

UN GLOBAL COMPACT

Communication on Progress 2019/2020

SKAGERAK

DENMARK

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1. INTRODUCTION

- statement by Jesper Panduro

The last 12 months have been exciting for us in Skagerak, and we are honored to wrap up this season with a nomination for Denmark's "green brand of the year" at Design Awards.

I believe this nomination is a great sign that we've come far with our ambitions for what Skagerak is and should be - a design company that crafts long-lasting furniture with respect for people and the planet.

Since last year, we've increased our share FSC™ certified wood from 61 to 71% - and are now more confident that we will reach our goal of becoming 100% certified before 2025.

In the same period, we've managed to carry out audits on 12 out of 15 of our manufacturers - with the last two scheduled in beginning of 2020. To our big satisfaction, we've also made sure that those suppliers we have a significant influence on have all committed to our new Code of Conduct

(CoC). That means they pledge to live up to the highest standards of labour rights and environmental protection agreed upon by more than 2000 european businesses.

With this great progress in mind, we are now ready to start our process of being re-certified as a B Corp - a movement we joined in 2017 for the sake of using our business as a force of good. With a current score on 87,7 out of 200, we aim for going above 100 this time as improvements has been made on a long range of initiatives to track and reduce our energy and water usage, CO2 emissions and waste management.

While focusing on improvement our business and impact abroad, it's equally important to maintain a positive impact at home, in our local community and general. That's why I've been spending more time than ever on taking part in discussion, interviews and workshops on sustainable design and circular economy in Denmark.

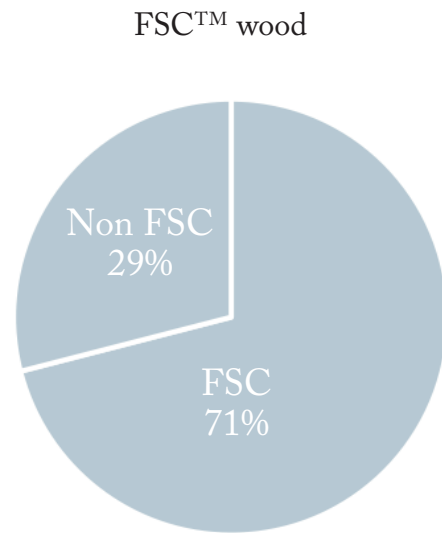
We realize that it takes much more than just one responsible design company to make a change - and part of being responsible is to share our beliefs and practices with as many as possible.

Lastly, this year we finally got to see the reopening of the iconic Svinkløv badehotel that burned down in 2016. We helped them keep some of their old DNA by restoring a batch of their old, original Skagerak outdoor furniture that was badly damaged by the fire.

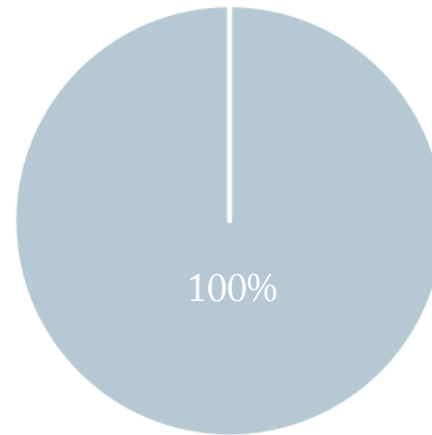
A classic example of how restoring and reusing and old product makes so much sense in terms of both material and non-material value - something we seek to do even more so in the years to come for Skagerak.

Yours sincerely // Jesper Panduro,
Owner and CEO in Skagerak

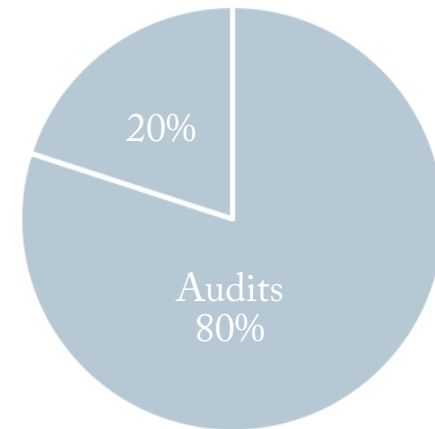
1.1 HIGHLIGHTS 2018/2019



Supplier signing Code of Conduct

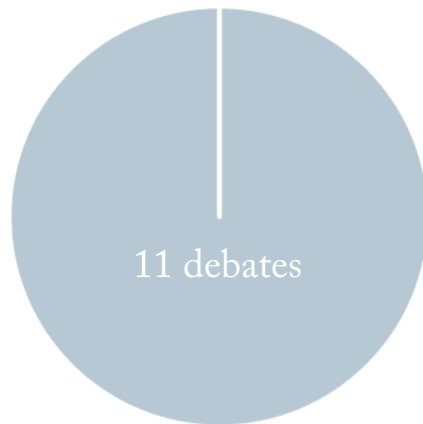


Supplier Amfori audited

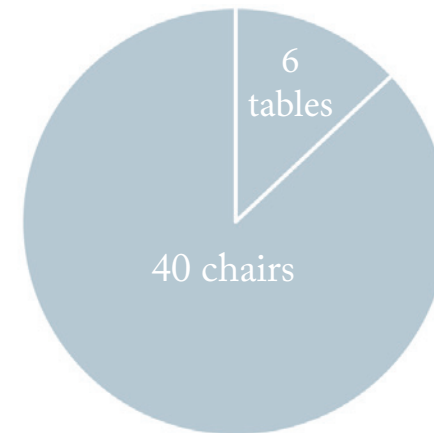


1.1 HIGHLIGHTS 2018/2019

Being part of the B Corp movement and a firm supporter of the FSC scheme, Skagerak actively seeks to voice its vision and opinions about sustainable design on various platforms.
Read more on p. 27.



