

Sustainability

Ekornes 2016



EKORNES®

A person is sitting on the edge of a steep, grassy cliff, looking out over a vast, hazy ocean. The sky is overcast and the water is calm. In the distance, a small coastal town is visible on a lower cliff.

CONTENTS

This is Ekornes	3
Statement from the CEO	4
Materiality and scope	5
Policy	7
Respect for humanity	9
Environment	13
Products	20
Anti-Corruption	23
Creating shared value	25

The Ekornes ASA sustainability report 2015 is the communication of progress for 2015 to the UN Global Compact. Information on market, finance, governance, etc. is found in the Ekornes ASA Annual Report 2015. See:

www.ekornes.com

THIS IS EKORNES

The Ekornes Group currently owns three furniture brands, all of which are known for comfortable quality furniture, but are operated independently, with their own supply chains. Ekornes' foremost asset and revenue source, the Stressless® brand, is known by 85 million people in North America, Europe and Asia, making Stressless® one of the world's most famous furniture brands. Ekornes also owns IMG, an international furniture brand, and Svane®, a strong brand in the Nordic market for mattresses and beds. The Group's products are sold in 43 countries through its own sales companies or importers.

Ekornes' business concept is to offer products that in terms of both price and design appeal to a broad audience. Ekornes ASA's head office is located alongside the Group's main manufacturing facility at Ikornnes in Sykkylven, on the west coast of Norway. Ekornes ASA is the parent company of the Ekornes Group. The Group's production facilities are organized according to product area: Stressless®, Svane® and IMG.

The Ekornes story began in 1934 when company founder, Jens E. Ekornes, started manufacturing furniture springs at the J.E. Ekornes Fjærfabrikk in Sykkylven. The first Stressless® recliners were launched in the Norwegian market in 1971.



EKORNES
COLLECTION

IMG
N O R W A Y



Stressless you

A SEA OF CHANGE IS COMING



The UN Sustainable Development Goals provide business a great framework to pursue the business opportunities inherent in building a greener, more equitable and inclusive society. The clue for Ekornes is to pinpoint areas to contribute to positive change within our sphere of influence. In recent years, several measures have been implemented as part of a wide-ranging efficiency improvement programme to secure the company's long-term competitiveness, profitability and sustainability.

A central element of this is a wide-ranging logistics project which has now revealed an ocean of opportunities to save money and protect the environment. Over the past 18 months, the logistics of Ekornes' entire value chain has been put under the microscope with the aim of finding opportunities for improvement and increased efficiency. A major restructuring is currently underway, with transport by sea playing an important role. This will have a great impact. A review of this kind is vital if we are to meet our customers' requirements in the future and to lessen our environmental impact.

In the future, 70 per cent of our output will go by sea, while 30 per cent will go by road. We are already underway with this change, and when the final road-to-sea solution is in place in 2017, we have the potential of reducing nearly 40 percent of CO2 emissions from transporting our products to destinations in Europe.

Improving our environmental performance and focusing on good ethical conduct in our supply chain is at the centre stage of the sustainability efforts in Ekornes.

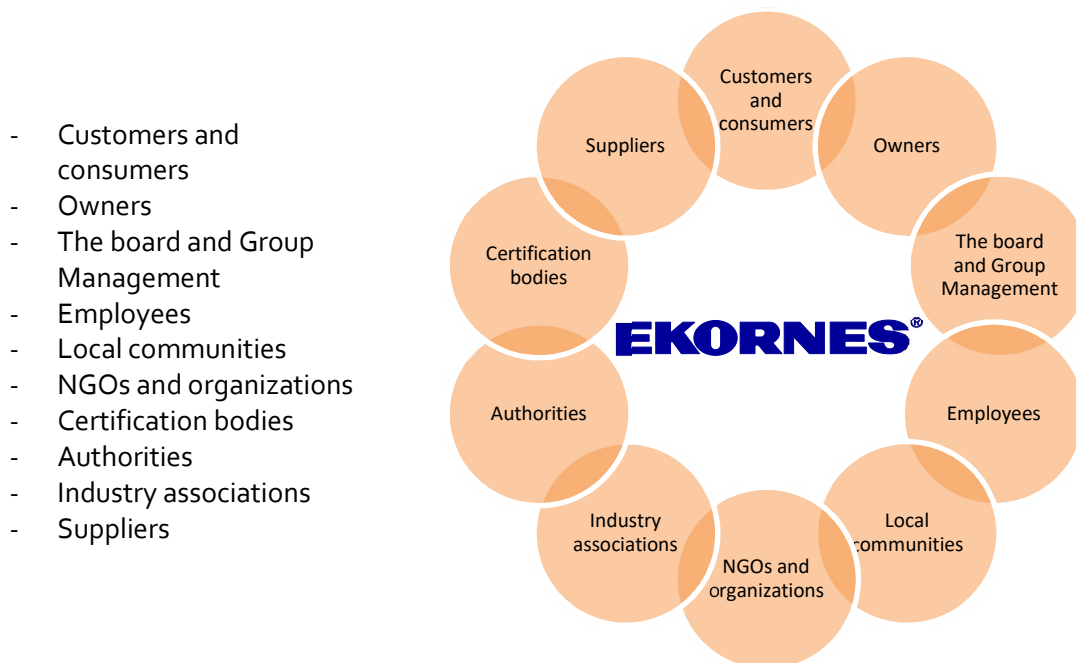
Olav Holst-Dyrnes

CEO - Ekornes ASA Group

MATERIALITY AND SCOPE

JE Ekornes has recently been in a process of assessing material issues for the organization according to the methodology in ISO 9001:2015 and ISO 14001:2015. This has been done through studying the combination of internal and external factors that are relevant to Ekornes' purpose and the ability to achieve our goals. The assessment of materiality also takes into account the basic expectations expressed in the international standards and agreements with which Ekornes is expected to comply.

A part of doing this study is to determine relevant interested parties' needs and expectations as well as compliance obligations. Ekornes interested parties – or stakeholders – are entities who have an impact on the organization or who are affected in some way by our products and actions.



The internal and external factors should be considered when evaluating the importance of information for reflecting significant economic, environmental and social impacts, or stakeholder decision making. A range of established methodologies may be used to assess the significance of impacts. In general, 'significant impacts' refer to those that are a subject of established concern for expert communities, or that have been identified using established tools such as impact assessment methodologies or life cycle assessments. Impacts that are considered important enough to require active management or engagement by the organization are likely to be considered as significant.

The assessment focuses mainly on JE. Ekornes, but is applicable to great extent to the other group companies as well. The outcome of the assessment is giving directions for what to emphasize on managing and reporting sustainability.

