



Sustainability

For a peaceful night's sleep

2021 REPORT



Fossflakes

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Letter from the CEO



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Dear customers, employees, suppliers and friends of Fossflakes

As the world awakens to the fact that the planet cannot bear continued economic activity in the form we are used to, I want Fossflakes to be proactive in managing its environmental and social responsibilities.

As a nature lover all my life, I know it's the right thing to do. But I am not alone in this view. Discussions with our board, management team and employees make it clear that collectively we want to feel good about the business we own and work in. And that means doing the right thing by the planet and people.

But it's more than a feeling – it makes good business sense. Customers have started asking questions about the sustainability of their bedding. As their expectations rise, we want to convince them we continue to be a relevant supplier and brand. Just as the health of the planet and its inhabitants is at stake, so is the health of our business. We want both to thrive together.

Our sustainability journey started in 2019. Along the way we calculated the carbon footprint of products, launched a range containing bio-based and regenerated materials, started to introduce FSC certified paper packaging, and mapped the UN Sustainable Development Goals to our business.

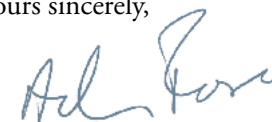
In 2021 it was time to formalise our approach and establish a sustainability program across the business. We created a working group, carried out a materiality assessment, set goals, agreed strategic initiatives, created an action plan, and started to work on it.

The areas we will prioritise over the coming years are environmental: the footprint of product and packaging materials; the disposal or recycling of our products at end-of-life; and the carbon footprint of our operations and distribution. Our aim is to set the highest environmental standard in our category.

To help ensure progress across our environmental, social and ethical agenda, we joined the UN Global Compact at the start of 2022 and herewith commit to an annual communication on progress.

You can read the full details of our 2021 sustainability activities and upcoming plans in the following pages of this sustainability report, our first of its kind. We hope you can see our commitment to transparency and find the information you are looking for. We welcome your feedback and questions.

Yours sincerely,



Adam Foss

Fossflakes business model

To set our sustainability activities in context, we provide below an overview of the Fossflakes business model. See Figure 1 on the next page.

Products

Our primary activity is the manufacture of duvets and pillows. We offer products suitable for babies, children and adults, pregnancy and early motherhood, as well as sufferers of allergies, asthma and muscle and joint pain.

Materials

Our products have a cotton shell and unique filling of polyethylene flakes and polyester fibres. The filling provides the lightness, warmth and breathability of down and feather and retains its loft for years with just an occasional shake and fluffing. The inclusion of flakes also improves the drying time after washing and prevents lumps.

Procurement

We have a global supply chain. Cotton comes from Chinese suppliers as finished shells that are ready to fill. We source polyethylene foil primarily from manufacturers in Sweden, Denmark and elsewhere in Europe, while the polyester fibre is supplied by a Danish importer who buys from manufacturers around the world.

In terms of modes of transport, sea accounts for 90-95% of distance travelled by all our materials from their manufacturing to our site in Denmark, with the remainder by road, rail and air.

Production

All our manufacturing and packaging of finished goods takes place in Skive, Denmark. Here our employees turn polyethylene foil into our patented Fossflakes and mix it with polyester fibre to fill the cotton cases of duvets and pillows. Next we finish each product and check it for quality. Finally, we pack the products ready for shipment.

Sales

Fossflakes products are available for purchase in over 40 countries. In the EU we sell to retailers and direct-to-consumer (D2C) via our website. Outside the EU we sell to retailers and distributors who sell primarily online to consumers. All products leave our factory by road but may change mode of transport according to the final country of destination. All D2C orders are transported by truck.

