



Sustainability

For a peaceful night's sleep

2022 REPORT



Fosseflakes

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Letter from the CEO



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Dear customers, employees, suppliers and owners of Fossflakes

The year 2022 was our first full year of implementing our sustainability programme and I'm pleased to report significant progress. We completed 10 of our 15 strategic objectives for the year and moved forward on most of the others. At the start of 2022 we may have been disappointed not to have progressed further but by the end of it we were happy.

Why? Because 2022 was a year of unprecedented turmoil in our market. Turmoil that sucked valuable management time and energy to keep the business operating. And we spent much of the year with a reduced management team, which added to our challenges.

Nonetheless, we have many sustainability achievements to be proud of. We produced our first carbon accounts, made an environmental assessment of our top selling product, created our product sustainability roadmap, defined our sustainability KPIs, virtually eliminated air freight, cut our use of natural gas, supported the career development of employees, and developed our first sustainability report.

We learned that sustainability is a complex and time-consuming issue, with imperfect information and imperfect solutions. But it is also becoming a regular decision-making factor in our daily work. A mindset change is taking place.

But perhaps best of all, our customers and the wider business community confirmed our sustainability programme was on the right track. Our product plans were well received, we were invited to give speeches and interviews, and our first report even won an award.

Despite these successes, the year was not without minuses. We were unable to switch to renewable heating energy, map our supplier risks, or increase diversity.

Yet overall, 2022 prepared us well for the period ahead. At the time of publication, we have a little over 1½ years to meet our 2024 objectives. While many are still attainable, a few are at risk of not being fully met. To maximise our progress, we need to focus on our priorities, involve more employees, concentrate our effort on the first half of each year, and trust that solutions will materialise when we persevere.

We remain committed to our goals, to the 10 principles of the UN Global Compact, and to communicating our progress each year.

I hope you find the information you are looking for in this our second sustainability report.

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 only from manufacturers in Sweden and Denmark, while the polyester fibre is supplied by a Danish agent 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 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 online and offline to consumers. All products leave our factory by road but may change mode of transport, predominantly to sea, according to the final country of destination. All D2C orders are transported by truck.

