



COMMUNICATION ON
PROGRESS REPORT



COP 2018

CONTINUED SUPPORT FOR THE UN GLOBAL COMPACT FROM SPROUT CEO, SIDSEL LUNTANG RASMUSSEN

May 28, 2018

Dear Stakeholder,

I am pleased to confirm that Sprout hereby reaffirms its support for the Ten Principles of United Nations Global Compact in the areas of Human Rights, Labor, Environment and Anti-Corruption.

As a company that is passionate about the global environment, we proudly continue to strive to improve the integration of the Global Compact program and its principles into our business strategy, culture and daily operations. We also commit to sharing this information with our stakeholders, using our primary channels of communication.

At Sprout, we are on an exciting journey, and we hope to engage the world in our mission through everyday activism. We hope to inspire each other to a greener consumer practice.

It is our business goal to make sustainability fun and easy-to-understand, both for adults, kids and businesses. If we all make small changes in our everyday lives; together, we can have a huge positive impact on our global environment and make our Earth a great green place for many generations to come.

By planting a Sprout pencil instead of discarding it, you make sustainability visible to others. This is the idea behind the Sprout pencil.

Yours Sincerely,



Sidsel Lundtang Rasmussen
CEO at Sprout



INTRODUCTION: BORN IN THE U.S. AND RAISED IN DENMARK

"People love pencils. They love them. It's partly childhood nostalgia, partly how a craftsman comes to care for her tools, and partly the tactile experience. It's also a blend of appreciation for both their aesthetic and functional qualities, and (especially these days, but not only these days), a soupçon of the disruptive passion that comes from willfully embracing what poses as the technologically obsolete". <https://kottke.org/13/08/loving-pencils>

A SMALL PENCIL WITH A BIG IDEA

The original plantable pencil

Plants from pencils? That's right – once you've finished with your Sprout pencil, plant it and watch it grow into fragrant herbs, luscious flowers or even fresh vegetables.

Bestseller 2017 - Both in EU and USA:

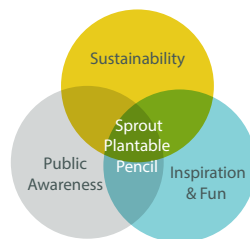
1) Basil 2) Forget me not 3) Cherry Tomato

Sprout is the company behind the world's original and first plantable pencil. See how at www.sproutworld.com.

There are three things about Sprout that characterize the Sprout team. First up, we believe in sustainability. Secondly, we want more people to care about our global environment. And thirdly, we see our humble Sprout pencil, as a simple and fun way to make this all happen.

By planting a Sprout pencil instead of just throwing it out, you can make sustainability visible to others. It's also a good way to inspire everyone to make small changes in their daily lives.

Our idea has struck a chord, as Sprout pencils are now available in over 60 countries around the world.

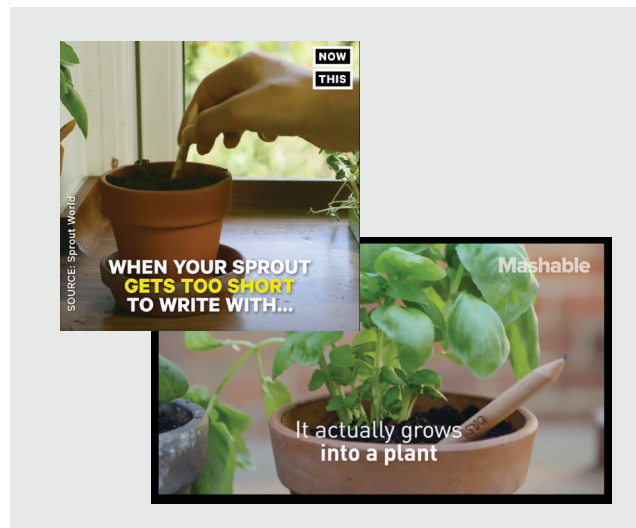


Since early 2013, millions of Sprout pencils have been sold worldwide (mainly in Europe). In 2018, we will reach a sale of 10.000.000 pencils sold worldwide, since Sprout's beginning.

