

Saga Furs: Global Compact Communications on Progress Report

Part I. Statement of Continued Support from Chief Executive Officer, Magnus Ljung

Company committed to continuous sustainability reporting

Saga Furs voluntarily measures and reports progress in sustainability through our own continuous reporting and CSR programs as well as via the Global Reporting Index (GRI), which we signed up to eleven years ago. I am pleased to announce that Saga Furs Oyj (plc) reaffirms its support for the Ten Principles of the UN Global Compact in the four areas of Human Rights, Labour, Environment and Anti-corruption.

Focus on own issues of materiality and SDGs with relevant impacts

Through our operations and activities, Saga Furs continues to prioritise sustainability with our focus on those issues of materiality specific to our core business where we have the most economic, social and environmental impact. These include: 1. Animal welfare and certification; 2. Product traceability; 3. Product development and circular economy; 4. Saga Furs People and Code of conduct; 5. Environment and Climate, including GHG emissions monitoring; 6. Transparency and Open stakeholder communications; 7. Data security; and 8. Industry-level cooperation and joint projects.

Through our sustainability programs, we also contribute to the UN Sustainable Development Goals (SDGs), which grew out of the Paris Convention. In the context of the SDGs, we see our business and sustainability impacts as most relevant to the following five areas:

SDG 8: Decent work and economic growth

SDG 12: Responsible consumption and production

SDG 13: Climate Action

SDG 14: Life below water

SDG 15 Life on land

Managing the pandemic

Our Annual Communication on Progress highlights actions ongoing or new measures taken during the previous reporting year, which integrate the Global Compact Principles of Human rights, Labour, Environment, and Anti-corruption, into our business and culture as well as that of our core stakeholders. However, given that 2020 was marred by the global Covid-19 pandemic, which continues to inflict human, social, and economic losses around the world, the content provided this year largely focuses on issues related to the pandemic and our management of the pandemic.

From the point of view of economic sustainability, our success in rapidly reinventing parts of our core business in response to lockdowns and travel restrictions, led us to a slight return to profitability during the second half of the fiscal year, although overall the year brought an operating loss. However, this small recovery, and a projected return to profitability in 2021, is relevant in that it

provides us the financial resources to continue investing into sustainability initiatives and programs that give confidence to our industry as a whole.

During 2020, despite the relative global shutdown, we were able to redouble our commitment to sustainability with a newly appointed Head of Sustainability and Corporate Social Responsibility, a position not previously held, as well as the launch of a new Creative Hub with sustainability at its core and a product traceability solution using RFID technology.

As the new CEO, I have every confidence in our ability to continue our path back to profitability and to continue investing in viable sustainability programs. This is thanks to the enduring commitment of our team and the confidence that our suppliers, partners, and customers continue to place in Saga as the sustainable choice in the fur industry.

Sincerely

Magnus Ljung, CEO Saga Furs
20 February 2021



Part II. Actions taken and assessment of outcomes

In 2020, despite the unprecedented rigors related to the pandemic, the company was able to sustain its business and support our core stakeholders through rapid reinvention. From the standpoint of economic sustainability, the year began on an economic uptick, with the company well-positioned following a substantial gain in our market share for North American mink skins. But by March, at the height of the first wave of the corona virus pandemic, travel restrictions led Saga Furs to an unprecedented course of action. For the first time in the company's long history, we had to cancel

our live auction, a major sales event held four times a year that usually attracts up to 1000 attendees, many from abroad.

While this constituted a big financial blow for Saga Furs and our suppliers, we were able to convert this disruptive situation into an innovation, with the rapid reinvention of our auction process into a digital online environment. We already had some of the functioning technology in place for smaller niche auctions and were able to ramp this up quickly and successfully to create a full online auction. In addition to alleviating revenue losses, the new format now presents a potential new business reality for Saga, in that, with a little more technical development we should be able to offer future customers a choice between attending the live auction or participating online and reducing their environmental footprints.

