with the suppliers on improving the areas identified.

We have started to map our most important tier 2 factories and some of these have undergone audits. This work will continue during 2018. In addition to the audits, supplier visits to both tier 1 and 2 factories are carried out regularly by Daniel Wellington employees.

Focus going forward includes strengthening our own processes and controls as well as continuing to support our suppliers on their sustainability journey.

RESPONSIBLE SOURCING

We have during the year worked to increase traceability of a range of materials used, including leather, gold, packaging materials and other components.

Many of Daniel Wellington's watches are plated with rose gold, and we are working to validate that the gold used is conflict-free. We have been given assurance that the gold we source has not been mined in the Democratic Republic of the Congo (DRC) or adjoining countries and our research traces the gold back to a conflict-free mine. We will continue to review whether we can strengthen our process and controls.

The leather supply chain is another important area we focused on during 2017. During the year, we visited our two key tanneries located in Italy with the objective to learn more about both the leather's environmental and social impacts. A future focus will be to review how to reduce the impact from our leather.

A RESOURCE EFFICIENT BUSINESS

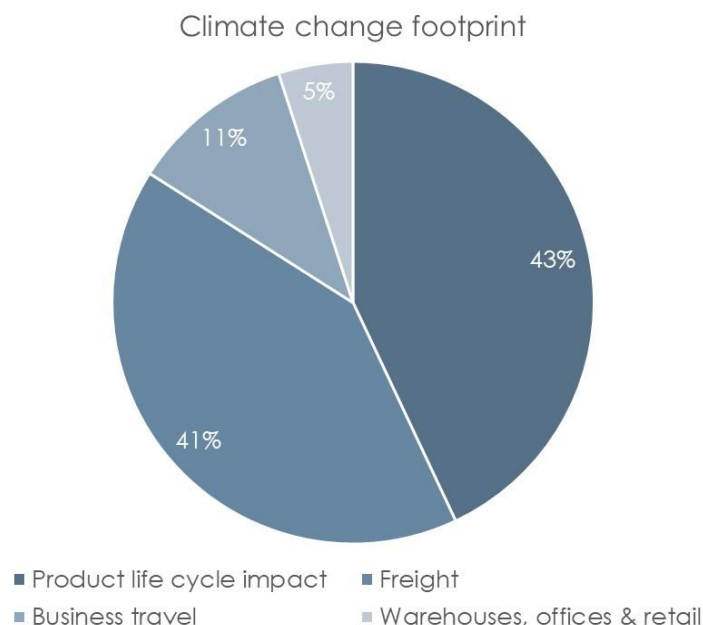
Climate change and its consequences such as changing weather patterns is a serious threat to the world today. We recognize that Daniel Wellington impacts the climate in a multitude of ways throughout the whole product value chain: from the raw materials we choose, at the factories producing our products, and at the product end-of-life.

The first assessment of Daniel Wellington's climate change footprint was conducted for the year 2016. The ambition has been to cover the full life-cycle emissions of our products, including the raw materials used, emissions from factories, our warehouses, offices, transportation and business travel. The results, process and assumptions for the 2016 calculations were reviewed by an external party and all suggested changes have been implemented.

The footprint data is not yet complete, we are working on receiving reliable information from all relevant partners, but it is a good first step and we expect data accuracy to improve as we move forward. At present, the data gaps make year-on-year comparisons difficult. Our calculation of materials used in each watch was more detailed in 2017 resulting in a decrease in emissions. This was in part balanced by an increase in emissions due to better coverage of our warehouse and supplier network.

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	2016	2017	unit
Total emissions	13,500	13,650	ton CO _{2e}
Emissions per turnover	6,3	5,6	ton CO _{2e} / M SEK
Emissions per watch	3,9	3,7	kg CO _{2e} / watch



Results from the carbon inventory show that Daniel Wellington’s main impact come from producing our products, components and materials (“Product life cycle impact” in the graph above) and the transportation of products around the world (“Freight”).