The Number of chairs recovered from Svinkløv Badehotel. We repaired the damages Selandia chairs and tables.
Read more on p. 26.



2. FOUR DECADES OF DESIGN

- four decades of sustainable thinking

Skagerak is a family-owned furniture maker from Denmark with a long tradition for good craftsmanship and design-thinking. Since 2005, the company has been owned and managed by Jesper and Vibeke Panduro. Together with their two children and little dog, they live in the harbour city of Aalborg. This is where Skagerak was founded back in 1976, when the first dreams of making long-lasting design took form.

From the very beginning, Skagerak was founded on a strong belief that quality should be measured in three different aspects. Quality in its design, quality in its production, and quality in its relation to the people and environment that surround it.

- 1) **Quality in design**, because we need products that people want to use and care for, for generations.
- 2) **Quality in production**, because we need long lasting products that are easy to repair and maintain for generations.
- 3) **Quality in the relation to people and planet**, because we need to sustain a healthy environment - socially as well as naturally - where we can continue doing business for generations to come.

Those beliefs are still at core in Skagerak's DNA and culture.



2.1 FOR THINGS TO REMAIN THE SAME, EVERYTHING MUST CHANGE

The name “Skagerak” comes from the historically important strait that connects the three Scandinavian countries; Denmark, Norway and Sweden. To Skagerak, the strait represents the ability to remain the same while constantly moving forward and bringing about change. Something both Jesper and Vibeke wish for Skagerak to comply with.

Today, the company finds itself in highly globalised market where its products are both manufactured and traded across regions and continents. While this globalisation of the economy has pushed through development and helped building a strong, global middle-class - it has not been without sacrifices.

For ever since the first wave of industrialisation came around, consumption and growth have been equal to rising emissions of CO₂, overexploitation of natural resources and staggering amounts of waste. Now, more than ever, we are feeling the consequences of this.

Consequences so big that we have to rethink the way we do business - the way we produce and consume - if we are to sustain our high living standards for a growing, global population without causing any further damage that cannot be revoked.



2.2 UN SUSTAINABLE DEVELOPMENT GOALS

Part of that realization made the world's leaders come together in 2015 and agree on a set of 17 new goals on sustainable development - the today well-known SDGs. The goals are adopted and shared by all the United Nations Member States - 193 independent nations states. To achieve these ambitious goals before 2030 it requires genuine collaboration across governments, civil society and not least the private sector.

For Skagerak, to keep its strive for quality in design, production and relations to people and planet, it is only natural to implement these goals in its business model. To lessen its negative impact and help future-proofing both natural and human resources for generations to come. Out of the 17 SDGs, these are the ones Skagerak has chosen to focus on.

GOAL 01: NO POVERTY

Because being involved in some of the countries with the highest levels of poverty, Skagerak can influence the way we talk wages, welfare and economic security. This directly through its suppliers, but also indirectly through sourcing its materials legally and with focus on paying respect to smallholders and community foresters.

GOAL 08: DECENT WORK AND ECONOMIC GROWTH

Because Skagerak can influence working conditions in the regions where its supply chain reaches. Done right, local jobs can be created and sustained while improving labour standards and opportunities for an inclusive economy.

GOAL 12: RESPONSIBLE CONSUMPTION AND PRODUCTION

Because Skagerak can help promoting a smarter resource use - both in its way of designing, sourcing and marketing its products.

GOAL 13: CLIMATE ACTION

Because Skagerak can actively support mitigating climate change by endorsing the usage of renewable resources and supporting ecosystems that helps taking out CO₂ of the atmosphere and storing it.

2.3 THE TEN PRINCIPLES OF THE UN GLOBAL COMPACT

Even before the 17 SDGs were articulated and put into system, Skagerak has been an active supporter of pursuing sustainable development. In 2010, Skagerak signed up to the UN GLOBAL COMPACT initiative - committing to help pursue the then UN agenda by implementing a set of universal sustainability principles in the areas of human rights, labour, environment and anti-corruption.