Keeping customer business continuity

However, in the fur auction business, having in-person experts physically present to inspect our product offering for quality and texture (which varies seasonally) is very important for promoting confidence among buyers. It can also have a significant impact on price differentials. Our staff were nimble and quick to adapt to the requirements of the pandemic to get some in-person buyers from abroad to our subsequent June and December auctions.

This was done through a combination of safety protocols and cooperation with the Finnish authorities, and as a result, we were able to run partially attended events that adhered strictly to all legal restrictions, while putting the safety of our customers, farmer suppliers and staff first.

Launching Saga Furs Creative Hub

Based on our ability to manage the pandemic, our second half financials showed a small return to profitability, although overall the year brought an operating loss. Backed by this slight recovery, we were able to invest our financial resources into continuing the important work of sustaining and inspiring the fashion industry. This was highlighted in the launch of our new Creative Hub here in Finland, targeting multi-stakeholder groups on every aspect of fur artisanship, design and sustainable material use. The Creative Hub, which grew out of what was known for more than 30 years as the Saga Design Centre, based in Denmark, has now been brought much closer to our business core at Head office and has sustainability as the major component of its offering.

The Hub is a new and important platform for Saga to educate and inspire suppliers, buyers, fashion house customers and designers in promoting confidence in fur as an exciting material and sustainable choice to work with and add to collections.

Inspiring fashion customers with Fur Vision

Inspiring the fashion industry through our annual Fur Vision collection can be recognised as a major achievement last year. During October, we succeeded in rolling out our Fur Vision collections at six major Fashion Weeks in New York, Paris, Milan, Beijing, Tokyo and Seoul. While some in-person rollouts took place with small, invited guest lists, we were also able to take advantage of online opportunities, which constitutes a new and sustainable business direction. Prior to the pandemic, the company had already been exploring ways to reduce the economic and environmental cost of sending people and physical collections to so many locations annually, but now the challenge of

pandemic travel restrictions, provided the catalyst to start adapting our fur vision to a more virtual environment.

Educating business and fashion students

In 2020, we continued to expand our business and sustainability programs in education, with multiple presentations to numerous design schools in the US, Europe, and Asia. We also continued our cooperation with ISEM, the Fashion MBA school in Spain. Our goal is to expand our educational reach not only to fashion designers but also to business leaders with sustainability at the front and centre of our programs.

Piloting product traceability solution with RFID

Product traceability continues to be a banner sustainability theme among luxury fashion manufacturers, and during the year, Saga Furs succeeded in creating its own digital tracing solution for all Saga sourced skins. Using RFID technology, shoppers will soon be able to scan a mobile phone across a RFID tag to get real-time information on the country and farm of origin for Saga sourced skin, or even part of a skin.

Our successful pilot marks the culmination of more than five years of software and hardware research to find a solution robust enough for a fur product to survive the rigours from farm to store, including the fur dressing and manufacturing phases. This solution is set to revolutionise the way furs coming from Saga will be traced as well as raise the sustainability bar on all other fur providers.

From the standpoint of stakeholder engagement, this RFID solution also offers a unique opportunity to connect with young Millennials and Generation Zed consumers through their devices to educate them on product certification and traceability as an important part of the sustainable fur story.

Working with industry to consolidate fur certification

Since December 2019, Saga Furs has only sourced skins in Europe, which have been Welfur certified. Welfur is an animal welfare assessment program developed by independent scientists at 7 European universities, who produced welfare assessment protocols for fur farmed species. Saga will continue to sell Saga Certified skins with Welfur Inside.

Following the company's entry into the North American mink market in 2019, we've been working with the existing certification criteria in the US and Canada: Fur Commission USA Standard Guidelines and Fur Institute of Canada National Code of Practice for the Care of Handling of Farm animals, respectively.

Human Rights Principles

Description of actions

As stated in our corporate code of conduct our goal is to respect human rights. The Saga Furs code of conduct, which all employees must sign up to, comprises seven sets of principles. Behind each are

established company policies and/or recognised practices and international legislation including the Universal Declaration of Human Rights and Environmental Protection laws.