The assessment points out the following key focus areas for sustainability in Ekornes; Anti-corruption, Emissions, Energy use, Equality, Ethical standards, Health and safety, Impact on local communities, Product safety, compliance and sustainability, Recycling and waste and Sustainability and ethics in the supply chain. Ekornes also consider how the sustainability focus areas of the organization align with and contribute to the UN Global Compact Principles and the UN Sustainable Development Goals.

Focus area	Pages	Corresponding UNGC principles	Corresponding SDG
Anti-corruption	8,23	10	8,16
Emissions	14-15,19	7	6,12,13
Energy use	16-17	7,8	13
Equality	8, 10-12	6	5
Ethical standards	8	1-6,10	8
Health and safety	9-12	1-7	3,8
Impact on local communities	24-25	1-10	3,4,8,11,16
Product safety, compliance and sustainability	20-22	9	9,12
Recycling and waste	18	7,8	12
Sustainability and ethics in the supply chain	8, 12, 19-22	1-10	5,8,12,17

Ekornes emphasize on ensuring that the report addresses those areas where we have access to data and can influence the result. However, this does not mean that our actual corporate social responsibilities are limited to just these areas. One fundamental aspect for any company is ensuring that it generates profitability and always complies with the current laws and regulations of each country in which it operates. Embedding and control in Ekornes daily work and business processes to the selected aspects are covered on an ongoing basis in the report and in their proper context.



SUSTAINABILITY POLICY

The strategies, goals and values that apply to the company's business are set in our handbook "Objectives and Values for the Ekornes Group", being the leading star for all of Ekornes' activities. Regarding sustainability, "Objectives and Values for the Ekornes Group" states:

THE ENVIRONMENT

The objective of Ekornes is to accept environmental responsibility related to manufacturing, distribution and use of the company's products. We will continue to implement initiatives in our factories that improve the internal and external environment, at the same time as we continue to select environmentally-friendly raw materials. A sustainable manufacture of durable products will also in future be an objective in the development of our company.

The following core items shall be complied with in all parts of our activity:

- Ekornes shall appear as an environmentally-friendly enterprise. Our products shall cause the least possible impact on the environment.
- Ekornes has as its objective to keep the health risk at the workplaces at a minimum.
- Ekornes invests to avoid damage to the environment and injuries to health.
- Environmental information shall be generally available, for example through environmental Product declarations (EPD).
- Ekornes shall give objective and open information about how the company handles its environmental responsibility.

Ekornes has as its long-term objective to develop environmental issues to a competitive advantage through being ahead of our competitors also in this field.

CORPORATE CITIZENSHIP

Ekornes shall act as a responsible enterprise and operate within all relevant laws, regulations and to strict ethical standards. We subscribe to and endeavor to comply with UN's Global compact. This means that in all parts of our business activity we shall maintain high standards of:

1. Respecting and complying with UN's human rights.
2. Respecting the rights and needs of our employees.
3. Environmental responsibility.
4. Combating corruption in Norway and abroad.

Ekornes depends on the availability of labour. Through financial contributions to voluntary clubs and various local arrangements, we therefore help to create good communities in areas where we have factories.

ETHICAL STANDARDS

1. Ekornes Goals and Values, the company regulations, employment contracts and job descriptions also contain ethical rules by which the Ekornes Group abides. The rules contained in this overview should therefore not be considered exhaustive with respect to the group's ethical rules.
2. A duty of confidentiality contained in the company regulations, employment contracts or job descriptions does not prevent you from informing a superior should you become aware of breaches of regulations, legislation or rules laid down by the authorities. This also applies to internal guidelines, provisions or issues that might harm Ekornes' reputation or other parties' trust in Ekornes.
3. Ekornes shall comply with the laws, rules and regulations in the countries in which Ekornes companies have been established or in which business connections have been established.
4. In all contact with suppliers of raw materials, machinery, subsidiary materials and services of any kind, and contact with customers and other business connections, we shall aspire to honesty, integrity, openness, businesslike correctness and proper conduct. The objective is to arrive at the best offer for Ekornes
5. Ekornes or employees of Ekornes shall not be party to "bribery" or its equivalent in order to achieve special advantages or access to such.
6. Business connections such as those mentioned above shall not be provided with more information about Ekornes than they need to provide a satisfactory offer with respect to price, level of service, delivery times, technology and specifications, or what they need to exercise their business relationship with Ekornes.
7. Suppliers and business connections shall under no circumstances receive information about other suppliers and business connections via Ekornes.
8. Employees of Ekornes shall only participate in trips and events arranged by suppliers and business connections when there is a professional reason for the event/trip or it provides business related opportunities. In cases of such participation the travel and accommodation of employees of Ekornes shall always be paid by Ekornes.
9. Employees of Ekornes are not permitted to receive gifts (in the form of products, services or trips, etc) from business connections other than small items of more of an advertising nature and limited value. The same applies to private purchases of goods at discounts from suppliers to Ekornes without the approval of a superior. Individuals must also avoid ending up in dependent relationships with customers or suppliers.
10. Suppliers and business connections shall be made aware of the contents of this document and also be made aware that an attempt to contravene these ethical rules could result in exclusion.

RESPECT FOR HUMANITY

According to the Groups policy, Ekornes shall act as a responsible enterprise and operate within all relevant laws, regulations and to strict ethical standards. Ekornes clearly states, both internally and externally, that the company endeavor to live by and promote the UN's Global Compact's ten principles. This policy is presented in the "Objectives and Values for the Ekornes Group", which is available for all stakeholders. The majority of the Ekornes Groups 2146 employees are organized in various labour unions. Ekornes management has over years experienced constructive cooperation with all of the unions through continuous dialogue and regular meetings. Negotiation committees are established to represent the employees in yearly local wage negotiations. There is a long tradition in Ekornes to maintain good dialogue between management and labour unions. Ekornes strongly believe that respecting labour rights is an important factor in the work to reduce sickness absence, and increase effectiveness and profitability. Employees are also represented in the board of Ekornes' production companies as well as in the parent company. These representatives hold the same rights as members chosen by the shareholders.

Ekornes endeavors to continuously maintain and further develop an open corporate culture. Employees are encouraged to alert about critical issues on all levels. Ekornes also collaborates with external partners for the whistle blowing programme. This enables employees to raise their concerns through other channels than management if needed. Ekornes labour policies are available through personnel handbooks and all employees have a detailed job description and contract which clearly states the employee's duties and rights. IMG facilities in Asia also supply these as well as safety documentation in multiple languages when needed. Day-to-day responsibility for Health, Environment and Safety lies with managers at the local units. In addition, the different manufacturing companies have appointed dedicated HSE staffs, who are responsible for coordinating HSE activities at their facilities.