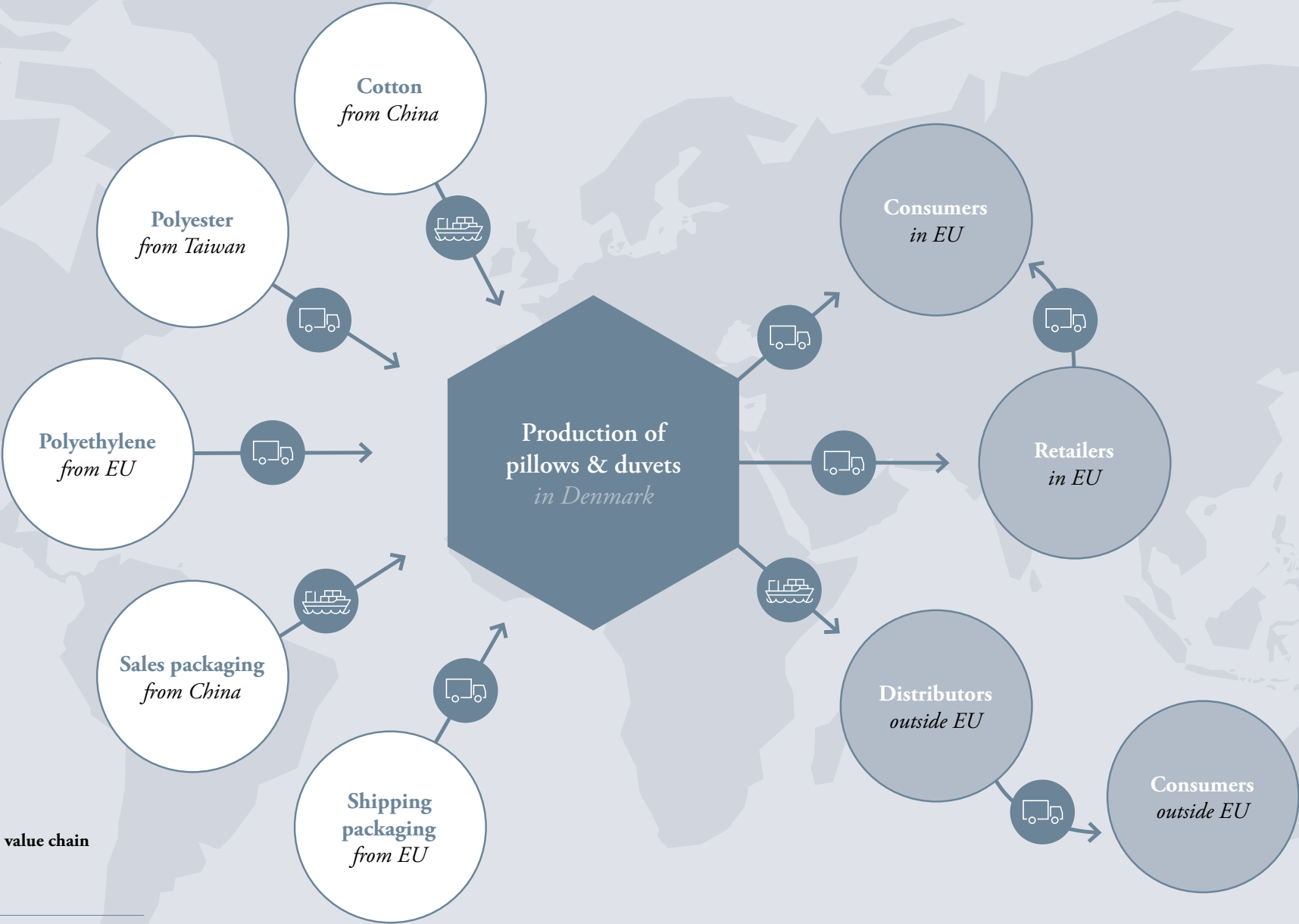


Figure 1:
Fossflakes value chain

Materiality assessment

In the summer of 2021, we started a process to formalise our sustainability activities into an ongoing sustainability program. We created a sustainability working group comprised of the Fossflakes management team, supported by external consultants.

The first task for the group was to undertake a materiality assessment to identify the key sustainability issues for the company to address. We evaluated all aspects of the business, from the company's own operations in Denmark to its up-stream and down-stream value chain. This resulted in the identification of a range of environmental and social issues. We then prioritised each issue according to its size and importance to key stakeholders and to Fossflakes.

The key stakeholders under consideration were customers, employees, supply chain workers, and the general public. It should be noted that the assessment of their priorities was provided by the working group, rather than by the stakeholders directly, based on inputs received through dialogues for example with employees, owners, retailers and consumers. The working group considered the issues' impact on the environment, people and society at large.

When considering the importance to Fossflakes, the working group considered factors such as the company's long-term objectives and competitiveness, its values and vision on sustainability, its attractiveness as a workplace, market trends, sustainability legislation, access to finance, and financial performance.

The result of the 2021 materiality assessment can be seen in Figure 2 on the next page. Issues in the top right of the chart are the highest priority, while issues in the bottom left are lower priority.

