

COMMUNICATION ON PROGRESS PROGRESS REPORT

Report period March 2016 to March 2017



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COMMUNICATION ON
PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

FOREWORD

König + Neurath AG has been a participant in the UN Global Compact since March 2016. König + Neurath has therefore voluntarily pledged to support the 10 principles of the Global Compact, integrate these principles into company activities and inform the public of the progress of its efforts in an annual progress report (COP – Communication On Progress).

What is the Global Compact?

The Global Compact is a worldwide CSR initiative that was set up in 1999 by the then UN Secretary General Kofi Annan. CSR stands for “Corporate Social Responsibility”.

The 10 principles of the Global Compact are:

Human rights

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.

Labour standards

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining as well as advocating
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of child labour and
6. the elimination of discrimination in respect of employment and occupation.

Environment

7. Businesses should support a precautionary approach to environmental challenges,
8. undertake initiatives to promote greater environmental responsibility and
9. encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery



THE COMPANY

IN BRIEF

- ▶ 1925 Established by Heinrich Neurath.
- ▶ 1930 Heinrich Neurath's son-in-law, Heinrich König, joins the company. The company name König + Neurath is created, it is still used today.
- ▶ 1947 Egon König, son of Heinrich König and today's company owner, joins his father's company.
- ▶ 1978 Pioneer Heinrich König stands down and his son Egon König becomes sole company owner.
- ▶ 1995 König + Neurath pushes new quality standards and achieves certification in accordance with DIN EN ISO 9001.
- ▶ 1996 König + Neurath commits to environmental management in line with the requirements of EEC Regulation No. 1836/93 and since 1998 in line with the requirements of DIN EN ISO 14001.
- ▶ 2015 König + Neurath commits to energy management in line with the requirements of DIN EN ISO 50001.
- ▶ 2016 König + Neurath joins the UN Global Compact.



Today König + Neurath AG is an international full-service provider for office furniture, seating and room systems. The company is owner-managed and not listed on the stock exchange.

The production site has its own metal and wood processing facility, and there is an in-house assembly line at the company headquarters in Karben near Frankfurt am Main. This is where around 1000 employees develop, plan, produce and market office furniture, seating and room systems for the international office furniture market on a site covering approx. 71 000 m².

STATEMENT OF SUPPORT FROM THE CEO



Dear Sir/Madam,

A year after we first joined the United Nations' Global Compact initiative, I am delighted to confirm that König + Neurath will continue to support and promote the 10 principles of the Global Compact.

The progress report shown here describes the measures that König + Neurath has taken to integrate the 10 principles into their business strategy, corporate policy and day-to-day trading activity, and gives figures to allow comparison across the progress of results.

A further milestone has been achieved this year with the introduction of the König + Neurath Compliance Guideline with the König + Neurath Code of Conduct as its central policy.

Carl-Christoph Held

Chief Executive Officer
König + Neurath AG



HUMAN RIGHTS AND LABOUR STANDARDS

► All business partners

König + Neurath expects all overseas business partners to comply with the ILO Core Labour Standards.

Excerpt from the Code of Conduct:

“König + Neurath is to insist that all business partners provide a statement assuring that they observe the policy set down here [Code of Conduct]. In addition to the themes listed, business partners overseas are committed to observing the 8 Core Labour Conventions of the International Labour Organisation (ILO).”

► In the supply chain

König + Neurath AG attaches great importance to compliance with the relevant environmental and social standards, as well as with international agreements against banned exploitative child labour.

The greatest risk of not complying with this requirement comes from the upstream supply chain.

The majority of suppliers undergo a supplier assessment. This assessment includes a request for evidence as well as statements to show that the standards listed are being observed.

If violations or false statements come to light, this will potentially entail supplier exclusion, or at least the fulfilment of the requirements imposed. König + Neurath reserves the right to pass on information to third parties, in particular to non-government organisations that support compliance with fundamental social and environmental standards.

In 2016 the assessments carried out covered 90 % of the total purchasing volume. No violations or false statements came to light in 2016.

► Collective wage agreement

König + Neurath AG is subject to the provisions of the current collective wage agreement for the wood and plastic processing industry in Hesse, both in terms of location (federal state of Hesse) and industrial category (wood and plastic processing). This agreement was concluded between the Verband Holzindustrie und Kunststoffverarbeitung Hessen-Thüringen e.V. (association for the wood and plastics industry) and the regional management team of IG Metall (Frankfurt).

The collective wage agreement applies to all employees of König + Neurath AG.



► Diversity

König + Neurath does not accept discrimination of any kind under any circumstances. The König + Neurath Code of Conduct states:

“Discrimination and harassment are not tolerated and no one may be treated favourably or unfavourably or harassed because of their race, ethnic origins, skin colour, nationality, gender, religion or philosophy, or other characteristics protected by law.”