A considerable part of the yearly investments is allocated to activities which improve health and safety of the employees. Several straining work stations have been re-designed through investment in technology to ease the work of the operators. Ekornes focus on using LEAN methodology as a mean for optimizing processes in production through utilizing the talents of each individual worker. The individual worker is empowered to initiate improvement initiatives in their own workplace. Such empowerment increase job satisfaction and loyalty and is aligned with one of the core principles of LEAN which is respecting humanity. There are hundreds of big and small improvements documented through working with LEAN. In 2016 the factory management of JE. Ekornes AS introduced the *improvement of the week award*. The purpose of the award is to further raise the focus on doing improvement work and give credit for the great efforts that are done.



One of the indicators which evaluate the well-being of the employees is the company's sickness absence rate. The Group had an overall sickness absence rate of 3.8 per cent in 2016. This is an increase of 0.4 percentage points compared with 2015. Long-term sickness absence (over 16 days) accounted for the bulk of the sickness absence recorded. Management at the individual factories continued to take action to reduce the sickness absence rate in 2016, eg through occupational rehabilitation committees and individual follow-up. Sickness absence at the company's production facilities in Thailand and Vietnam is less than 1 per cent. The supervisory authorities perform annual audits of the working environment at the plants in Asia. Both plants meet relevant statutory and regulatory requirements. As part of the improvement work being done at the plants, an annual health check of all employees is now carried out. In addition, a staff nurse has joined the workforce in Thailand.

Ekornes has entered into an Inclusive Working Life (IA) agreement for the period 2014-2018 with the Norwegian Labour and Welfare Administration's (NAV) Working Life Centre in Møre og Romsdal. The agreement covers the plants in Sykkylven and the Grodås plants in Hornindal. The IA scheme derives from an agreement to promote a more inclusive working life which was entered into by organizations representing Norwegian employers, employees and the government. The objective is to make it possible for everyone, who is willing and able, to work. Companies who enter an agreement NAV become IA companies, with access to special services and provisions.



Ekornes aims to achieve zero work-related injuries through the year. In the Group as a whole, a total of 17 lost-time injuries occurred in 2016. This is eight less than in 2015. The H1 value (number of lost-time injuries per million hours worked) for the Group came to 4.1, compared with 5.7 in 2015. Specific measures have been implemented to address the causes of this year's H1 injuries, in addition, a long-term improvement programme focusing primarily on awareness and attitudes. This applies to all the Group's factories.

Number of employees

2146

Absence rate

3.8%

Lost-time injuries

17

H1 value

4.1

Equality

Ekornes places great emphasis on meeting the objective of the Anti-Discrimination Act and the Anti-Discrimination and Accessibility Act. Through physical access and the formation of work tasks, working hours and workplaces, the company has made arrangements to enable people with disabilities to enjoy equal treatment and provide individual adaptation. Providing individual adaptation is also contributing to lower absence rates. One way of providing individual adaptation is through the *Green working stations*. Green working stations provide jobs not involving strenuous labour



Although women account for 43 per cent of the workforce, the clear majority of those at management level are men. Efforts to promote gender equality will be on Ekornes' agenda in 2017.

Employees, Norway	no. of employees	% women	% men	managers	% women managers	% men managers
Ekornes ASA	81	33 %	67 %	15	20 %	80 %
J.E. Ekornes AS	1053	45 %	55 %	34	15 %	85 %
Ekornes Contract AS	8	38 %	63 %	2	0 %	100 %
Ekornes Skandinavia AS	5	20 %	80 %	1	0 %	100 %
Ekornes Beds AS	85	27 %	73 %	10	30 %	70 %
IMG Group AS	8	13 %	88 %	3	33 %	67 %
IMG Skandinavia AS	7	57 %	43 %	1	100 %	0 %
Board members						
Ekornes ASA*		37,5 %	62,5 %			

*Among shareholders representatives are 40 % women and 60 % men.

Addressing Human Rights and Labour conditions in the supply chain

Ekornes' operations rely on suppliers of raw material and distributors from all over the world. This means that the company has to face different cultures and legislations for business operations in different regions, which can be challenging. Towards our business partners, Ekornes makes clear through the *Ekornes Supplier Code of Conduct* what the company expects.

The Code of Conduct uses the UN Global Compact principles as an overarching framework together with internationally acclaimed conventions and norms which are embodied in national laws and regulations. Regarding human rights and labour, the Ekornes Supplier Code of Conduct sets expectations regarding:

- | | |
|--|-----------------------------------|
| - Freedom of Association & Collective Bargaining | - Regular Employment |
| - Health & Safety | - Forced labour |
| - Living wage / minimum wage | - Discrimination |
| - Working hours | - Discipline / Inhumane treatment |
| | - Child labour and young workers |

As stated in the Ekornes Ethical Standards suppliers who contravene the ethical standards and do not wish to cooperate on improving could result in exclusion.

Ekornes issued in 2016 an electronic survey to all direct material suppliers. The survey, called Ekornes Supplier Principles lists a range of expectations and requirements Ekornes have to suppliers. Agreeing in the Supplier Principles is a statement that the suppliers will work towards progress within the areas covered by Code of Conduct. Ekornes have already achieved over 50% response rate of completed surveys. Experience from the 2016 round of surveys will be used to improve response rate and quality of responses. Answers from the survey are used as input for risk assessment of the supply chain. In order to manage risk Ekornes conducts numerous supplier visits and audits. Audits are done both by Ekornes' own audit team and 2nd party certified auditors. Findings from audits are reported to Ekornes who further do the follow-up of any non-conformities. The same case handling is made for observations made in supplier visits made by the purchasing group.



ENVIRONMENT

Environmental aspects

The Ekornes *Objectives and Values* document outline the guiding principles for the entire group.

J.E. Ekornes AS, the largest furniture production company in the Group, is certified to ISO 9001:2008 and ISO 14001:2004. One of the key activities towards preparing Ekornes for ISO 14001 certification was mapping environmental aspects connected to producing furniture. An organization is required to identify the environmental interactions of its activities, products, and services (i.e., processes or tasks) and to determine the actual and/or potential impacts of those aspects on the environment. When considering the actual or potential severity of the impacts, as well as the legal and other requirements that govern the aspects, organizations will identify certain aspects as being significant environmental aspects and set objectives to achieve a certain level of performance associated with them.