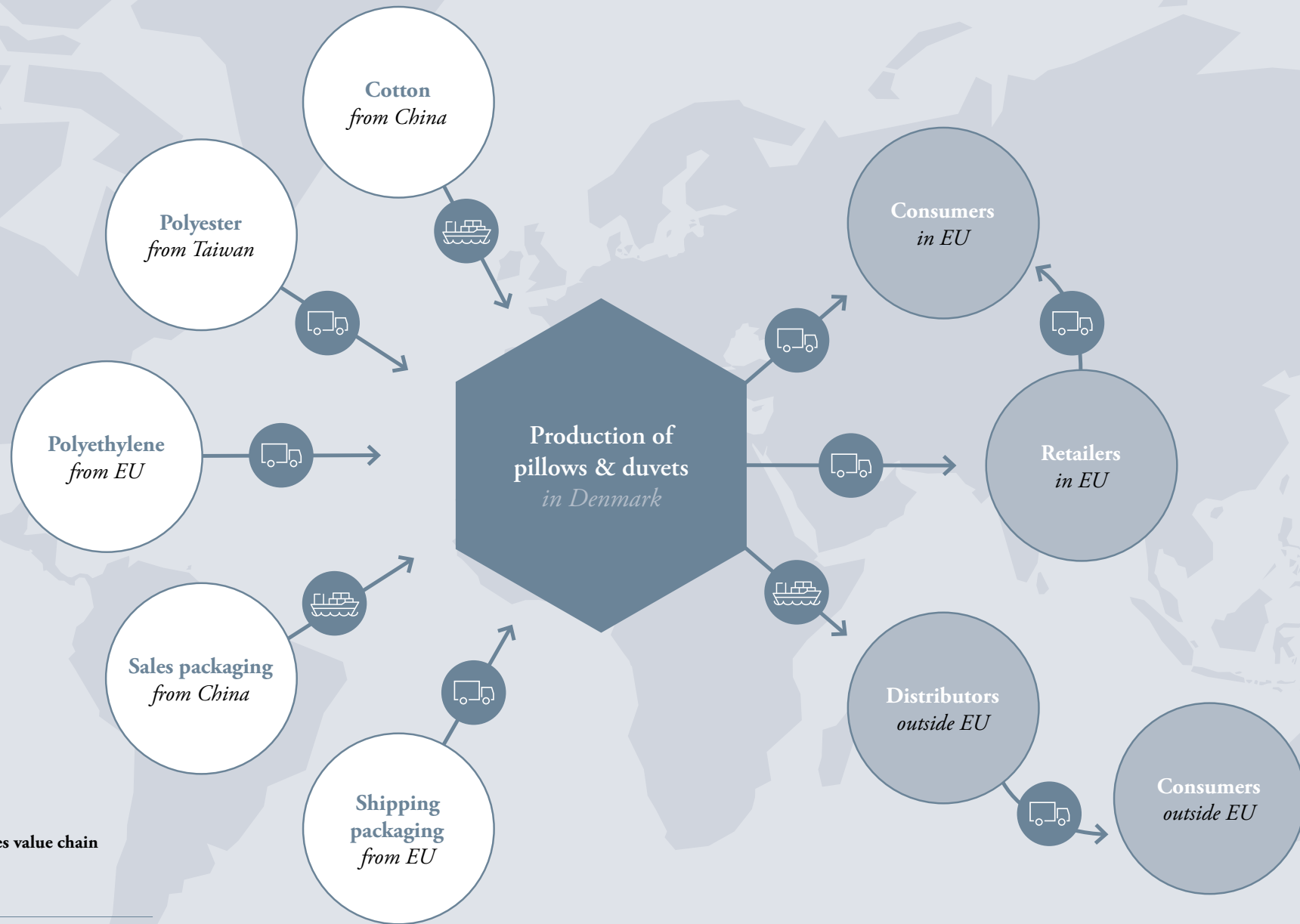


Figure 1:
Fossflakes value chain

Materiality assessment

In the summer of 2021, we started a process to formalise our sustainability activities into an ongoing sustainability program. The first output from this process was a materiality assessment, upon which all our sustainability activities are based until 2024.

The purpose of the materiality assessment was to identify the key sustainability issues for the company to address.

The company's sustainability working group – comprising the Fossflakes management team and external consultants – evaluated all aspects of the business, from the company's own operations in Denmark to its upstream 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, 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.

Each track has an action plan with responsibilities assigned to individuals on the sustainability task force. The following pages contain more details on our 2022 progress and plans for 2023.