The primary issues relate to the environmental impacts of materials used for our products as well as packaging. Other material issues relate to: the sourcing of materials, both environmental impact as well as social risk; waste, energy use and employee wellbeing and development at our production site in Denmark; and finally to the environmental impact of the distribution of our products.

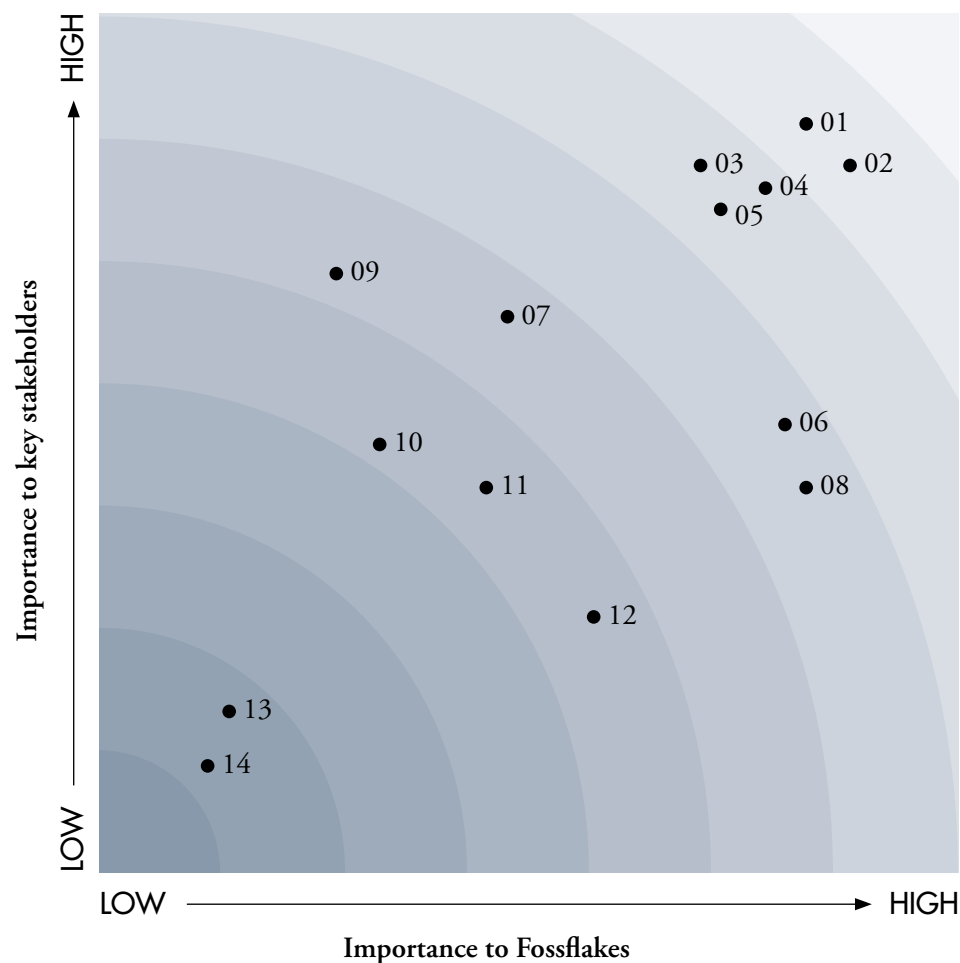


Figure 2:
Materiality assessment of sustainability issues

Sustainability issues

01. Use of oil-based virgin plastic
02. Product durability¹
03. Product disposal/recycling
04. Carbon footprint
05. Sustainability performance data & transparency
06. Packaging materials
07. Risk of microplastic pollution
08. Employee development
09. Supply chain traceability
10. Production waste
11. Purchasing ethics
12. Energy efficiency
13. Employee diversity²
14. Chemicals in products³

Notes

1. Tests show that Fossflakes products are long-lasting compared to alternatives. The reason we prioritise durability and will continue to invest in it is because it gives us a competitive edge, makes customers happy, and is better for the environment than a product that requires frequent replacement.

2. Employee diversity is positioned as a low priority. This is not to say that diversity is unimportant, but rather that it is a lesser issue to Fossflakes and its stakeholders compared to other issues on the chart.

3. We only use cotton that is Oeko-Tex 100 certified free of chemicals and harmless to human health. Further, our production process uses no chemicals.

Sustainability programme overview

To address the key findings of the materiality assessment, the sustainability working group developed a sustainability program for the period 2021-2024.