HUMAN RIGHTS

PRINCIPLE 1

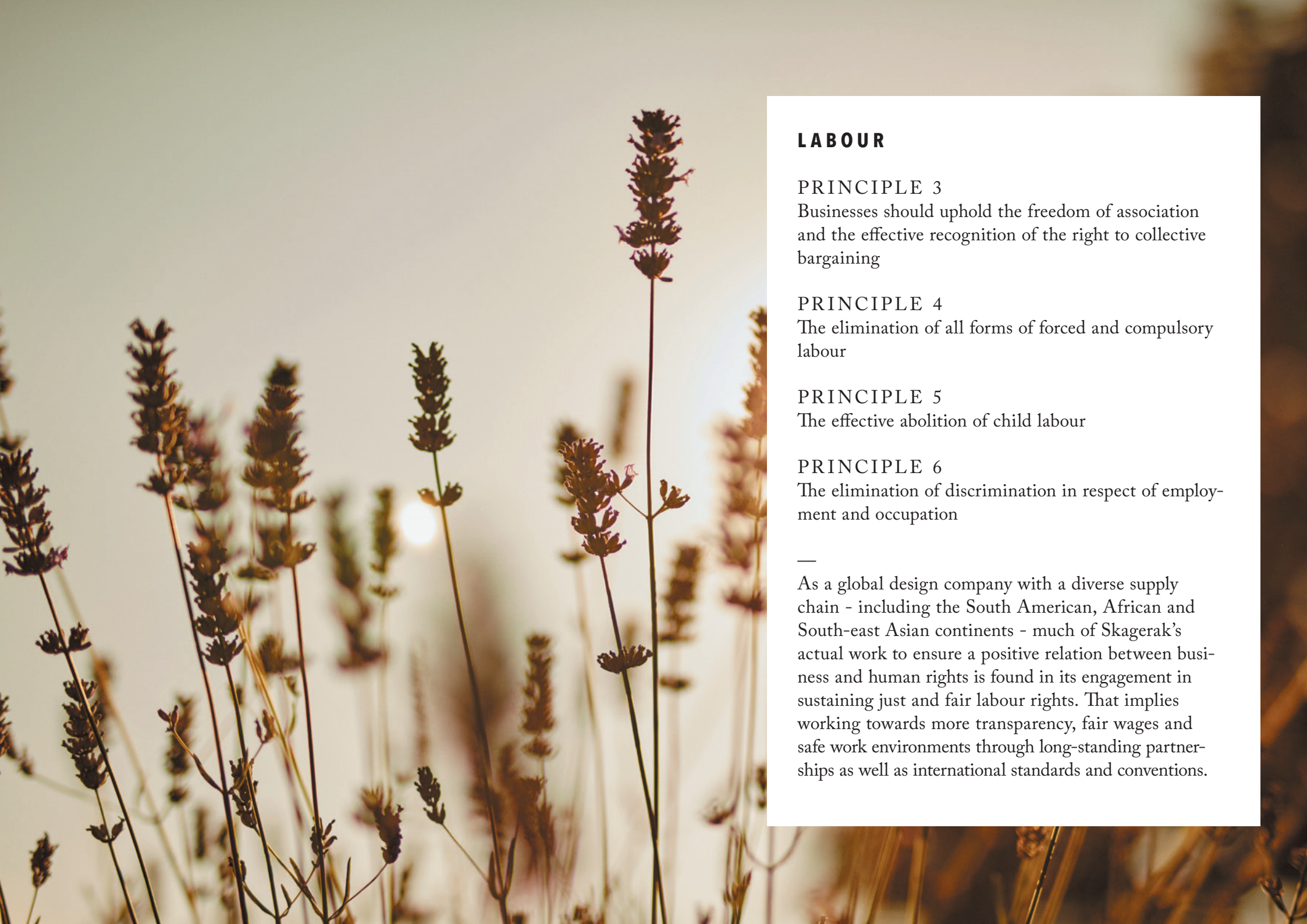
Businesses should support and respect the protection of internationally proclaimed human rights.

PRINCIPLE 2

Make sure that they are not complicit in human rights abuses

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Business and human rights are deeply interconnected - for good and for worse. That's why Skagerak firmly believes that promoting the Universal Declaration of Human Rights is nothing but one of the most important corporate responsibilities. This implies not only to avoid being complicit in human rights violations - but also to spread awareness and encourage change in the communities it operates in. Locally as well as globally.





LABOUR

PRINCIPLE 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

PRINCIPLE 4

The elimination of all forms of forced and compulsory labour

PRINCIPLE 5

The effective abolition of child labour

PRINCIPLE 6

The elimination of discrimination in respect of employment and occupation

—

As a global design company with a diverse supply chain - including the South American, African and South-east Asian continents - much of Skagerak's actual work to ensure a positive relation between business and human rights is found in its engagement in sustaining just and fair labour rights. That implies working towards more transparency, fair wages and safe work environments through long-standing partnerships as well as international standards and conventions.

ENVIRONMENT

PRINCIPLE 7

Businesses should support a precautionary approach to environmental challenges

PRINCIPLE 8

Undertake initiatives to promote greater environmental responsibility

PRINCIPLE 9

Encourage the development and diffusion of environmentally friendly technologies

In the entire history of mankind, the levels of CO₂ in our atmosphere has never been higher than right now. Yet, we still overexploit the earth's resources to such an extent that in 2019, we had already spent the entire year's budget of materials by July 29. This means we'd need 1,7 planets to keep up our resource use as of today. Now imagine what we'd need by 2050 when our population is no longer 7,5 billion but almost 9,7 billion and much more belong to the strong middle-class? We obviously need to reduce this overexploitation in one way or the other if we want to turn around the risks of climate change and resource scarcity we are already experiencing now. That's why Skagerak strives to minimise its environmental footprint by optimising its procurement, handling, transportation and disposal of resources.