In order to adhere to the ISO 9001 and 14001 standards, workshops were held in all manufacturing divisions of JE. Ekornes AS with aim to assess which are the significant environmental aspects. The outcome of this work formed the basis for the environmental policy and objectives. Although JE. Ekornes AS have had focus on the environment for long, this has been an exercise providing much learning and a broadened understanding of our environmental impacts. In General - the key areas of significant environmental aspects for JE Ekornes AS are:

- Environmental impacts attended with material and components going in to production
- Avoiding emissions to water and controlling emission to air from factories
- Energy use in production
- Waste from production
- Product safety and compliance
- Emissions from transport

This is also reflected in the environmental objectives for Ekornes which were updated in 2016:

Ekornes' factories in Norway shall reduce waste not being utilized as bi-products or recycled with 20% by 2020.

Ekornes shall prevent any unwanted discharge to water from production.

Ekornes shall not use any fossil oil for heating its Norwegian factories by 2020.

Ekornes shall reduce electricity use in its Norwegian factories with 10% by 2020.

Ekornes shall reduce its green-house gas emissions from its own activities (scope 1 and 2) with 10% by 2020.

Environmental impacts attended with material and components going in to production

Environmental practice is a part of the Ekornes culture and encourages “More with less” through the whole value chain. Based on life-cycle considerations Ekornes acknowledge that extraction, refining and transportation of raw materials for production of components going in to our products represent the largest impact on the environment. Since Ekornes only has indirect influence on these processes, we take responsibility by continuously improving the efficiency on in-house processes with means to maximize utilization of raw materials and other resources.

Avoiding emissions to water and controlling emission to air from factories

Ekornes has facilities to produce foamed plastic at J.E. Ekornes AS's Ikorntnes plant and at Ekornes Beds AS. Isocyanates, which are hazardous to health, are used in the production of foamed plastic. The facilities have the capacity to store over 100 tonnes, and are therefore subject to major accident regulations. Safety reports have been prepared at both sites. These are regularly updated and submitted to the authorities in accordance with the major accident regulations. Every factory has an established industrial safety organization. Emergency response plans are drawn up by the factories, and all carry out the necessary training and exercises. All the Norwegian factories have their own industrial safety/emergency response organizations. The regulatory authorities perform annual inspections of both plants, and both meet existing environmental regulations.



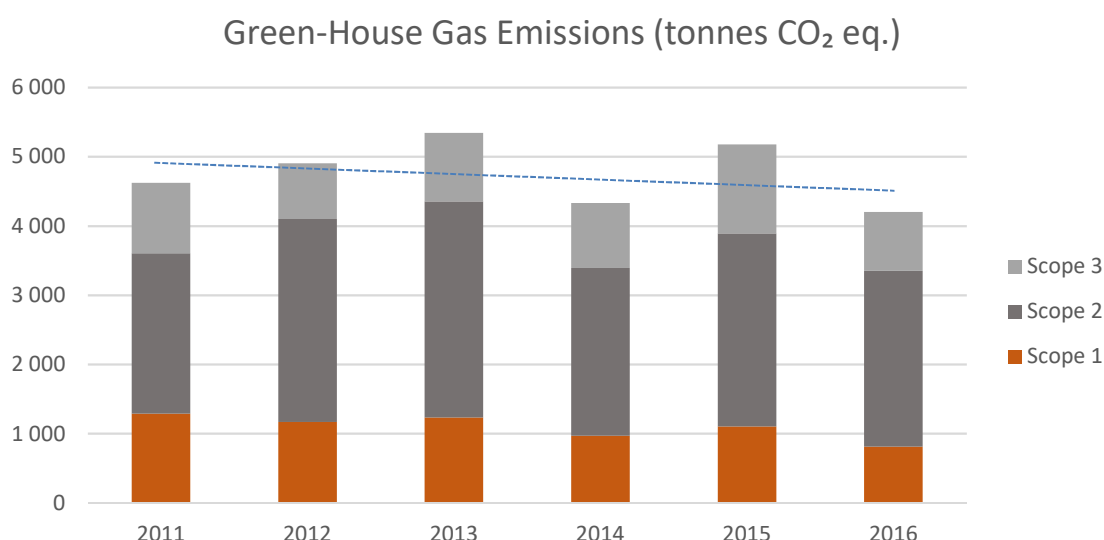
Ekornes' Industrial Safety Organization even includes its own fire brigade

Direct emissions to air from the manufacturing process are primarily generated by oil and solid fuel boilers. Wood chips from the production surplus is the main energy source for heating the Tynes, Grodås, Aure and Ikorntnes plants. The emissions from burning wood chips are mainly CO₂, CO, NO_x and particles. An extensive analysis of the environmental impacts from emissions of Ekornes' woodchip boilers in Sykkylven was made in 2016. Ekornes has planned substantial activities for improving the boilers at all facilities in order to increase the utilization of wood chips as well as making the logistics around this process more efficient. In 2016 a new boiler was installed at the J.E. Ekornes Beds plant. The new combination boiler is rigged to meet the demands of being fossil oil free for heating purposes in Norway by 2020. The new boiler at Ekornes Beds can utilize liquefied petroleum gas and will provide considerable reductions in green-house gas emissions as Ekornes Beds was the last factory to utilize light fuel oil as a primary source for heating.

Ekornes was in 2015 recommended by Møre og Romsdal county to apply for emissions permits for the woodchip boilers in the Tynes and Aure plants in Sykkylven. Application for permits was sent in 2016. Ekornes are awaiting reply from authorities.

Each year Ekornes reports the Group's greenhouse gas emission figures to CDP. The greenhouse gas breakdown is based on the guidelines set out in the ISO 14064-3 standard and the Greenhouse Gas Protocol, and covers Scope 1, 2 and 3. Scope 1 includes greenhouse gas emissions directly to air as a result of production processes and vehicle transport, while Scope 2 includes greenhouse gas emissions deriving from electricity consumption. Scope 3 also includes greenhouse gas emissions from air travel and waste.

For 2016 the Green-House gas emissions for the Ekornes Group totaled at 4199,6 tonnes CO₂-Equivalents. This is a considerable reduction compared to 2015 and is a continuation of declining trend the last few years. The reported emissions do not cover emissions from the upstream value-chain of Ekornes as well as downstream activities like transport to consumers. Life Cycle Assessments of Ekornes products have in the past shown that approximately 10-20% of green-house gas emissions come from what is reported that the current green-house gas reporting account for.