The program has four tracks of activity as follows:

Product sustainability

Creating better performing products and packaging – using the best solutions

- Reducing the impact of our products through the use of new materials and/or business models
- Rethinking packaging solutions
- Creating the lowest CO₂ product in our segment of the market – documented

Low impact operations

Minimising the environmental impact of our operations and activities

- Energy efficiency and renewable energy in our own production
- Minimise waste of materials in our own production

Responsible conduct

Ensuring transparency and proper business conduct across the value chain

- Supplier program to ensure social, environmental and ethical standards
- Ensure traceability in the supply chain
- Communicate our progress based on data in a transparent sustainability report

Attractive workplace

Caring for our people

- Continue the development of an inclusive and attractive workplace as we grow
- Create career options and development opportunities for employees
- Maintain our strong record on health and safety

Each track of the programme has an action plan with responsibilities assigned to individuals on the sustainability task force. Given that the programme was approved in September 2021, there was limited time in 2021 to make progress on the action plan.

Nonetheless, in the next section we explore the issues, actions and plans for each track of the programme.



Product sustainability

Creating better performing products and packaging

Contributing to UN Sustainable Development Goals





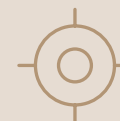
Why?

Our products are made from cotton, polyester and polyethylene and these materials, combined with packaging, represent Fossflakes' biggest sustainability impact. Finding ways to reduce the environmental footprint of our products while retaining their durability, warmth and comfort is at the heart of our sustainability efforts.



Focus areas

- Make our products more sustainable by exploring different solutions from new materials to new business models
- Finding solutions for product 'end-of-life' management – first and foremost by exploring options with our largest retail customers
- Rethink our packaging solutions to reduce packaging materials and allow for a wider customer choice regarding packaging



Goals for 2024

- 01 Strong offering of new products based on more sustainable raw materials without losing the product's key attributes
- 02 Creating the lowest carbon footprint products in our category of the market – documented
- 03 Offering clever and flexible packaging solutions – fossil free
- 04 Established as a sustainable brand in the market – customers are aware of the sustainability performance of our products



Cotton shells

Cotton contributes the largest carbon footprint of all our materials. All sleep products use cotton that is certified Class 1 in Standard 100 by Oeko-Tex, which means close skin contact is harmless, even for babies. The cotton shell is tightly woven to prevent the penetration of dust mites, meaning our cotton is hypoallergenic.



Our cotton is produced conventionally. In 2022 we will investigate whether customers would accept off-white or completely unbleached cotton, which would reduce the use of chemicals in the production process of our shells. We would also like to introduce more organic cotton, however there is a global shortage of material. Further, there is a lack of transparency in the supply chain that would provide assurance that the material we receive would be truly organic.

You can read more about our work with cotton suppliers, especially regarding our wish for cotton workers to be well treated, in the section “[Responsible Conduct](#)” below.

Filling material

Our main product lines use virgin polyester and polyethylene, which are derived from crude oil, whose extraction and use contributes to climate change. In 2019 we launched a new product line using recycled polyester and bio-based polyethylene. So far, sales of this new line are modest.

We have investigated the option of using recycled polyethylene in our products, however the quality of available material is currently insufficient.

While recycled polyethylene is currently not a viable material for our products, recycled polyester is. We have identified a supplier whose material we will test in 2022, with a view to increasing the amount of recycled material in our final products.

Shipping packaging

All our products leave our factory in cardboard boxes. We line the cardboard boxes with polyethylene bags to protect the products against moisture. In late 2021 we began a review of the types of boxes we use and have identified an opportunity to switch to boxes that do not require polyethylene bags. The review includes an examination of the tree-planting activities of the suppliers.

Sales packaging

While around 70% of our pillows are sold without sales packaging, duvets are sold in individual paper or polythene bags sourced from China. At the end of 2021 we began an investigation of bag manufacturers located closer to Denmark. As part of this process, we are asking for carbon footprint data and will prefer FSC certified paper. FSC certification confirms that the forest is managed in a way that preserves biodiversity and benefits local people and workers.

The current design of the sales bags is optimised for easy packing at our factory rather than re-use by the consumer. In 2022 we will investigate options for redesigning the bags for alternative uses and improving recyclability.