ANTI-CORRUPTION

PRINCIPLE 10

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

Corruption, extortion and embezzlement are often linked to economic underperformance, inequality and violation of human rights. That's why we need to break down the longtime taboo of corruption by engaging in open, constructive dialogue across industries and regions. By at all times speaking against and backing away from any form of corruptive activity, Skagerak wishes to set an example and help establishing a business environment where anti-corruption is the norm, no matter which country is in question.

In the following sections, we go through the most important actions, initiatives and focus points in Skagerak, in working with 10 principles and achieving the UN Sustainable Development Goals.

3. BEING A CERTIFIED B CORP

- when business is more than just profit

In 2016, Skagerak joined the B Corp movement – looking for new ways to use its business as a force of good.

B Corps are certified ‘benefit corporations’ meeting the highest standards for social and environmental performance, accountability and transparency. Together with 2.900 companies across 150 industries and 64 countries, Skagerak works towards 1 common goal - to redefine success in business - realizing that social and environmental achievements are just as important as profit. And that these three elements are not necessarily going against each other, but can actually strengthen one another if done right.

And that’s the philosophy behind becoming a certified B Corp. In order to join to the movement, all companies go through a thorough assessment of more than 150 questions divided into 4 areas:

1. Governance
2. Workers
3. Communities
4. Environment

The assessment is an attempt to conceptualize the idea of a triple-bottom-line; to put a standardised number to a company’s impact on social and environmental aspects. Out of a total score of 200, one need at least 80 points to achieve a certificate.

On its first assessment in 2017, Skagerak scored 87,2 points.



GOVERNANCE - 10,7 POINTS

Under the theme of governance, Skagerak is rewarded for having KPIs for its social and environmental performances as well as yearly impact reporting such as the UN global compact CoP (Communication on Progress).

Furthermore, having clear policies of financial controls, financial audits, financial transparency and not least whistleblowers adds to the score.

WORKERS - 25 POINTS

Under the category of workers, Skagerak scores high on providing supplementary healthcare insurance for its employees as well as a wide range of health and wellness initiatives such as fitness gear, co-running events and the opportunity for receiving physiotherapeutic treatment. Furthermore, Skagerak ensures that more than 75% of its employees takes part in both professional as well as personal skill training.

Lastly, Skagerak ranks high on its high to low pay-ratio which is 1x5 - meaning that the

difference between the highest paid and the lowest paid worker in the company is very low.

COMMUNITY - 24,1 POINTS

In terms of community, Skagerak gets its score from having a focus on gender equality, supporting the local community and civil society, as well as showing strong bonds and responsibility towards its suppliers. Nearly half of the employees are women, between 25-50 % of the board members are women, and 80 % of all management positions are occupied by woman. The company is likewise ensuring an equal pay for men and women in comparable managing and non-managing positions.

For the local community around Skagerak, the company pays donations to a wide range of cultural institutions and NGOs such as Kunsten, Skagen Museum, Aalborg Teater, Aalborg Zoo, Røde Kors and Børnefonden. On top of that, all employees are allowed to carry out three days of paid volunteer work. As the number of volunteer hours dropped significantly this year

compared to last report, and Skagerak will take new measures to organize such activities in the future. At last, Skagerak ranks high based on its long-standing partnerships with the most significant suppliers in South East Asia - having worked together with some for more than 2 decades. This gives a great base for Skagerak in improving its environmental and social impact.

ENVIRONMENT - 27,4 POINTS

When it comes to environment in the B Corp assessment, Skagerak is scoring high on having installed programs on recycling programmes, incentives to decrease its emissions by travelling and monitoring of both water and energy use. The same goes for its suppliers, where +75% are likewise monitoring water and energy, and 50% monitoring waste output.

Skagerak is about to fill out its next assessment required to receive a new certification from 2020 and 3 years ahead. Having been part of the B Corp movement for almost 3 years now has been a great experience for the company. Being one of the first established businesses in Denmark to receive the certificate has given plenty of opportunity to communicate the messages and visions behind the movement - and we are now seeing more and more companies ready to join forces.

For the next assessment, Skagerak aims at scoring above 100 points. This seems realistic as the company has been working strategically on improving its local involvement in community building at home and abroad, its tracking of CO₂-emissions and plans to reduce these, as well as sourcing of certified materials and phasing out of non-renewable resources.