Further detail on greenhouse gas accounting for the Ekornes group is found on the CDP webpages:

www.cdp.net

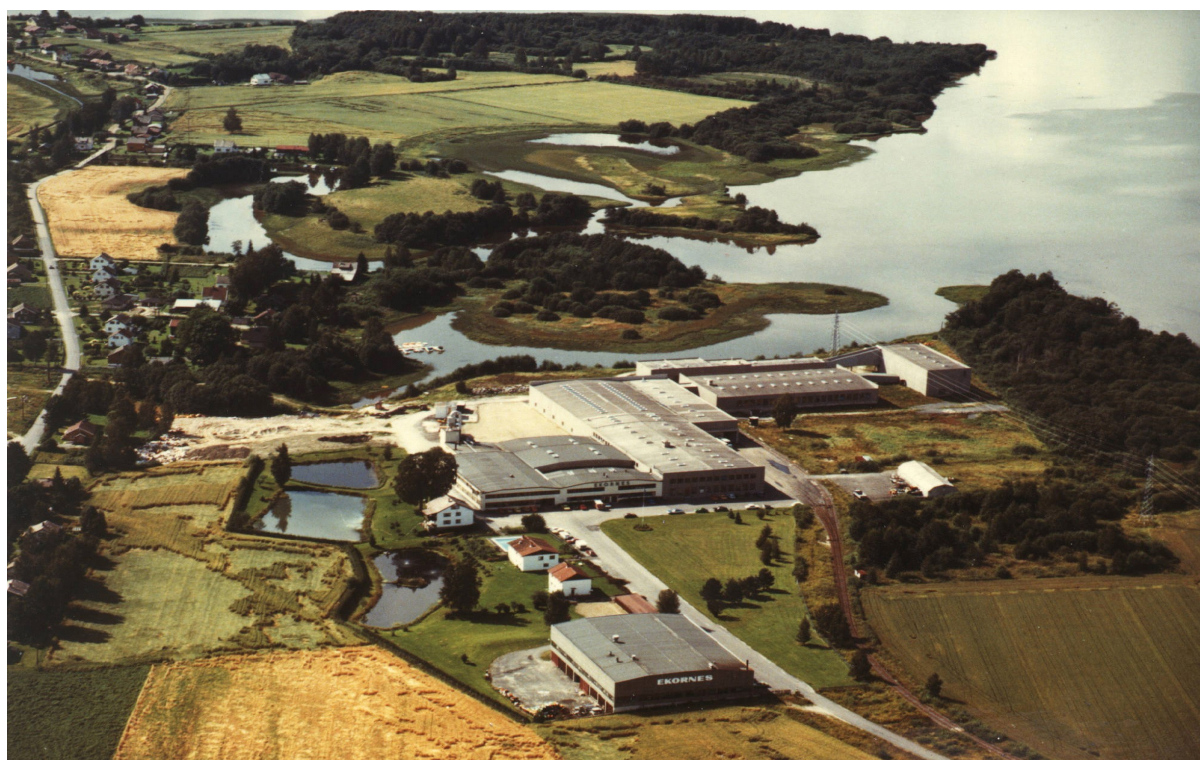
GHG emission Tonnes CO ₂ EQ.	Direct emissions SCOPE 1	Energy SCOPE 2	Waste/business travel SCOPE 3
4199	812	2539	848

Energy use in production

Ekornes uses mainly bioenergy to heat its manufacturing facilities. Wood chips from its own waste are the main energy source for heating Ekornes' Tynes, Grodås, Aure and Ikorntes plants. The Ikorntes and Tynes plants also use heat pumps for heating. The four plants located in northwest Norway consider oil an alternative energy source, which is used only in exceptional cases on the coldest days. The objective is to phase out oil use by 2020. The Fetsund plant uses wood chips, electricity and oil for heating. The factories in the USA, Thailand and Vietnam are less affected by the climate and therefore use the bulk of their energy consumption to operate their machinery.

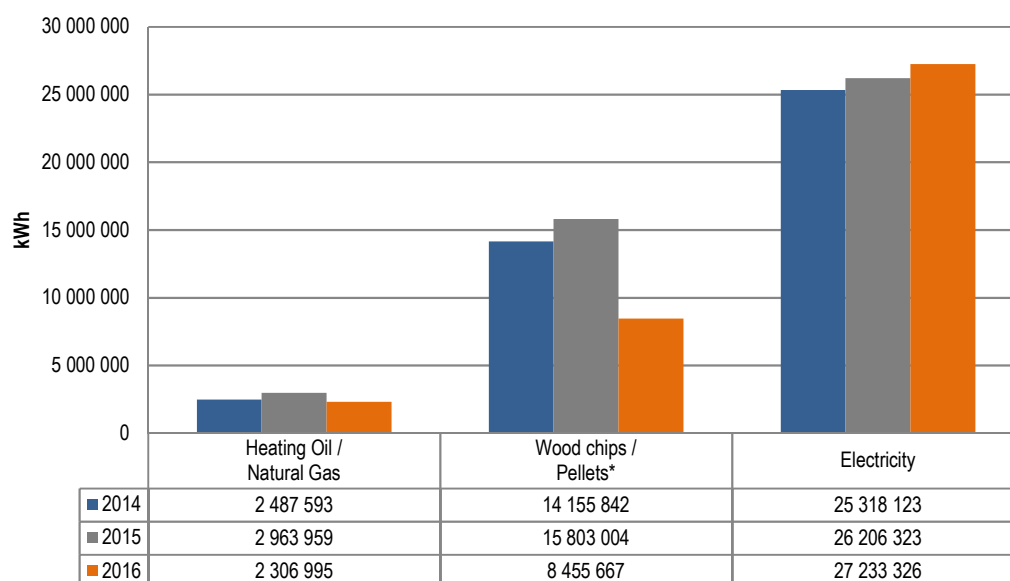
Ekornes Beds initiated a project in 2016 with aim to convert to liquefied petroleum gas (LPG) instead of oil. Converting from oil to LPG is estimated to save nearly 1 million NOK and 96 tonnes of CO₂ emissions per year compared to 2015 numbers. The next big energy project for Ekornes is to invest in new technology at the Ikorntes facility for wood chip incineration. The new woodchip boiler will be easier to manage with regards to emissions. The waterborne energy distribution system within the factory will also be altered resulting in more energy flexibility and less dependence on fossil fuel oil for heating.

J.E. Ekornes AS aims to reduce its own electricity consumption to 50 kWh per seat unit produced by 2020. All the Norwegian factories reduced their electricity consumption in 2015. The aggregate reduction was 6 per cent compared with 2014. This is not shown in the table below, since it is a compilation of the Ekornes Group's overall energy consumption, which – with effect from 2015 – also includes IMG's factories, whose combined energy consumption came to 2.18 GWh. Electricity consumption in the US was considerably higher in 2015, which also contributes to the increase shown below. On the other hand, use of natural gas has been substantially reduced.



Great efforts have been made to increase energy efficiency and reduce green-house gas emissions from the Ekornes Beds factory.

Energy consumption [kWh] – Ekornes ASA



*Bio-Energy produced at the Grodås and Tynes plants were prior to 2016 theoretically estimated. Measured values from 2016.