No violations of this point within the König + Neurath Code of Conduct are known.

The current ratio of female employees in salaried employment is 28.5 %.

König + Neurath is required by law to fill 5 % of jobs with employees who have a severe disability. This has always been significantly exceeded. In 2016 the ratio of employees with a severe disability was 9 %.

► Employee satisfaction

One way of identifying the good workplace climate and positive inter-employee network is the average time spent in employment at the company. At König + Neurath the average term of employment is 16 years.

► Workplace safety

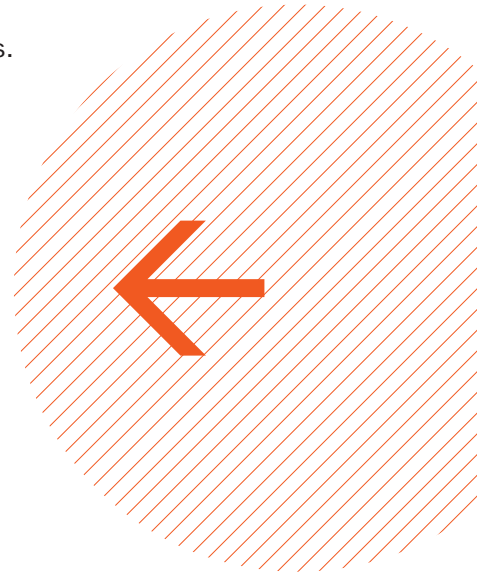
Providing a workplace that not only complies with legal specifications but also minimises risks to our workforce and promotes a high level of employee satisfaction is an integral part of our corporate policy. The latest workplace safety policies are used as a basis from an early stage for process planning and equipment acquisition.

Risk assessments are carried out for all workstations, from which adequate workplace safety measures are derived and implemented.

645 employees received workplace safety training in 2016, some on more than one occasion.

6.2 % of production employees are trained First Aiders.

In 2016 the number of notifiable accidents at work was 37 (based on 1000 employees). Incident severity was on average 18.6 days of absence per accident in the workplace.



ENVIRONMENTAL PROTECTION

König + Neurath's integrated process-oriented management system is at the core of corporate responsibility with respect to effects on the environment. It is certified in accordance with the international management standards ISO 9001 (quality management), ISO 14001 (environmental management) and ISO 50001 (energy management).

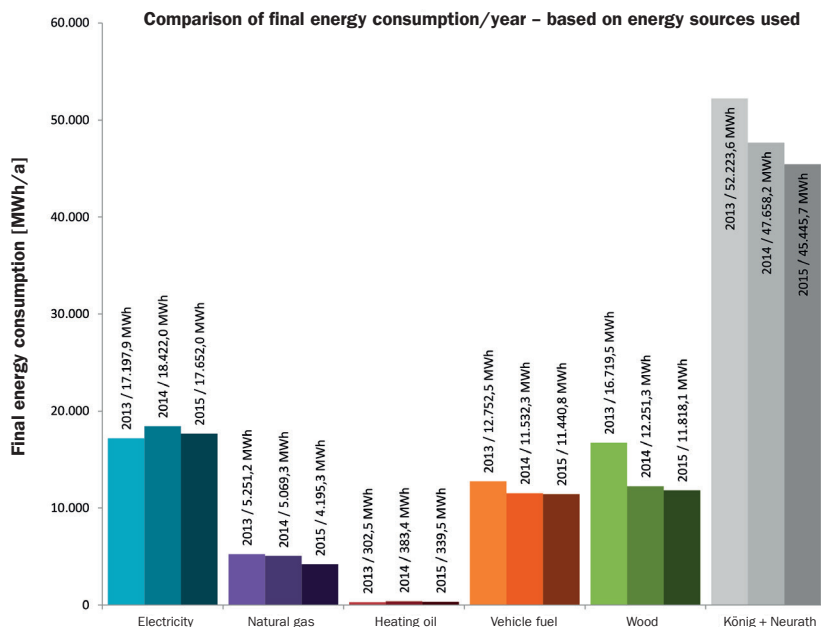


Processes with effects relevant to the environment and energy use are constantly monitored and analysed. The key areas of action are identified and measures are taken to keep the effects on the environment at a minimum.