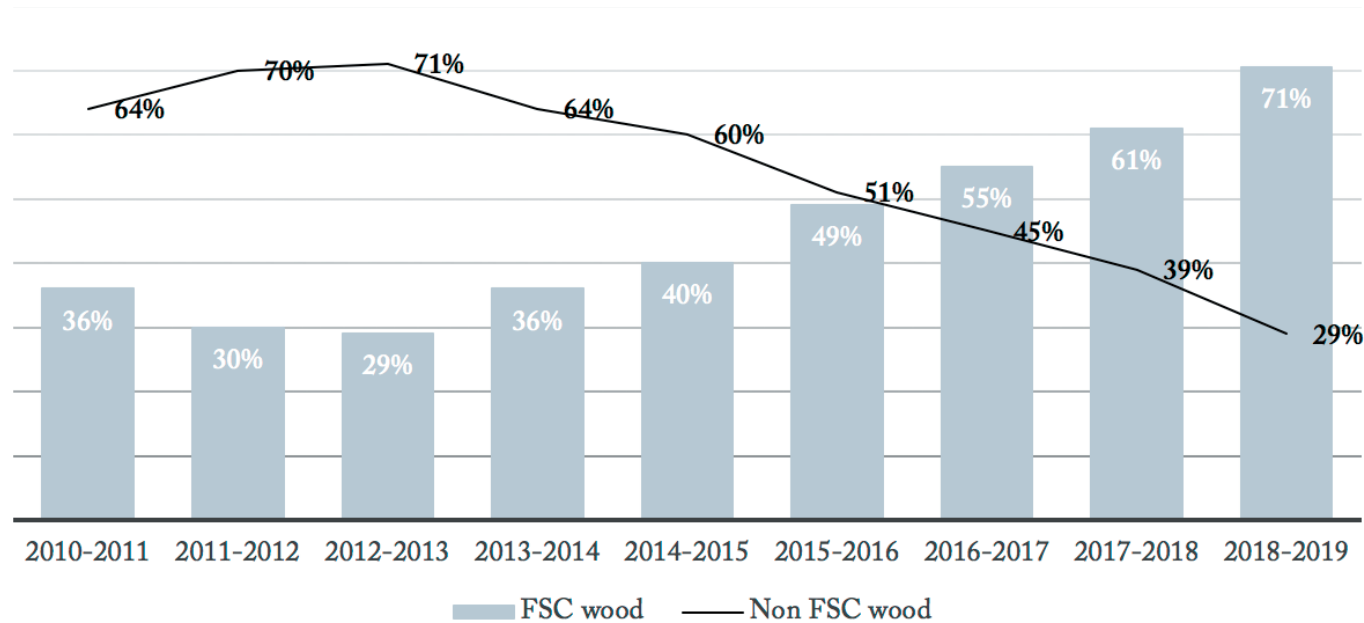


4. FSC™

- making a difference through sustainable wood sourcing

One important step towards a more sustainable design industry is to support responsible wood sourcing and forest management. That is why Skagerak endorses the Forest Stewardship Council™, and have long been working towards the goal of only using wood with a 100% FSC™-certification in its collection.

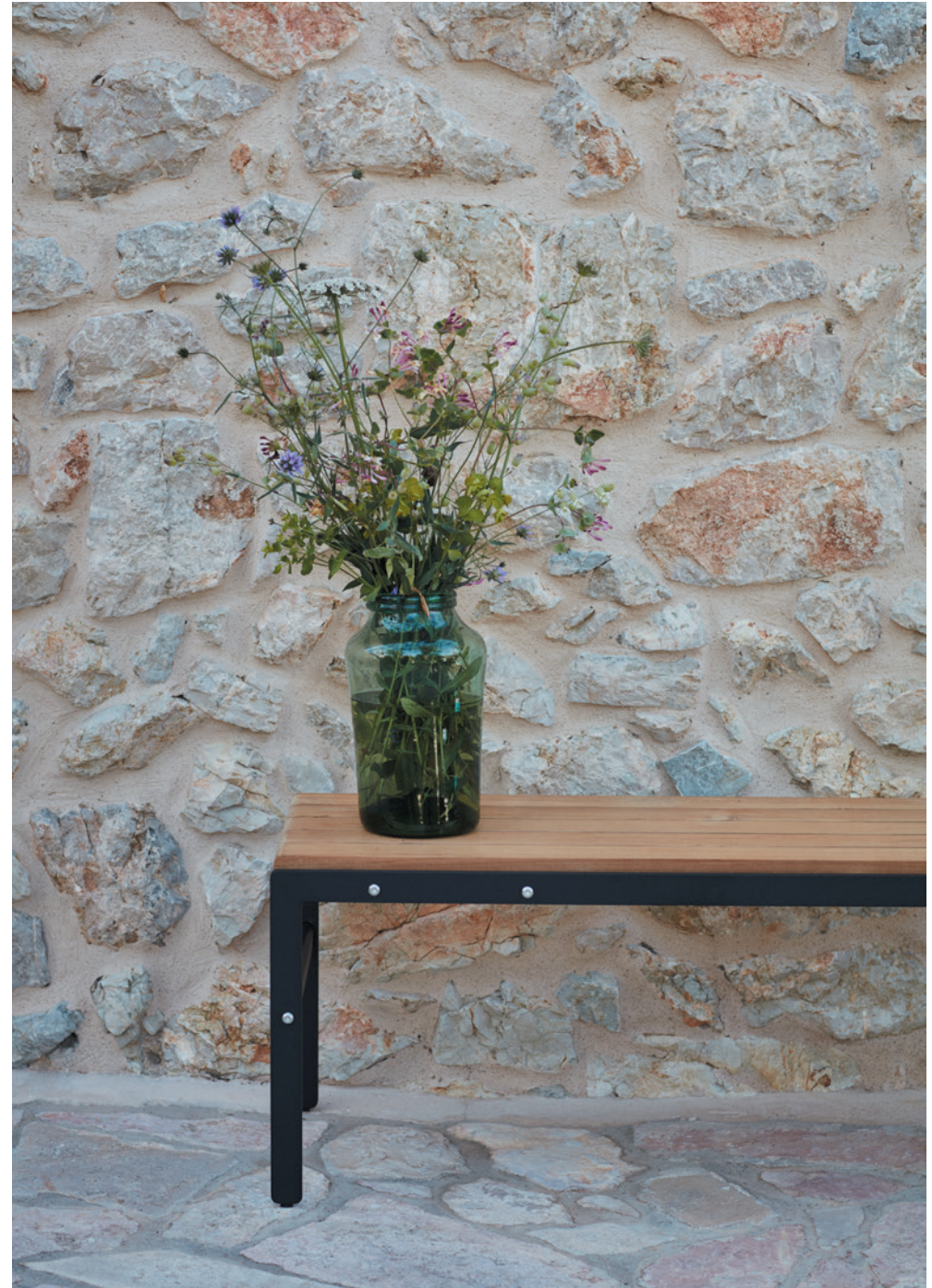
This year, the company is one step closer to achieve this goal as the share of FSC™-certified wood in its collection has risen from 61% to 71% over the last year. Since last year, Skagerak has been able to source 100% of its oak from FSC™-certified forests.