Ekornes have the majority of its production units in Norway, where hydro power accounts for 95% of electricity generation. Although this is clean, renewable power, reducing electricity use is one of Ekornes main environmental objectives. In recent years we have not succeeded in reducing electricity use, so more focus on energy management will be prioritized in 2017. Ekornes is participating in the Tafjord Energi Arena network. Through the network – Ekornes learn from the experiences of other manufacturers in the Sykkylven area. Training on energy management theory based on the principles of ISO 50001 is also a part of this network. Ekornes will in 2017 make an assessment on whether to implement principles from this standard to improve the work on energy management.



Total energy use 2016
[1000 kWh]

37.845

Portion of energy
from residue wood

22%

Portion of energy
from fossil fuels

6%

Portion of energy
from electricity

72%

Waste from production

Ekornes sorts all its waste at source in accordance with applicable regulations and in such a way that the bulk of the waste is recycled or used for energy recovery. Ekornes wishes to use as much as possible of its waste for heat production or as raw materials for its own production. J.E. Ekornes AS aims to reduce the proportion of waste that cannot be reused at the plants or recycled from around 2 kg per seat unit in 2015 to 1.5 kg by 2020. In order to achieve these goals the total amount of waste needs to be reduced as well as the percentage of waste being recycled needs to be increased. Many of the improvement projects initiated through LEAN work have resulted in less amounts of waste.

By-products that can be exploited by the factories include offcuts and woodchips from the production of wooden components, which are an important energy source for Ekornes. Another example of resources that are recycled straight back into the production cycle are offcuts of foamed plastic or fibre, which are collected, shredded and remolded. In 2015, 182 tonnes of foamed plastic, offcuts or gel were recycled in this way. In addition to using offcuts from production at its own factories, Ekornes generates by-products that are a valuable raw material for other enterprises. Hides are a valuable raw material, which Ekornes and IMG work hard to make maximum use of. Any leather offcuts which still cannot be used for furniture production are collected and sold to producers of small articles. The table below shows a summary of the waste statistics for the Group's plants in Norway and the USA.

Waste disposal 2016 [tonnes] – Ekornes ASA, ex. IMG

	Ikorntnes	Tynes	Aure	Grodås	Hareid	Morganton	Fetsund	Total NO & US	%
Landfilled	9,5					70,5		80,0	1,6
Mixed residual waste to energy recovery	217,9	142,7	26,3	157,1	16,6		149,8	710,4	13,8
Wood for incineration in- house/externally	1029,3	844,3	212,2	568,7	0,6		250,1	2905,2	56,5
Recycled material	944,1	49,9	6,7	3,6	7,5	60,5	253,4	1325,7	25,8
Special hazardous /electrical waste	107,1	*	*	5,9	0,5		4,7	118,2	2,3
Total quantity waste	2305,5	1036,9	247,7	735,6	25,1	130,9	658,1	5139,5	100,0

*Waste included in statistics for the Ikorntnes factory

Waste (NO&US) 2016
[Tonnes]

5139,5

Landfill / waste-to-
energy / HazWaste

18%

Energy recovery at
Ekornes' own plants

56%

Re-used or recycled

26%

Emissions from transport

During 2016, the logistics of Ekornes' entire value chain has been put under the microscope with the aim of finding opportunities for improvement and increased efficiency. A major restructuring is currently underway, with transport by sea playing an important role. It is predicted that this major undertaking will have a huge environmental impact.

This will be achieved through a thorough review of every aspect of Ekornes' logistics – road transport, sea transport, external warehousing, tracking and reporting. The quayside at the Ikornnes facility represents a major investment with unexploited potential. That is all going to change as Ekornes has decided that, in future, 70 per cent of the products will go by sea, while 30 per cent will go by road. In addition to increasing the use of transport by sea, there will be fewer external warehouses and subcontractors. In the longer term, this will cut time spent on administration and increase the focus on development, quality, cost-effectiveness and the environment. Ekornes is already underway with this change, and when final road-to-sea solution is in place in 2017, the cost of transporting products to destinations in Europe will be halved while greenhouse gas emissions potentially will be reduced by 40%. The logistics project is truly the environmental hallmark project

A more detailed study of the environmental benefits of the logistics restructuring will be put under further scrutiny through the research project Manufacturing Network 4.0 by master students at Molde University College.



Stian Østrem is the project manager for the logistics project

Other means of transport being measured is air-mileage and car mileage allowance from business travels. Air travel contributed in 2016 to 322 tonnes CO₂ emissions. This is a major reduction compared to recent years and may indicate that investments and efforts made to better enable employees to communicate through virtual meetings and video conference is starting to have effect.

PRODUCT SAFETY, COMPLIANCE AND SUSTAINABILITY

Ekornes have chosen to follow mobelfakta.no's requirements for strength, stability and security (www.mobelfakta.no). Through membership in mobelfakta.no Ekornes commits itself to environment and quality certified production and environment and quality certification of the products according to current requirements and criteria in mobelfakta.no. Quality Certification of furniture requires extensive quality testing by an accredited furniture testing laboratory according to current specifications in accordance with international standards - usually European Standards (EN standards). The longevity of Ekornes' products is one of the key environmental benefits. Long lasting products both quality- and design wise are longer in use and therefore omit the need for new products in to the economy. Ekornes products have a good second-hand value which help to prolong the life of the furniture. To further align with the principles of circular economy, Ekornes attends the EUROPUR Circular Economy Group.

The furniture is tested by the following criteria:

- Strength and durability, function
- Stability and security, risk
- Material quality (wood, textiles, leather)
- Surface treatment
- Fire resistance

All new products will be tested as described in the paragraph above at accredited laboratories. Ekornes also have the equipment to do testing internally prior to official testing. This is done both in product development and for reception of critical goods like e.g. leather. Because of Ekornes' development philosophy with platform-based products and components that makes new products largely composed of existing components and raw materials, this job is greatly simplified. Quality requirements in the various commodity and component categories is a work that is done in interdisciplinary collaboration with manufacturing and purchasing.