Microplastics

For three reasons, we believe there is very minimal risk of the escape of microplastics during the normal use, washing and drying of our products. First, we filter away dust from the raw materials during production. Second, the filling material doesn't break down during use. And third, the tight weave of the cotton and secure sewing keep the material in place. In 2022 we will look for suitable tests to independently document this.

Product durability


Our products have been tested for durability and shown to last longer than down and fibre products. This reduces the required frequency of purchase and sustainability impact. These tests were undertaken in the period 2005 to 2009, therefore we will update these tests in 2022.

Lifecycle assessment

In 2022 we will develop a LCA calculation to identify the greatest areas for reducing the carbon footprint of our products, as well as tracking and reporting our progress.

The calculations will be based on the general principles of ISO Standard 14040 and 14044, and will include materials, manufacturing and distribution.

Strategic initiatives for 2022



- 01 Establish a task force and roadmap for product and business model development to reduce the impact of our materials
- 02 Develop and maintain a system for product data linked to sustainability
- 03 Test different models and types of packaging with customers
- 04 Stay up to date on the plastics debate and explore new, more sustainable types
- 05 Make a light lifecycle assessment of key materials to understand how best to reduce impact and set targets accordingly



Low impact operations

Minimising the environmental impact of our own activities

Contributing to UN Sustainable Development Goals





Why?

Our production takes place at a rented 6,000 square metre facility in Skive, Denmark. Production has a relatively low environmental impact compared to the footprint of our materials. During production we use electricity, a little water and no hazardous chemicals. Therefore, the main footprints of our operations are electricity and heating, the transportation of raw materials and final goods, as well as waste in the factory. We aim to make reductions in all areas and have asked our employees to contribute their ideas.



Focus areas

- Do our utmost to run our operations energy-efficiently and solely on renewable energy
- Minimise waste of materials in the production process
- Address transportation and business travel impacts by making more environmentally friendly choices



Goals for 2024

- 01 100% renewable electricity and heating
- 02 Zero production waste to landfill
- 03 Working only with the most environmentally friendly transportation companies

Electricity

The electricity we use in production is certified CO₂ neutral and from renewable sources.

In 2021 we used 366,000 KWh of electricity across our production and administrative sites. This equates to 5,463 KWh per million DKK of sales or 0.39 KWh per item of finished goods.

In 2021 we undertook an analysis of our electricity usage and discovered that our machines were routinely left on overnight. We now ensure our machines are fully switched off at night so they don't use electricity. Further we investigated the case for upgrading to LED-compatible lighting fixtures but found the up-front cost to be prohibitively high.

Energy efficiency is a key criteria when we select new production equipment.

Heating

The production site is heated by natural gas, a fossil fuel that contributes to climate change. District heating is currently unavailable at our address, but in 2022 we will investigate other options for greener sources of energy.

In 2021, we consumed 63,000 m³ of gas. This equates to 940 m³ per million DKK of sales or 0.07 m³ per item of finished goods.

An analysis of our heating usage resulted in the discovery that the factory gates were often left open for extended periods, resulting in heat loss. The prompt closure of the factory gates is expected to reduce our natural gas consumption by around 3% per year.

Further, we identified that the site is poorly insulated. We believe that upgrading the insulation may reduce our consumption of heating, therefore we will raise the issue with the landlord in 2022.

Water

Our manufacturing site requires water to keep the air and machinery humidified. The total annual water use in 2021 was calculated at 75.4m³.

Waste

As is typical for a manufacturing company, our primary source of waste is unused production material.

In 2021, we bought 700 tons of production material – cotton and filling. Of this, 98.6% ended up in finished goods, while 1.4% ended up as waste for incineration. Part way through the year we made quality control improvements that will result in an annual reduction of production waste of around 0.7%. This will feed into an improved waste performance in 2022.

Around 1.5% of our cotton fails quality control and is wasted. In 2021 we opened a dialogue with suppliers on how to reduce this waste. An alternative is to create an outlet version of our products using the rejected cotton shells. We will decide on the best way forward in 2022.

One percent of our production material is filling that cannot be used because it has been on the floor. In 2021 we began an investigation into upcycling options and in 2022 we will select a suitable partner to help reduce this waste.

Another potential source of waste is the packaging material used by our suppliers. However, for several years we have recycled this material, which in 2022 amounted to two tons of polyethylene foil and 20.4 tons of cardboard.

In 2021, the total production waste sent for incineration was 16.3 tons. Our target for 2022 is a reduction of 20%. We will also investigate options for recycling our office and canteen waste.