HUGE GLOBAL INTEREST

The first Sprout pencil was sold in the summer of 2013. There was an overwhelming interest from the press, bloggers, businesses, organizations and consumers. Demand increased steadily, as awareness spread across the globe through PR and word-of-mouth.

Five years later, there is more interest in our Sprout pencil than ever. On Social Media, our potential reach in 2017 was 65.353.062 million people. Now just five months into 2018, we have already reached 150.000.000 million people.



HOW WE WORK

Sustainability is not just something we encourage our customers to promote. We incorporate it in all aspects of our business at Sprout.

UN GLOBAL COMPACT

On March 1, 2016, Sprout joined the world's largest CSR corporate citizenship initiative, "UN Global Compact." Our objective is to show our responsibility and respect to the UN Global Compact's ten principles, and we commit to internalize these within the company's strategies, policies and operations. Based on a materiality analysis, we have selected four principles we will focus on:

Human Rights

Principle 2: Make sure that they/we are not complicit in abuse of any Human Rights.

Labor

Principle 6: The elimination of discrimination in respect of employment and occupation.

Environment

Principle 8: Undertake initiatives to promote greater environmental responsibility.

Anti-Corruption

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

2017 IN REVIEW

The Sprout pencil is 100 % sustainable and made from FSC or PEFC wood, graphite, and NON-GMO seeds. We are working hard to ensure that all our pencils are made of FSC wood, or otherwise documented sustainable wood from local forestry.

We also offer our knowledge about sustainability to interested businesses and consumers. Every month, we send newsletters to both consumers and businesses. In regards to the consumer newsletter, we inform about small everyday actions that everybody can do to be more sustainable. We try to inspire our readers and followers to become more aware of the environment around them. In regards to the business newsletter, we inspire by showcasing different industries, and how they have used our pencil. We give the businesses input, as to how they can communicate about their own sustainable goals. We are hoping that through the gifting of our pencil to their customers, it will plant a “seed of inspiration” and inspire people to consider their own consumption in the world.

2017 was a year of change. New employees joined, others have moved on. Two new colleagues, a purchase assistant and a multimedia designer joined us in April 2018. Today, the Sprout office employs a total of 12 employees with 5 men and 7 women.

We chose to close our own webshop in 2018 and join Amazon instead. We are currently present in 7 countries; USA, Canada, UK, Germany, Italy, France and Spain. Soon, we will be in Australia and Mexico. And, perhaps Japan.

Amazon provides us with the possibility to cut down on CO2 emission when transporting our goods. Before Amazon, all pencils were shipped to Denmark from the

office of the webshop e-logistics center. They also shipped to Sprout customers all over the world. Now, we ship our packages to Amazon who then ships our pencils to our customers for us. The transport to Denmark is therefore no longer existent.

RESULTS:

We present some exciting results for 2017:

- Sprout earned money in 2017, compared to 2016. A turnaround from negative 2,5 million DKK to positive 2 million DKK. A clear result of the higher demand for our pencil, plus a well-run production with very little waste in the assembly phase.
- We announced our new product, the Makeup pencil. In corporation with a global pencil and makeup producer. The Makeup pencil will start selling this fall under private label to some of the world's leading makeup brands.
- Founder, Michael Stausholm resigned as Sprout's CEO, but continues as Chairman of the Board. Michael still holds the stock majority, and this spring, he bought Sprout's first investor out and invested more money himself in Sprout.
- Former Sustainability Manager, Sidsel Lundtang Rasmussen now holds the role of CEO.
- Sprout received capital through, now Board Member, Johan Bülow.
- We have reduced the prize on our product. We want Sprout pencils to be for everyone.

CHALLENGES:

At times, it may be impossible for our Polish supplier to comply with the demand of our Sprout pencil orders. In order for us not to have a negative impact on workers'

working conditions in Poland, we have decided to produce a minimum of our European orders in the United States. With these orders, we have a higher CO2 footprint, but we are working hard to find a solution to this challenge.