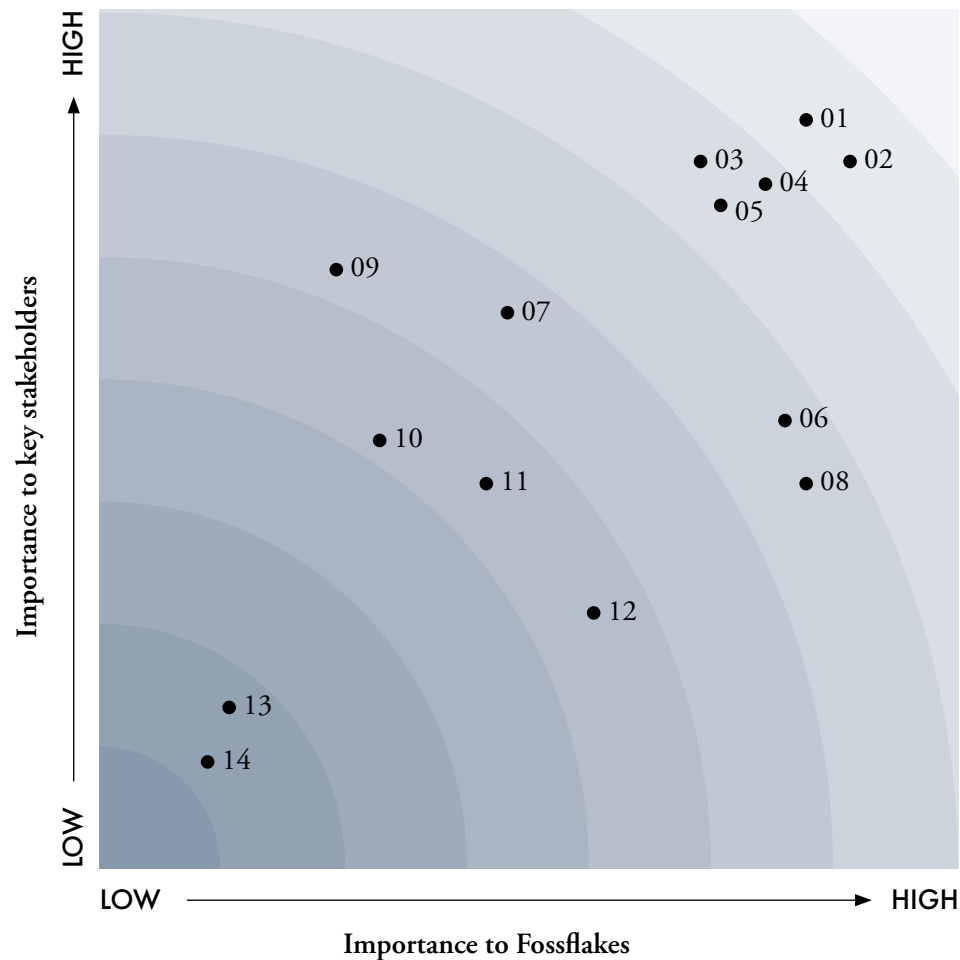


Figure 2:
Materiality assessment of sustainability issues

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:

| | | | |
|---|---|---|---|
| <h3>Product sustainability</h3> <hr/> <p>Creating better performing products and packaging – using the best solutions</p> <hr/> <ul style="list-style-type: none">• 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 | <h3>Low impact operations</h3> <hr/> <p>Minimising the environmental impact of our operations and activities</p> <hr/> <ul style="list-style-type: none">• Energy efficiency and renewable energy in our own production• Minimise waste of materials in our own production | <h3>Responsible conduct</h3> <hr/> <p>Ensuring transparency and proper business conduct across the value chain</p> <hr/> <ul style="list-style-type: none">• 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 | <h3>Attractive workplace</h3> <hr/> <p>Caring for our people</p> <hr/> <ul style="list-style-type: none">• 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 has an action plan with responsibilities assigned to individuals on the sustainability task force. The following pages contain more details on our 2022 progress and plans for 2023.



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

Strategic initiatives for 2022

The table below shows the actions we committed to in last year's report and our progress against them. For more details read the following pages.

| Initiative | Status | Commentary |
|---|--------------|---|
| 01 Establish a task force and roadmap for product and business model development to reduce the impact of our materials. | | The task force comprises our CEO, marketing director and procurement manager. The roadmap is illustrated in Figure 3. |
| 02 Develop and maintain a system for product data linked to sustainability. | | We have upgraded our ERP system to ensure it supports the tracking of sustainability KPIs. As we shift to new materials, such as Better Cotton, we will update the system to ensure we can track and report the volumes used. |
| 03 Test different models and types of packaging with customers. | Not required | Only one packaging option met our criteria, therefore an internal test was sufficient to move forward. |
| 04 Stay up to date on the plastics debate and explore new, more sustainable types. | | Held numerous discussions with suppliers to learn about the availability and suitability of material. We now have plans to introduce recycled material. |

Complete
 Partially complete
 Limited progress
 No progress

Environmental assessment

One of the key product objectives for 2022 was to make a light lifecycle assessment of key materials to understand how best to reduce impact. With the help of an external consultant we completed this work.