Transportation of materials and finished goods

Our transportation activities break down into two flows: the inbound supply of materials and the outbound delivery of finished goods. Fosslakes selects the mode of transport for all inbound supplies and around 30% of outbound deliveries. The remaining 70% of outbound deliveries are organised by our customers. All transportation

is carried out using third-party vehicles and vessels. Fossflakes does not own or lease any such transportation assets.

In 2021, approximately 50% of our ton kilometres were transported by sea, the mode of transport with the lowest CO₂ emissions. The remaining 50% is comprised of rail, road and air. During 2021, we implemented improvements to our procurement and purchasing planning that mean in 2022 we can virtually eliminate air freight, the mode with the heaviest environmental footprint.

In early 2022 we began a dialogue with transportation suppliers around carbon emissions, however the data they currently provide is high-level and lacking standardisation. We will continue the dialogue but expect that it may be some years before suppliers are able to provide the data and lower impact transport we would like.

Business travel

Our business travel by employees comprises both international and domestic trips. Internationally we travel to suppliers and customers while domestically we travel to customers and commute between our production site in Skive and our marketing and e-commerce office in Copenhagen.

The enforced reduction of overseas business travel during the covid-19 pandemic has taught us that not all overseas travel is necessary, and we expect this to result in a 60% reduction in international

travel on an ongoing basis. As this travel takes place primarily by air, its reduction will cut our business travel impact significantly, compared to pre-pandemic levels.

Domestically, most of our travel in 2021 was by car. The total distance driven was approximately 30,000 km, equivalent to around 33 km for every thousand products sold.

Fossflakes has three company cars, one of which is hybrid. We regret to learn at the start of 2022 that hybrid cars may be more environmentally damaging than petrol and diesel cars, despite the Danish government's support for hybrid vehicles as part of the nation's green transition plan.

We will factor this information into our decision-making around cars in 2022 and more broadly into a new business travel policy to reduce our environmental impact. We expect the policy to stipulate more use of the train, car-sharing and offsetting of flights.

Scope 1 & 2 emissions

To help manage the overall impact of our operations, we will calculate Fossflakes' Scope 1 and Scope 2 emissions for 2021 using the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard. The work will be completed in the first half of 2022 and will give us a baseline for setting targets and delivering reductions over the coming years.

Strategic initiatives for 2022



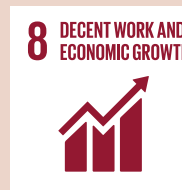
- 01 Ensure renewable energy at all locations
- 02 Develop common rules and policies for transportation and logistics
- 03 Initiate new policy for sustainable business travel
- 04 Calculate our scope 1 and 2 emissions



Responsible conduct

Ensuring transparency and proper business conduct across the value chain

Contributing to UN Sustainable Development Goals





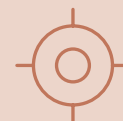
Why?

Demands on companies in respect of transparency, ethical and responsible business conduct as well as managing human rights are increasing rapidly. We want to play our part in ensuring that business is done in a responsible and ethical manner and work with our suppliers and business partners to do so.



Focus areas

- Supplier program to ensure high social, environmental and ethical standards
- Managing high-risk suppliers
- Traceability in the supply chain – knowing where our materials come from
- Communicating our progress based on data in a transparent manner in a sustainability report



Goals for 2024

- 01 Responsible procurement measures are well implemented and functioning
- 02 Perceived as a trustworthy partner based on well-documented sustainability performance
- 03 Communicate openly about our sustainability performance in a short and clear annual sustainability report

Transparency

Like many other buyers of cotton, we experience a lack of transparency around the working conditions in the cotton industry of Western China, and are aware of reports of human rights violations.

To aid our evaluation of cotton suppliers, we joined the Business Social Compliance Initiative (BSCI), providing us with a framework and tools for auditing suppliers and improving working conditions among suppliers in China and other high-risk countries. We now use the BSCI framework for every new supplier we evaluate and to identify risks among our existing Chinese suppliers.

In early 2022 we aligned our supplier code of conduct with BSCI guidelines and all suppliers signed it. Now that covid-19 travel restrictions are easing, we expect to regain the option to visit suppliers in person.