4.1 SUCCEEDING THROUGH NEW COLLABORATIONS

The reason for the increase this year is to be found in Skagerak's determination on finding new suppliers of FSC™-certified teak for its production in Indonesia. The change involves the production of some of the company's larger outdoor collections which is why it has triggered a 10% increase in the total share of certified wood.

On the short run, the manufacturing costs might increase a bit but that's a compromise Skagerak is willing to adjust to. If going as planned, the share should increase further in 2020 until reaching 100% share of FSC™-certified wood in 2025.



4.2 BRINGING TOGETHER ENVIRONMENTAL, SOCIAL, AND ECONOMIC INTERESTS

By supporting the FSC™ certification, we help making sure that no more trees are felled than the forest can reproduce – and that local communities, biodiversity and forest workers are treated with respect. In fact, FSC™ is now the one of the world's leading systems for promoting sustainable forest management - a strong and recognizable brand that helps mobilising consumers through its chain of custody and labelling schemes.

The effects of this are vast and contributes directly to 11 out of the 17 SDGs and 35 direct sub-targets. With a starting point in the four SDGs specially related to Skagerak, this means the following:



GOAL 01: NO POVERTY

Around 1.6 billion people's livelihoods are somewhat relying on the existence of forests, and more than 300 million people live in the forested areas. Needless to say, this fact proves the importance of responsible forestry.

Through the FSC™-certification, forest owners are obliged to hire local workers and provide them with proper education, healthcare, and salary. In some cases, they also commit themselves to support local communities – for example through development of schools, hospitals and access to clean water. This is greatly contributing to the empowerment and protection of workers' and Indigenous' rights in the forestry industry.

GOAL 08: DECENT WORK

The FSC™ system is set up to use wood as an environmentally and socially sound resource that contributes to sustainable economic growth. First off, FSC™ is dedicated to ensuring decent worker's rights and labour conditions, requiring employers to apply the core

conventions of the ILO (International Labour Organization) as well as gender equality at the workplace, health and safety practices, professional training, conflict resolutions and damage avoidance and compensation.

Secondly, FSC™ foresees wood overtaking the role of many non-renewable resources such as concrete, steel and oil. However, an increase in demand for wood worldwide will put pressure on the forestry and FSC™ thus acknowledges the need for better recycle systems for wooden materials. That's why they have created the "FSC™ recycle" label.

GOAL 12: CONSUMPTION AND PRODUCTION

FSC™ is a tool to promote responsible consumption and production worldwide. On the consumer side, the system helps people choosing sustainably designed products and spread awareness of the features of wood as a renewable resource. This both for private consumers but especially with a focus on public

procurement and business-to-business activities.