Ekornes continuously make efforts to substitute chemicals needed to produce our furniture. Searching for better options requires skill and experience together with cooperation with our suppliers. Ekornes focus efforts on the areas where the impacts of improvements are greatest. In the furniture industry this is largely linked to the production of polyurethane foam, surface coatings and adhesives as well as leather and fabrics. Ekornes strives continuously to reduce its use of chemicals and promote environment-friendly solutions. Among other things, Ekornes has contributed to the development of a new environment-friendly adhesive to produce laminated wood and all J.E. Ekornes' surface coatings facilities now use water-based products. Where necessary, Ekornes has made use of independent expertise to monitor requirements and set the standards needed to ensure compliance

Foam and fiber

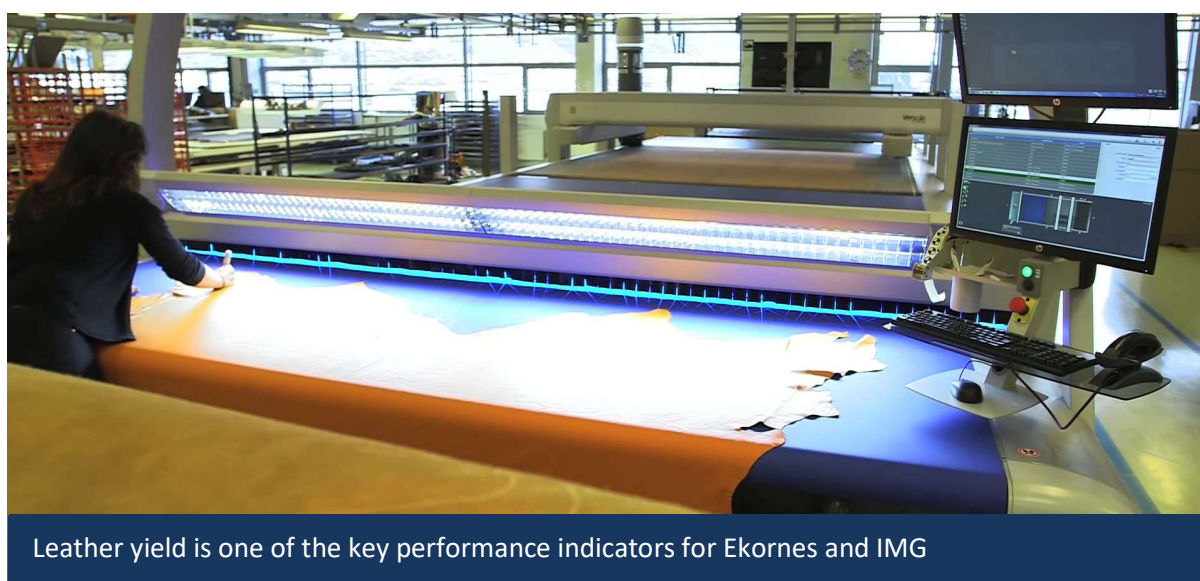
Ekornes has the benefit of producing its own polyurethane foam. This provides Ekornes with first-hand knowledge of the challenges of foam-making as well as full control on what is added in the foam. Ekornes foam is free from halogenated flame-retardants, organotin components or organic solvent based release agents and glue. Ekornes and IMG also re-use foam trimmings to make rebonded foam. In order to grasp the developments in the profession of foam-making Ekornes participate at many arenas to gain knowledge on how to go forward. Ekornes also produce its own polyester fiber at the facility in Fetsund. Ekornes will in 2017 continue to improve the chemical characteristics of the foam.

Leather and fabric

The Ekornes Group is one of Europe's largest consumers of leather. Leather is purchased from selected tanneries all over the world. The leather is manufactured according to current laws, guidelines and recommendations relating to their utilisation properties, and for the use and content of chemicals and other substances. Ekornes are cooperating with recognised international institutions in this line of business to ensure that the leather and leather processing is compliant at all times with events relating to health, safety and the environment. Ekornes also provide to our customers a broad assortment of environmentally certified fabrics.

Leather and fabric are some of the key drivers of the products' life cycle environmental impact. Ekornes are always looking for ways to optimize its use. An improvement of only 1% of leather yield can translate into considerable cost- and environmental impact reductions. Ekornes have invested considerably in recent years in automated leather and fabric cutting in order to generate savings at every stage in the cutting process. The residue trims are not wasted, but collected and sold to manufacturers of small leather goods.

In 2016 a leather sustainability project was launched in Ekornes. The aim of the project is to increase knowledge internally i Ekornes on the environmental impacts of associated with leather. The project will also gain insight from reputed institutions and the industry to set new standards for chemical management, animal welfare, deforestation and other leather supply chain sustainability matters. The project is thought to be completed by the end of 2017.



Leather yield is one of the key performance indicators for Ekornes and IMG

Wood and coating

Millions of sheets of European beech veneer arrive at the Ekornes Tynes factory each year. At IMGs partners for laminate wood making, the same does veneer from rubber wood trees that have past their service life for making natural rubber. In this way, as the way is cleared for new trees at the plantations, the old ones do not go to waste. Ekornes require its suppliers of wood to prove documentation of the origin and legality of wood. The Ekornes Group supply chain and sourcing team set the standard for suppliers and follow up regularly by contact, visits, risk-assessment and audits. The requirements for suppliers and routines for follow-up were updated in 2016. Further improvements are already under way in 2017.

Another important environmental and compliance aspect is the emission characteristics from composite wood products, coating and adhesives. JE. Ekornes only use water based stains and varnish, which are applied automatically in closed cells by robots. This provides a healthy working environment for the employees. In 2016 a new type of stain was introduced which reduced the level of heavy metal based color pigments down to levels far below the thresholds that are required by standards and regulation. The aim is to provide totally heavy-metal pigment free stains, and the solution is close. This work continues in 2017. Other plans for 2017 include testing a new glue for beech laminate making at Ekornes Tynes with even more reduced levels of free formaldehyde. Improvement plans for reducing excess glue in the lamination process is also underway. Ekornes is also in the process of aligning its composite wood supply chain towards the forthcoming changes in the federal US standards for formaldehyde.

Steel and sourced components

At the steel processing department at JE. Ekornes AS there is a wide range of highly automated operations. Steel pipes, coil and wire are converted to frames, components and springs. This involves cutting, stamping, bending and welding of hundreds of different types of components. The majority of welding/soldering operations are automated and take place in closed, ventilated welding cells.

Steel components to which epoxy resin is to be applied are degreased biologically in a closed loop system. When the processing water needs to be changed once or twice per year, it is delivered to special waste handlers who ensure the water is treated according to regulations. The steel department at JE. Ekornes did in 2016 introduce measurement and KPIs to track the number of production errors in order to monitor the effectivity of improvement work aiming to improve the steel yield.



Ekornes use polished cast aluminum for the Signature- and Star Base. The main outer frame of the Star Base chairs is subjected to galvanic surface treatment in order to withstand the strains from the Glide system. Our partner for galvanic surface treatment is locally based and utilize a modern closed loop process, ensuring zero emissions to water. Setting standards for emissions and a respectful, safe and healthy working environment is part of the dialogue Ekornes have with its suppliers of sourced components. Suppliers are followed up by the Supply Chain and Sourcing team as mentioned earlier through several different means of activities.