Several initiatives with the aim to reduce both carbon emissions and cost were implemented in 2017. Key activities included increasing the share of markets delivered directly from our Hong Kong hub instead of through the Uppsala hub, and adding selected regional or local warehouses to better service key markets while reducing the need for long-haul shipments. More efficient packaging envelopes for online sales were developed. During 2016 we also conducted a first trial shipment from China to Europe by rail. Lead times are shorter than sea, however, we need to better control the temperature ranges that the products are exposed to.

SAFE PRODUCTS

It is essential that all our products are safe to use for our consumers. To ensure that our products do not contain any dangerous chemicals that may be harmful to human health or the environmental, we follow relevant regulations and directives, e.g. REACH and the RoHS directive relevant for the EU. Regular tests of our products are conducted by independent testing houses to verify compliance.

The stainless steel used in our products (316L) including the watch band, case and cuff, should under normal use not cause any allergic reactions.

Daniel Wellington is a member of the Swedish Chemicals Group (Kemikaliegruppen at Swerea IVF), a forum for keeping up to date on current chemical legislation and discussions.

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END OF PRODUCT LIFE

Our goal is to create products that not only have a timeless design, but that also function for many years. All the parts of our watches can be replaced if damaged, and in some markets, we have started offering repair services directly to our customers. This helps prolong the product life and is something that we are planning to roll out in more markets.

At the product end of life, we want the item to be disposed of responsibly. Customers are encouraged to recycle the watch components, including the batteries. During 2017, a new unit box was launched which is fully recyclable. The old box contained some plastic parts, whereas the new box is completely made of cardboard.

At our distribution hub in Uppsala we implemented new recycling routines, introducing recycling of materials such as board and plastics. In addition, initiatives with the aim to reduce the total amount of packing materials were launched.

IP & BRAND PROTECTION

Daniel Wellington has designated a part of its legal team to focus solely on intellectual property (“IP”) and brand protection. This includes the work to oversee, manage and defend the company’s worldwide intellectual property rights and specifically to protect and control the use of the company’s trademarks and designs, which are of great value and importance to the company. Thus, new designs are continuously registered world-wide and possible infringers are approached, in order to maintain a comprehensive protection related to the use of the designs and trademarks.

In recent years, it has become apparent that the Daniel Wellington products are attractive to copy. This implies several problems, e.g. counterfeits being of poor product quality which may result in potential health and safety issues for the consumers buying and using such counterfeits, not to mention child labor, terrorism and human trafficking – which are only a few of the bigger concerns linked with the business of counterfeits. In order to manage these problems, and to ensure that the company’s rights are duly respected, Daniel Wellington’s IP and brand protection department works actively to counteract counterfeiting. This work comprises both preventive and corrective measures and the department is in close collaboration with e.g. digital marketplaces, customs, police departments, prosecutors and other law enforcement agencies worldwide. Further, the IP and brand protection department is active within several international organizations, including the Swedish Anti-Counterfeiting Group, Alibaba Anti-Counterfeit Alliance and the International Trademark Association, to mention a few.

Over the past three years, Daniel Wellington’s anti-counterfeiting measures have led to the seizure of over 100,000 fake products globally and the take-down of more than 300,000 contested e-commerce ads. The preventive and corrective measures, as well as the collaborations with *inter alia* the mentioned organizations and relevant authorities, has enabled Daniel Wellington to contribute to the process of overcoming the global and encompassed problems which the counterfeit market gives rise to.

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6. ABOUT THIS REPORT

This is Daniel Wellington's first sustainability report and it covers material sustainability activities for Daniel Wellington AB with subsidiaries during the period January 1 to December 31, 2017. For full details about included subsidiaries please refer to Daniel Wellington AB's Annual Report 2017.

The climate emissions calculations are aligned with the GHG Protocol and the methodology has been reviewed by an external party.