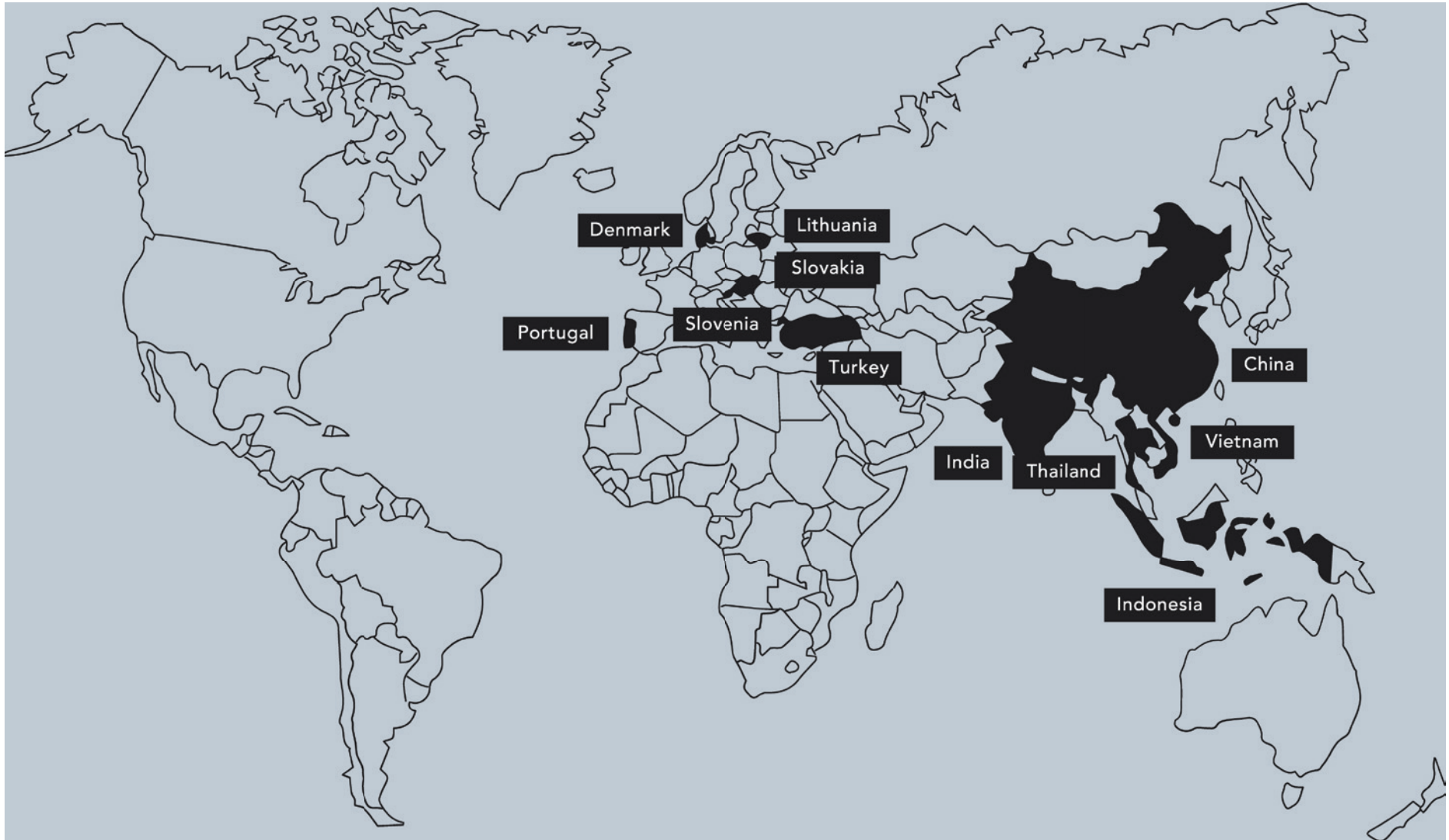
On the production side, FSC™ ensures sustainable forest management and efficient resource utilization while giving manufacturers the opportunity to choose responsibly sourced materials in their collections.

GOAL 13: CLIMATE

Forests are key to the ecosystem and climate as they function as important CO₂-containers – absorbing the carbon dioxide from the atmosphere and storing it in trees and soil until the day it decays. The burning and destruction of forests accounts for 16 % of the global CO₂-emissions.

That's why the FSC™ scheme works towards ending logging and sustaining the growth of forest areas all over the world. This includes slowing down the deforestation by restoring degraded forests and increasing the establishment of new forestlands.

GLOBAL SUPPLY-CHAIN



5. AMFORI AND CODE OF CONDUCTS

- responsible production in a global supply chain

As a global design brand with a wide variety of different types of collections, Skagerak's business model involves a supply-chain with production in more than 10 countries. To ensure that Skagerak's values are understood and practiced throughout the chain, a Code of Conduct (CoC) is a vital tool!

The CoC is an agreement between Skagerak and its suppliers which contains a multitude of requirements which they, their employees and sub-suppliers are expected to meet. Back in 2017, Skagerak joined Amfori's Business Social Compliance Initiative (Amfori) – a common CoC shared amongst more than 2.000 European businesses. The motive was to obtain an even stronger and more consistent voice in securing proper labour rights and environment policies. The Code of Conduct from Amfori is founded on internationally recognised standards and principles such as the UNGP, OECD and the UN Global Compact as well. The CoC was renewed in 2014 and contains 11 principles

today – all based on international standards and conventions formed by the UN, ILO and OECD amongst others.

Today, 12 out of 15 significant suppliers have accepted Skagerak's new CoC. The three suppliers that have not accepted yet are relocating facility or new to doing business with Skagerak and are now in the process of being implemented in the system. As such, they are all expected to sign off over the next 12 months.

In the Amfori system, Skagerak is only obliged to get acceptance and compliance from those of its suppliers whom they are "responsible" for. While several Amfori can do business with the same producer, it is only the RSP holder that is expected to have leadership of upcoming audits etc.

THE 11 PRINCIPLES ARE AS FOLLOWS

1. The Rights of Freedom of Association and Collective Bargaining
2. Fair Remuneration
3. Occupational Health and Safety
4. Special Protection for Young Workers
5. No Bonded Labour
6. Ethical Business Behaviour
7. No Discrimination
8. Decent Working Hours
9. No Child Labour
10. No Precarious Employment
11. Protection of the Environment

5.1 A ZERO-TOLERANCE POLICY

Violations of principles and legislations should always be taken seriously – never tolerated. But the response to a violation might not always be the same. In most cases, if Skagerak finds that a supplier is violating the principles, collaboration will be terminated immediately. However, the aim with the CoC is partly to help suppliers improve social and environmental standards. Therefore, some cases of non-compliance are approached by creating an individual development plan in cooperation with the supplier in order to bring things up to standard and achieve full compliance with the violated principle(s).



5.2. AUDITING SUPPLIERS AND MAKING PLANS FOR IMPROVEMENT

To make sure that suppliers meet the requirements of the CoC, they are being audited at regular intervals and are furthermore required to perform self-assessments. Audit procedures are performed by independent, third-party organizations approved by Amfori – all with experience in the industry and geographical area and partnering with local specialists.