BUSINESS & HUMAN RIGHTS

Working with Human Rights at Sprout in a business context is paramount. It shows in everything we do – from keeping track to transparency in our supply chain to how we hire new employees. We are aware of the risks of discrimination in employment; and consequently, the focus is also on equal rights and opportunities for all.

The majority of female employees at Sprout in 2017 happened to be in their 30s without children. The possibility for them to go on maternity leave was high, but we still thought it important to offer a maternity leave beyond compliance. This way, Sprout can continue to attract and retain young female employees. In addition, male employees at Sprout are also offered an attractive parental leave at the birth of a child.



SUSTAINABLE DEVELOPMENT GOALS (SDG)

As a member of the UN Global Compact, we are fully dedicated to engage with the set global goals. Implementing the SDGs in our business strategy is the right thing to do, and it is at the core of driving a sustainable business.

At Sprout, we find that working with the SDG's is the foundation to identify opportunities for growth, as well as for risk reduction

by reviewing our entire supply chain to find new openings for working with the UNGC and SDGs

In 2017, we chose to engage with four SDG goals: #4, #12, #13 and #15. All are very important and existential goals. However, for Sprout and our smaller business size, it was too much to take on. Therefore; we have now chosen to focus on our core and

our mission, which is #12: Ensure sustainable consumption and production patterns. We have a great opportunity to achieve results by using our business knowledge and experience in this area.

SDG GOAL - #12: ENSURE SUSTAINABLE CONSUMPTION AND PRODUCTION PATTERNS

GLOBAL CHALLENGE(S)

A rising population, urbanization and an overwhelming economic growth are driving an ever-increasing demand for natural resources like energy, soil, water and minerals.

If current consumption trends continue, natural resources could rapidly be depleted.

ACTIVITY

A direct condition for our entire business, and therefore logical for us to use our influence by informing and communicating our experiences.

This will hopefully be beneficial and useful to others who are going to work with similar materials and products.

Our founder, Michael Stausholm lectures companies and organizations on sustainability. He is also blogging about the topic on various news channels.

RESULTS

We want to cooperate with our suppliers through continuous communication.

If our supplier is doubtful about certain working conditions, we want to assist them either through understanding or by supplying information.

All our suppliers have received the code.

GOALS

Increase consumer awareness of sustainable consumption.

The ultimate goal is to create a circular economy, which is designed to produce no waste and no pollution.

INTRODUCTION TO SPROUT'S OPERATIONAL 2019 GOALS

- 1. Blueprint for good growth that delivers social and environmental value, as well as optimal economic benefit.**
- 2. At Sprout, all employees possess a strong sense of awareness and responsibility around sustainability and the global environment.**
- 3. We will reinforce sustainability throughout our business and take responsibility for every stage of the value chain.**

The Council for Sustainable Development (RBE) has selected the following 6 principles that characterize a sustainable product. At Sprout, we will continue to safeguard and work hard on sustainable set-ups in relation to these principles :

- 1. The product is manufactured under decent working conditions.*
- 2. The product is manufactured in compliance with or beyond what the law requires.*
- 3. The product has better environmental performance than most similar products. Our products are to be upcycled from recycled materials. Upcycling, also known as "creative recycling" is the process of transforming by-products, waste, unusable or unwanted products into new materials or*

products of better quality and environmentally friendly. Recycling and reuse of resources should be promoted through our product development. Existing products must be re-thought and produced from recycled materials.

- 4. The product is marketed based on relevant, credible and transparent product information, including information on how the product can be used sustainably. Our sustainability strategy and vision must be communicated through information and education. These include an educational context in*

which we must share our experiences, challenges and opportunities. As well as through our newsletter and social media, where an increased focus on sustainable consumption should have a central place.

- 5. Offer a high level of service to the product.*
- 6. The product is manufactured under conditions that meet the sustainable development of local communities, including climate, environment, living conditions, ethical considerations, health, etc.*