Additional supplier support

During 2020, we increased the amount of financial support, compared with previous years, extended to farmers for their own business continuity. Finland, where Saga Furs is headquartered, was also able to outperform other geographical markets in managing the virus, including being the only fur producing country with no COVID cases among fur production animals.

By working with the Finnish authorities, our farmer suppliers and following strict bio-security measures, we also managed to help farmers get regular seasonal workers from neighbouring countries to assist during peak seasons, which was another major achievement in managing the virus.

Measurement of outcomes

To promote a company culture of compliance, Saga Furs continues to communicate our Code internally, in writing, as well as providing effective training to new and existing employees. This is to ensure that they understand how each precept of the code relates to their particular areas of work. From there, it becomes the responsibility of every Saga Furs employee to promote the Code, including reporting potential violations.

In addition, as part of Saga Furs farm certification program, we regularly audit and evaluate our suppliers against a set of defined principles and guidelines including human rights. Using this approach, any contravention can be identified, documented and resolved.

Labour Principles

As set forth clearly in our employee prospectus and in the company's Code of Conduct, Saga Furs strives to pay fair compensation and provide a safe and healthy workplace for all employees. The company also promotes and invests in the personal and professional development for all.

Description of actions

Personnel layoffs during COVID

During 2020, our employee team contributed to our economic sustainability by participating in a temporary furlough scheme. Unfortunately, like many businesses across sectors in Finland and around the world last year, the company commenced severance discussions with 40 personnel, who were subsequently laid off permanently.

Finnish labour laws among strictest in the world

Monitoring health and safety is also important in a company where hundreds of employees work in physically demanding jobs. Our Occupational Health and Safety committee works in cooperation with the HR department and department heads to carry out regular workplace safety assessments. The indicators monitored include number of accidents, absences due to illness, safety observations and other personal surveys.

It is worth noting that labour laws in Finland, where Saga Furs has its head office and most of its employees, are among the strictest in the world, extending strong protection to employees. This includes occupational healthcare and a long maternity leave of up to three years, as well as the guaranteed right to return to work to the same position following childbirth.

Strength through diversity

Every Saga Furs employee receives a prospectus explaining company policies on health, wellbeing, holidays, employee benefits, and working environment, among others. Saga Furs people are, in turn, expected to respect and uphold the strength that comes from diversity as well as promote teamwork and individual responsibility within their respective work areas. The company is committed to equal opportunity in all its employment policies and practices. Therefore, no employee or potential employee will receive less favourable treatment due to race, colour, nationality, ethnic origin, age, or religion, gender, sexual orientation, marital status, parenting status, connections with a national minority, opinion, disability or, membership or non-membership of a trade union. All Saga Furs employees enjoy the right to free assembly and association, and to join a labour union of their choice.

Measurement of Outcomes

In the event that employees feel they are not receiving fair and equal treatment, they may circumvent their direct report and open a discussion with their manager's manager on an issue or alternatively set up a meeting with Human Resources.

Environmental Principles

Description of actions

Saga Furs supports global initiatives like the Paris climate convention, working actively towards climate change mitigation and in areas of climate resilience and adaptation. Saga Furs has a good track record and is committed to working with its own internal processes to reduce greenhouse gas emissions and other environmental impacts.

Based on our Code of Conduct, which everyone is required to sign up to, our people are committed to minimizing the environmental impact of our business. This includes working to reduce waste and using energy and resources responsibly to cut greenhouse emissions. The company in recent years has invested in a facilities upgrade to energy efficient LED lighting, as well as converting our delivery truck fleet to biogas. During 2020, we introduced a new climate-friendly policy for company cars, with an option for hybrid electric plug-in cars as well as charging stations at work. Saga also sources only renewable green energy for its company-wide heating.

Another EUR 20,000 investment in LED light conversions, which was scheduled for 2020, was put on hold for various logistical reasons during the pandemic, but is expected to continue in 2021 to complete the project.