Over the past 12 months, 12 out of Skagerak's 15 significant suppliers have been audited. Those with a D or C score are expected to go through a new audit during the coming 12 months. Two suppliers scoring either A or B are not required auditing until 2021. Three suppliers pending are either relocating or new.

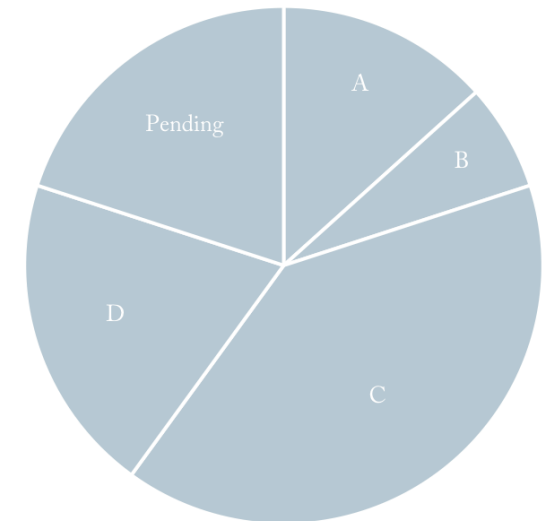
For Skagerak's biggest supplier, a pre-audit has been carried out recently in collaboration with an external consultant. The pre-audit functions as a dry run and helps preparing the producer for the real audit scheduled in September 2019. The rehearsal turned out well and an action

plan was created in close dialogue between the supplier and Skagerak. In addition, the last missing supplier will have its audit carried out in the beginning of 2020.

In an audit, the suppliers are usually asked to account for wages, pay slips, labour contracts, general conditions and rights at the workplace, as well as the overall level of information and education amongst the staff. On top of that will an audit typically look at safety measures, machine handling, usage of PPE, fire safety, toilet facilities, canteen facilities and cleanliness in general.

It is Skagerak's clear goal to reach a point where it will be able to publish summaries or extracts of these audits directly on its website in terms of enhancing transparency and the dialogue with its customers and stakeholders.

Audit results



5.3 MAKING THINGS RIGHT FROM THE START

In the beginning of the 2019, one of Skagerak's suppliers have decided to move its factories from China to Vietnam. The first new factory is expected to open up on full capacity in late 2019 already.

Skagerak carried out an audit on the supplier's factory in China to prepare the management of what conditions would be required of them on the new factories as well. Thus, the audit and following action plan have helped the supplier greatly in making a lot of conditions and decisions right from the beginning - saving them from further actions and remediations on the long run.

5.4 LIVING WAGES

When the legal wage is too low it can have a damaging and repressing effect on local communities and families, leading to a long string of negative side-effects. Even a standardized minimum wage might be too low at times, not covering the costs of basic needs in certain areas or seasons.

This challenges can be solved by looking at the concept of "living wages" based on a local calculation of the costs of basic needs such as housing, food, transportation and clothes in a specific area. Living wages are standard topic of interest in Amfori and are as such addressed in every audit carried out.

Skagerak is recommending its suppliers to sign up to free seminars provided by the Amfori on the topic amongst others. At the seminars, representatives from the supplier are trained in fair remuneration, basic management systems and how to draft remediation plans.

5.4 ANTI-CORRUPTION

In practice, Skagerak's adoption of Amfori's Code of Conduct – shared by more than 2.000 European companies – has made it easier for Skagerak to deal with corrupted behavior if relevant.

For example, the audits now carried out in collaboration with Amfori and Skagerak's suppliers are based on a method of 'triangulation' where several sources and data-sets are used to confirm the truth of information and the honesty of operations.

6. GIVE BACK MORE THAN WE TAKE - LOCAL ENGAGEMENT

After having been located in the same city for more than 40 years, Skagerak has built up strong bonds to many different business partners, areas and local enthusiasts. The company takes a special pride in keeping these relations as an opportunity to give back more over time than they have taken.

6.1 THE HISTORY OF SVINKLØV BADEHOTEL

Svinkløv Badehotel sadly burned down in 2016. For the re-opening of the iconic hotel, we repaired the damaged Selandia chairs, that had been with the seaside hotel for many years. We tried to preserve as much of the original as possible, only replacing the badly burned parts and sanding down less damaged areas.

They almost look new but still tell the story of Svinkløv Badehotels sad history. The hotel is now open again and the Selandia chairs have returned to their original spot and will now again serve guests for years to come.



6.2 AN ACTIVE VOICE FOR SUSTAINABLE DESIGN

Being part of the B Corp movement and a firm supporter of the FSC scheme, Skagerak actively seeks to voice its vision and opinions about sustainable design on various platforms.

During the past year, Skagerak CEO and Owner, Jesper Panduro, has taken part in 11 public debates and given lectures on subjects such as circular economy in the design industry, sustainable wood sourcing, sustainability in family-owned companies and so forth.

A recurring topic in Jesper's talks is how he has changed his view on what "good business" is over the years – moving from profit-driven to purpose-driven, and how that has transformed his way of running the company.

On top of this, Skagerak has opened up for its own flagship-store as platform for various meetings, events and debates around sustainability and B Corp in Denmark.