► Energy and CO₂

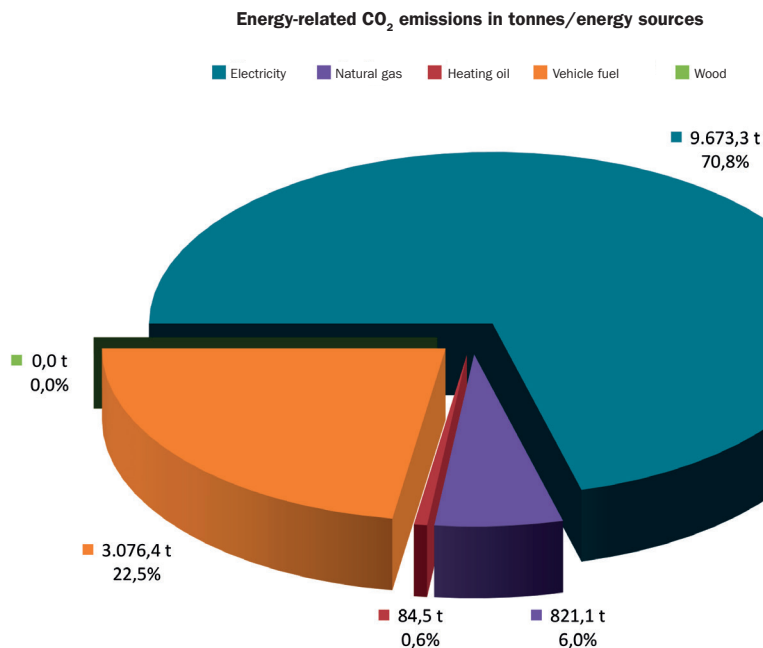
1. Energy requirements, energy sources, CO₂ pollution

The image shows the energy requirements of the years 2013 – 15, broken down by energy source.



The main energy sources are electricity, wood and vehicle fuels. The wood comes from production offcuts and constitutes a carbon-neutral energy source. This means that electricity and vehicle fuels are the main cause of CO₂.

The following image depicts the CO₂ pollution from each energy source in the atmosphere:



The main users of electricity are the sawdust suction machines (19 %), lighting in the production halls (17 %) and the air compressors (15 %). Altogether that accounts for over half of the electricity consumption.

Consumers of vehicle fuels are the HGV and car fleet.

2. Implemented measures

Since the energy management system was introduced in 2015, the volume of compressed air generated has been measured to improve internal energy awareness, and in the 4th quarter of 2015 the generation of compressed air was renewed and developed. Since then, the increased requirement for compressed air has been met whilst reducing the total electricity consumption.

Furthermore König + Neurath has been operating a solar energy plant for some time (since 2000) with an annual output of about 100 000 kWh.

3. Current measures and longer-term energy goals

By the end of 2017

- ▶ Evaluation of energy efficiency for suction equipment, as well as ventilation and air-conditioning systems
- ▶ Installation of an auto-off mechanism for the suction equipment
- ▶ Evaluation of energetic use of waste wood to power cooling processes or generate electricity, as well as third-party heating
- ▶ Development of a consumption monitoring strategy for vehicle fuel use
- ▶ Increasing employee awareness on the subject of energy

By the end of 2018

- ▶ Switchover to LED lighting in main production facilities
- ▶ Improvement of internal energy awareness by fine-tuning energy performance indicators (EnPIs), automatic calculation of EnPIs in the energy controlling system and installation of additional measuring/metering points
- ▶ Improved utilisation by reducing production downtime and ensuring that energy conversion system runtimes are needs-based.

By 2020

- ▶ Reduction in electricity consumption by 1.5 kWh per furniture unit
- ▶ Reduction in vehicle fuel consumption by 0.1 litres per 100 km
- ▶ Reduction in annual energy-related CO₂ emissions by 500 tonnes per year
- ▶ Optimisation of energetic use of left-over wood

▶ Waste products / left-over materials

2416 tonnes of waste materials were generated in 2015, the majority of which could be recycled.