The assessment focussed on our best-selling pillow and included the production of materials, transport to our factory, manufacturing of the pillow, and transport to a distribution centre in Sweden. Use and disposal of the pillow were excluded.

The environmental assessment was based on the principles of life cycle analysis (LCA) described in ISO standards 14040 and 14044. It focussed on the most material aspects: global warming impact and the use of water, fossil resources, and land. It did not include a critical review by an impartial third party.

The assessment showed the environmental impact of the product’s constituent materials, production, waste, packaging and distribution:

- Cotton, polyester and polyethylene together account for 87% of the contribution to global warming and 84% of the use of fossil resources
- Cotton contributes 92% of the water consumption and 82% of the land use
- Fossflakes’ own manufacturing contributes only 2.2% of the global warming impact and distribution even less, at 1.5%

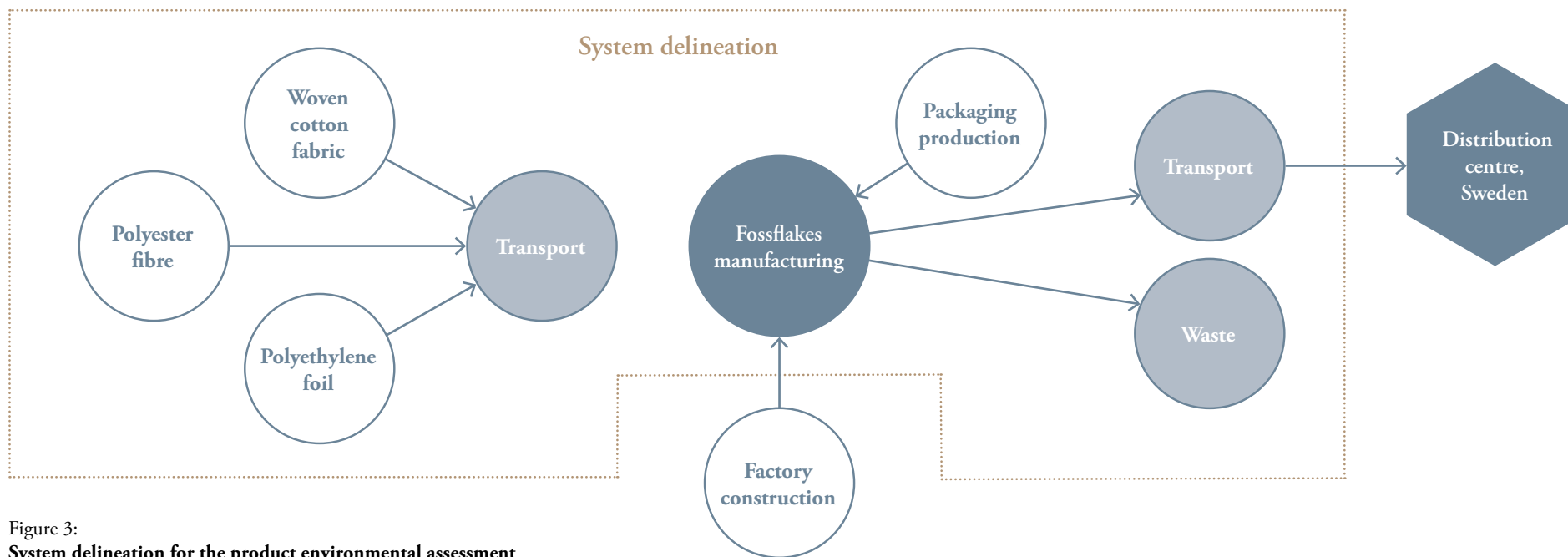


Figure 3:
System delineation for the product environmental assessment

These findings confirm that the priority for our sustainability programme should remain on finding materials that reduce the product’s greenhouse gas emissions.