ANTI-CORRUPTION

Ekornes has zero-tolerance for corruption, bribery and extortion. The top management team has continuous focus on risk of corruption and continuously work to promote transparency in daily operations. The anti-corruption policy is clearly stated in the Ekornes Ethical Standards and made known to all employees and business partners. Supplementary to this – Ekornes has a policy for transparency in economic transactions:

Ekornes requires transparency in all operations. All Ekornes entities shall therefore ensure that transactions are correctly registered and supported by proper documentation in accordance with local and international accounting principles. Anti-corruption law requires that Ekornes has in place effective internal accounting controls and maintains books and records that accurately reflect the companies' transactions. All entities within the Group must correctly account for income and expenditures, and must ensure that payments are not recorded falsely in company books.

All expenses shall be approved under standard company procedures, documented and recorded in accordance with appropriate accounting standards.

Ekornes' main operations (manufacturing, head office, purchasing) are mostly located in Norway. The Norwegian business culture both contribute to a relatively low exposure to risk of corruption. Ekornes does business through sales and sourcing channels in parts of the world where the risk of corruption and bribery is more present, but expects the same standards wherever the activity is located. Therefore, the Ekornes Ethical Standard is provided to all employees all over the world as well as being made available in the personnel handbook. The Ekornes Ethical Standard contains an overview of ethical rules related to corruption. Other documents like "Ekornes Objectives and Values", company regulations, whistle blowing programme, employment contracts and job descriptions also contain ethical rules. A duty of confidentiality contained in the company regulations, employment contracts or job descriptions does not prevent employees from informing about breaches of regulations, legislation or rules laid down by the authorities. This also applies to internal guidelines, provisions or issues that might harm Ekornes' reputation or other parties' trust in Ekornes. Suppliers are made aware of Ekornes Ethical Standards through the Ekornes Supplier Code of Conduct. All suppliers and business partners are made aware of the contents of the Ekornes Ethical Standard and are also informed that an attempt to contravene these ethical rules could result in exclusion. The Ekornes Supplier Code of Conduct clearly state:

The suppliers shall have established and follow anti-corruption guidelines to prevent the occurrence of bribery and corruption.

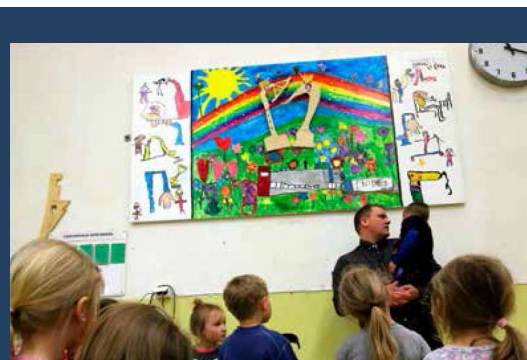
Employees (including managers) shall not directly or indirectly offer, promise, demand, require or accept illegal or unlawful monetary gifts or other forms of compensation in order to gain commercial advantages or benefits except from gifts or benefits of insignificant values.

Ekornes will in 2017 look in to implement methodology from ISO 37001:2016 in managing anti-corruption.

CREATING SHARED VALUE

Ekornes has a long tradition of contributing to the local communities in which it has established operations. Ekornes depends on having a qualified labour force at all its manufacturing plants, and the company's involvement in the local community contributes to an enjoyable working environment for the staff – creating shared value.

The company has therefore elected to make financial provisions for measures benefiting the local communities in which it is represented. Efforts are made to allocate the funds such that a variety of interests are supported. A fair share of this goes to sport activities for children like the Ekornes Cup, gathering about 500 young football enthusiasts every year.



Factory Manager at Ekornes Grodås, Knut Ove Rygg, thanking the kids at Hornindal pre-school for this fantastic picture of the factory, robots and its employees.

In 2016 Ekornes employees waived the traditional Christmas gift to the local divisions of The Red Cross foundation and selected local organizations focusing on promoting out-door activities and good health.



Ekornes also takes part in numerous collaborative initiatives in the local industry – sharing knowledge and experience. A viable and innovative industry in our local community is key for Ekornes to maintain the access to highly qualified workers.

Supporting talent

Ekornes places a high priority on vocational training, which is well entrenched in all parts of the company. Collaboration with lower and upper secondary schools as well as institutions for higher education and various training offices provides positive benefits to both local communities and the company. Ekornes has apprentices within 7 – 8 different special fields every year and a number of students do their Bachelor- or Master thesis with Ekornes as case company. In 2016 thirteen apprentices received their diploma for completed vocational training in Ekornes.



Ekornes apprentice Vinjar Vederhus (on the right) and Espen Godø from Nordvest Miljø AS won the gold medal for automation at the WorldSkills Norwegian championship.

Robot partnership with Sykkylven High School

Ekornes considers part of its corporate social responsibility to contribute to educating local youngsters and creating local jobs as a way of shaping the future. The vocational high-school of Sykkylven has since 2006 been supplied with an industry robot by Ekornes for educational use. Training takes place both in the company and at the school: vocational teachers are trained and undertake internships at Ekornes to increase their breadth of knowledge and sharpen their skills. On the other hand, Ekornes employees also take courses at the school. School students are tours of the plants and training in a variety of topics.



Ekornes aim to also in the future be an important actor in the communities where the company's operations are located. Ekornes will keep to focus specially on initiatives for children and young people.

EKORNES SUSTAINABILITY MILESTONES THE LAST 25 YEARS

- 2015**
- JE. Ekornes AS factories ISO 9001:2008 and ISO 14001:2004 certified
 - Production of block-moulded foam without halogenated flame retardants
- 2010**
- All Ekornes coatings facilities converted to use of water-based products
 - Ekornes joined the UN Global Compact
 - Production of wood laminates with the same formaldehyde content as natural wood. According to CARB (California Air Resources Board)
- 2005**
- Textiles free of halogenated flame retardants
 - Svane® mattresses obtain Nordic Ecolabel certification
 - Polyurethane foam waste recycled into new moulded products
 - Installation of seawater heat pumps to heat factories
- 2000**
- Polyurethane foam production in modern, safer facilities separate from other manufacturing processes
 - Closure of galvanizing unit with license for chrome emissions
 - Use of methylene chloride in the production of polyurethane foam blocks discontinued
- 1995**
- PVC-free furniture
 - Switch from the use of chlorinated solvents to degrease steel components to a biological, water-based solution in a sealed system
 - Moulded polyurethane foam without halogenated flame retardants
- 1990**
- Use of CFC gases for polyurethane foam production discontinued

“ A sustainable manufacture of durable products will also in the future be an objective in the development of our company ”

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