Aside from Saga Furs' own operations, the most significant impacts on the company's value network are upstream in the fur-farm production phase and downstream during the fur dressing phase of our customers. Saga Furs is not in a position to directly influence emissions and environmental practices but the company does, wherever possible, through its close partnerships with Fur Europe and the International Fur Federation, support projects, technologies and relevant legislation, to help reduce the environmental burden in both.

Fur farmers closing the loop on waste

Upstream at the supplier level, sustainability criteria within the Saga Furs' farm certification process continue to push Finnish fur farmers towards closed loop energy and low-carbon practices. And Finnish fur farmers have a good story to tell when it comes closing the loop on waste. Finnish law already compels farmers to collect their waste and for most farmers this involves taking it to a designated place for composting, to be later used as fertilizer by neighboring farms or biogas. However, one group of Finnish fur farmers has recently teamed up with a for-profit startup called Bihii, to take this practice to the next level.

The company continues to develop and market high-quality commercial organic fertilizer products in the form of ready-to-go topsoil and planting palettes, targeting urban gardens, traffic lawns and balcony planters. This product line is the culmination of a four-year study of manure emissions and nutrient recycling, in partnership with the Finnish Natural Resources Institute and the City of Kalajoki in North East Finland.

Animal manure has for centuries been used as fertilizer for farming, improving the soil structure so that it holds more nutrients and water. But with fur animal waste the environmental story goes one step further. Bihii's tagline for the growing boxes is: You are recycling phosphorus from the Baltic Sea! This is based on Finnish fur farmers feeding their animals a fish by-product from the Baltic Sea, which is high in organic phosphorus. That means the products bring the added value of mining organic phosphorus from the manure and returning it to the nutrient cycle, as well as binding greenhouse gas into the soil and helping reduce fertilizer runoff into waterways.

Fur and the circular economy

In Finland, fur production is a textbook example of an ecologically-driven circular economy, with everything from waste reduction through animal by-products to the reusability and biodegradability of the final fur garments. A fur garment can be repaired, remodelled, resold, recycled and reused from one generation to the next.

The most recent nationwide independent survey of Finnish citizens put 53% in favour of domestic certified fur farming. This is because Finnish fur farming has a revitalizing effect on our economy, particularly in rural areas, as a large-scale employer, and by contributing high per-capita tax revenues in producer municipalities, which go towards childcare, elderly care and schooling.

Anti-corruption Principles

Description of actions

Saga Furs is strongly committed to the highest standards of ethical conduct and full compliance with all applicable national and international laws wherever the company operates. This includes, for example, laws relating to corporate governance, bribery and other types of corruption, illicit payments, aggressive tax planning, and promoting fair competition.

Continued industry leadership in ethical and sustainable business

The goal of Saga Furs is not just to be legally compliant, but through its corporate responsibility programmes, to position the company as an industry leader in ethical and sustainable business. During 2020, Saga Furs continued to make every effort to ensure that the company's anti-corruption principles were fully implemented in every area of its own business. In addition, while the supply chain in the fur trade is long and complex, often involving local suppliers in a number of countries, Saga Furs remains committed to promoting anti-corruption compliance, working at industry level with the International Fur Federation, Fur Europe, and other industry groups, as well as with our business partners, even our competitors, with the aim of increasing responsible sourcing throughout the value chain.

Finland leading country in transparency and anti-corruption

Transparency International is the global civil society organisation that annually ranks countries based on anti-corruption in the public sector. Finland, our country of domicile, has for many years ranked in the top three countries in the world, in the Corruption Perceptions Index, and in 2020 again ranked third place.

Measurement of Outcomes

Under the Code of Conduct, which all Saga Furs employees are required to sign up to, each person has an obligation to report any potential corruption violations as well as cooperate in any investigation that may follow. All employees should report any suspected or observed anti-corruption breach to their managers. Any subsequent investigations will be made professionally and confidentially and with respect shown to all people involved.