| | Global warming (kg CO ₂ equivalent) | % of total |
|----------------|---|---------------|
| Cotton | 1.35 | 36.1 |
| Polyester | 1.21 | 32.3 |
| Polyethylene | 0.70 | 18.6 |
| Packaging | 0.34 | 9.0 |
| Own production | 0.08 | 2.2 |
| Distribution | 0.06 | 1.5 |
| Waste | 0.01 | 0.2 |
| Total | 3.73 | 100.0 |

Figure 4:
Greenhouse gas emissions to produce and deliver a Fossflakes pillow

Emissions targets

A further objective for 2022 was to set an emissions target for the product in line with the objective of offering the lowest carbon footprint product in its category. However, in order to set such targets we need additional data on other materials, which was unaffordable in 2022. It is a key objective to find a cost-effective solution and carry out this work in 2023.

Product roadmap

The figure shows our current plan for how we will evolve our product materials and business model to reduce emissions. The first four stages show the introduction of alternative materials, while at the fifth stage consumers will be able to return their old products so that we can refresh the filling and extend their life. The introduction of new materials is dependent on their meeting our quality, durability and cost requirements.

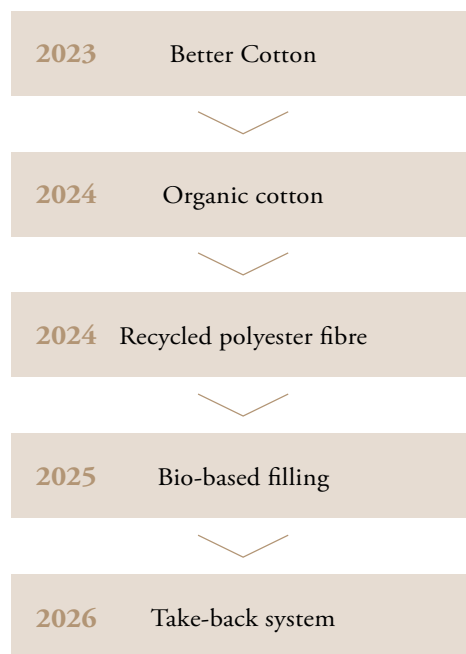


Figure 5:
Product and business model roadmap

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-



STANDARD 100

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. In 2022 we purchased 62 tons cotton, all produced conventionally.

In 2022 we planned to investigate whether customers would accept off-white or unbleached cotton, which require less chemicals to produce. Instead, we prioritised a request by our largest customer for cotton from Better Cotton farmers. Better Cotton trains farmers in more environmentally friendly practices and according to its 2020 Impact Report (the latest available) its farmers use less water, synthetic pesticides and fertiliser than comparison farmers, while producing a higher yield. In 2023 we expect to shift a significant volume to Better Cotton.

Further steps to improve the sustainability profile of our shells include organic cotton and alternative materials such as bamboo, cellulose and Tencel. We are also investigating suppliers located closer to Denmark to reduce shipping distances.

You can read more about our work with cotton suppliers, especially regarding fair treatment of cotton workers, in the section “[Responsible Conduct](#)” below.

Filling material

Our main product lines use polyester and polyethylene, which are both virgin materials derived from crude oil, whose extraction and use contributes to climate change. In 2022 we purchased 164 tons of polyester and 353 tons of polyethylene.

We have investigated the option of using recycled filling materials but the quality and durability are currently insufficient. We will remain in contact with suppliers about alternatives.

We also have a direct-to-consumer product line using recycled polyester and bio-based polyethylene. So far, sales are modest.

Shipping packaging

All our products leave our factory in cardboard boxes lined with polyethylene bags to protect the products against moisture.

We purchased 138 tons of boxes and 11.5 tons of bags in 2022.

In 2022 we identified an opportunity to switch to a different type of box that would eliminate the need for polyethylene bags. The switch requires an investment of DKK 5-6 million, which we are unlikely to make in 2023, but it remains a longer-term option.