We will also raise our concerns with the Danish Chinese Business Forum and discuss options with customers. Some customers have specified that in coming years they will require cotton from the Better Cotton Initiative (BCI), which currently does not operate in China. We plan to meet this requirement but, in our assessment, none of the leading cotton sustainability programmes, such as BCI, Fairtrade or GOTS, provide the supply chain visibility necessary to assure the final material in our hands. We will continue to monitor the situation and act to reduce our risk in this area.

Sustainability key performance indicators


In 2022 we will agree key performance indicators (KPIs) for each track of our sustainability programme. These KPIs will aid internal alignment around key sustainability issues and performance monitoring and reporting. To facilitate transparency for our stakeholders and comparability with other companies, such KPIs will be based on emerging industry standards whenever possible.

Sustainability reporting & communications

To help ensure an ongoing improvement in our sustainability performance, we applied for membership of the United Nations Global Compact at the end of 2021. We expect to be admitted in 2022 and commit to publishing a communication on progress each year.

Further, we want to ensure our stakeholders know about the sustainability initiatives we are investing in, therefore in late 2021 we developed a communications plan for 2022. Customers and employees – both existing and potential - can expect to learn more about our sustainability work over the course of the year.

Strategic initiatives for 2022



- 01 Integrate social, environmental and ethical requirements into all contracts
- 02 Map risks in the value chain and follow the situation regarding high-risk suppliers in China (cotton)
- 03 Establish a solid baseline of sustainability KPIs
- 04 Sign the United Nations Global Compact



Attractive workplace

Caring for our people

Contributing to UN Sustainable Development Goals

3 GOOD HEALTH
AND WELL-BEING



8 DECENT WORK AND
ECONOMIC GROWTH





Why?

As a professionally run business, it is important for Fossflakes to create a work environment that attracts and retains motivated and skilled employees – our most valuable assets. As we set out to grow the business, we need to be more structured in our approach to competence development, diversity, inclusion, well-being at work, as well as health & safety.



Focus areas

- Continue the development of an inclusive and attractive workplace as we grow
- Create career options and development opportunities for employees
- Maintain the record on health & safety
- Focus on well-being



Goals for 2024

- 01 Be well known locally as an attractive place to work
- 02 To provide an attractive, safe and meaningful workplace for our employees – with no work-related accidents
- 03 To be a diverse, equal opportunity employer – going an extra mile to give people outside the labour market another chance
- 04 Ensure good opportunities for career development

Fossflakes' values

Over the years we have developed a set of values that employees, management and the board use to ensure an attractive workplace and appropriate daily actions. These values are:

- A promise is a promise
- Constant care
- I do my utmost – for myself and my colleagues
- Open and direct dialogue
- All Fossflakes employees matter and deserve respect
- Quality is not expensive – it's poor quality that'll cost you
- Our customers are our living
- I'm happy to be here

Employee satisfaction

On the foundation of the values above, we have built a business with long employee tenure and low turnover. In 2021, the average tenure of employees was 5.5 years and turnover was 8%.

We conduct individual staff interviews every year to help identify and manage issues and in 2022 we will introduce an employee satisfaction survey.

All our staff are interested in the sustainability of the business, especially younger employees. We expect that improvements in our sustainability performance will help to attract and retain the right employees.

Health & safety

Fossflakes complies with all relevant safety regulations. Production staff are fully trained in the equipment they use and the safety procedures they must follow. Every employee has a height-adjustable workstation to help ensure individual comfort and safety. We provide every employee with health insurance.

In 2021, we had only one accident resulting in more than one day of absence. Absence due to sickness was on average six days per full-time equivalent.


Diversity

At the end of 2021 we had 39 employees. Our women-to-men ratio was 2.25:1, which reflects the dominance of women in the bedding industry. At management level, the gender ratio is 1:4, which we would prefer to be more balanced, but turnover in management roles is very low. All three of our board members are male. Our ranks include three employees with limited ability to work ('Flexjob' employees), which is in line with our target of 10% of employees. We employ 3 non-Danes.

Employee development

To help grow the business we will invest in employee development. We will develop a policy and plan during 2022.

Strategic initiatives for 2022



- 01 Safe work environments striving for zero accidents and no lost time injury to keep our people safe and operations running
- 02 Strengthen competence development to secure our competitiveness and develop our people
- 03 Develop further activities to increase diversity, ensure equal opportunities and wellbeing

Thank you

Thank you for reading our sustainability report. We hope it met your expectations and welcome your feedback.

Although this is the end of the report, it is not the end of our work. We are busy addressing our sustainability action plan so that we have even more progress to share with you in our next report.

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