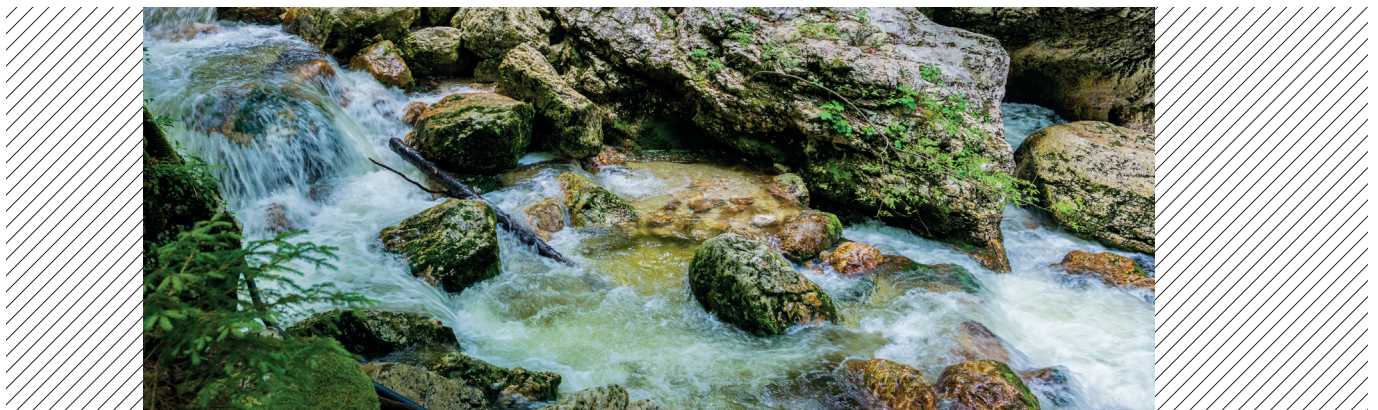
- ▶ Recycled as materials: 1088 tonnes (paper, PE film, scrap metal)
- ▶ Recycled to generate energy: 1235 tonnes (domestic waste, scrap wood, organic waste)
- ▶ Recycled to generate energy: 51 tonnes (hazardous waste for recycling)
- ▶ Waste to landfill: 42 tonnes (filter dust)

▶ Waste water

The main water consumers are the powder and paint systems, the boiler and the sanitation/service water consumers.

The waste water is discharged into the municipal sewers. Waste water from the powder-coating plant and vehicle washing facility is cleaned and monitored regularly before discharging into water treatment works. There were no issues with the waste water analysis in 2015.

The waste water from the paint plant is circulated through the system and disposed of periodically.



► **Product ecology**

1. Pollutants

In 2016 we started to submit parts of our portfolio to the pollutant inspection (TÜV/LGA) again. Seven chair ranges are currently certified according to TÜV Rheinland keywords: pollutant tested, emissions tested. This will be developed further in 2017.

2. Recycling

All furniture supplied by König + Neurath can be recycled.

The products can be dismantled with standard tools or without tools. Composite materials are not used.

All plastics are labelled as long as the part size and manufacturing process allows. This means that materials can be recycled by type and fed into appropriate recycling processes at the end of the product's service life.

Details about weight and materials are recorded in the environmental certificates for that product.

3. Packaging

König + Neurath uses its own vehicle fleet to deliver products. One advantage of this is a significant saving in packaging material – drivers are accustomed to the routine and that makes the damage rate very low.

Multi-use furniture covers and cardboard are the main packaging materials.

► **Wood from sustainable sources**

König + Neurath has a high throughput of wood and wood-based materials.

Our purchasing department has agreed with our chipboard supplier that the wood materials we buy are only to be sourced from sustainably-managed forests. This ensured that around ¾ of all purchased wood came from sustainable sources in 2016.



ANTI-CORRUPTION POLICY

Corruption is a violation of criminal law in terms of the German Penal Code (StGB).

The König + Neurath Code of Conduct regulates in detail how to avoid bribery and corruption, money-laundering and anti-trust agreements. There is a detailed König + Neurath Compliance guideline (sales) covering this subject, as well as a König + Neurath money-laundering guideline.

Since introduction of the Code of Conduct, no violations of these points have come to light. Neither have there been violations of the law, in the past or presently, which have had or will have legal consequences.



Deutschland

König + Neurath AG
Büromöbel-Systeme
Industriestraße 1–3
61184 Karben
Tel.: +49 (0)6039 483-0
Fax: +49 (0)6039 483-214
e-mail: info@koenig-neurath.de
www.koenig-neurath.de

Great Britain

K + N International
(Office Systems) Ltd
52 Britton Street
London EC1M 5UQ
Tel.: +44 (0)20 74909340
Fax: +44 (0)20 74909349
e-mail: info@koenig-neurath.co.uk
www.koenig-neurath.co.uk

Nederland

König + Neurath Nederland
Office Furniture
Beethovenstraat 530
1082 PR Amsterdam
Tel.: +31 (0)20 4109410
Fax: +31 (0)20 4109419
e-mail: info@konig-neurath.nl
www.konig-neurath.nl

France

König + Neurath AG
Showroom Paris
66, rue de la Victoire
75009 Paris
Tel.: +33 (0)1 44 63 23 93
Fax: +33 (0)1 44 63 23 97
e-mail: info@koenig-neurath.fr
www.koenig-neurath.fr

Schweiz

König + Neurath (Schweiz) GmbH
Büromöbel-Systeme
St. Gallerstrasse 106 d
CH-9032 Engelburg / St. Gallen
Tel.: +41 (0)52 770 22 42
e-mail: info@koenig-neurath.de
www.koenig-neurath.de