Sales packaging

While around 70% of our pillows are sold without sales packaging, duvets are sold in individual bags made of polypropylene or FSC paper. FSC certification confirms that the forest is managed in a way that preserves biodiversity and benefits local people and workers.

In 2022 we bought 2.3 tons of polypropylene bags and 6.5 tons of paper bags. Currently we do not have the carbon emissions data for this sales packaging.

We have identified a European paper bag supplier that would enable us to cut shipping distances significantly compared to the current supplier in China. The change requires an investment of around DKK 500,000, which we are prepared to make when the price of the material falls and makes the investment cost-neutral.

As for the bags made of polypropylene, we will switch to recycled material in 2023.

The design of both bags will be unchanged. Originally, we had wanted to investigate a redesign to extend functionality and recyclability, but this was put on pause to attend to higher priorities.

Microplastics

We believe there is very minimal risk of the escape of microplastics during the normal use, washing and drying of our products. There are three reasons for this:

1. We filter away dust from the raw materials during production.
2. The filling material doesn't break down during use.
3. The tight weave of the cotton and secure sewing keep the material in place.

In 2022 we searched for a testing partner to independently document this but found no tests suitable for such a niche requirement. We have therefore put this activity on pause but remain open to it should a suitable test become available.

Product durability

Our products have been tested for durability and shown to last longer than down and fibre products. The tests were undertaken in the period 2005 to 2009, and we wanted to update them in 2022. However, in 2022, our polyester supplier announced that it would phase out the fibre we have been using, therefore we were forced to begin a process to switch to new fibre. Durability testing will therefore take place in 2023 as part of an overall quality test of the new fibre.

End-of-life management

In 2022 we were unable to make progress on end-of-life management due to other priorities. We plan to start investigating end-of-life options with our largest retail customers in 2023.

Sustainable brand


As the demand for sustainable products grows, we want to ensure our customers and distributors understand the work we are doing on sustainability. We have therefore committed to share sustainability news at least twice per year, in the spring and autumn.

In 2022 we communicated our sustainability news in meetings, on our website, newsletters and social media channels. We also updated a handful of product descriptions to ensure compliance with Danish environmental marketing law.

We have found it beneficial to communicate about sustainability proactively and it is now a topic we feel comfortable discussing. Some of our customers and distributors are highly interested, others less so. Equally, the specific issues of interest varies – from allergies to environmental impact and from organic material to social responsibility. However, we note a general demand for the use of recycled plastic and the elimination of single-use plastic.

In 2023 our communications will continue and we plan to enhance them by adding video. We will also survey our customers by the end of the year to understand to what extent they view Fossflakes' as a sustainable brand.

Strategic initiatives for 2023



- 01 Conduct LCA to compare the emissions of our product with those made of other materials and set targets accordingly
- 02 Start the switch to Better Cotton and set launch date for organic cotton
- 03 Switch to recycled polypropylene bags for the majority of products and continue to evaluate alternative filling materials
- 04 Keep customers and distributors informed of our sustainability progress and plans



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







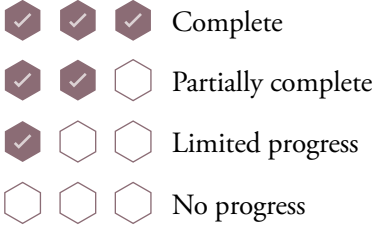
Goals for 2024

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

Strategic initiatives for 2022

The table below shows the actions we committed to in last year's report and our progress against them. For more details read the following pages.

| Initiative | Status | Commentary |
|--|---|---|
| 01 Ensure renewable energy at all locations. |  | Certified wind power used in manufacturing but district heating not yet available in Skive. Estimated for 2025. |
| 02 Develop common rules and policies for transportation and logistics. |  | Policy developed and rolled out internally. |
| 03 Initiate new policy for sustainable business travel. |  | Policy developed and rolled out internally. |
| 04 Calculate our scope 1 and 2 emissions. |  | Emissions for 2021 and 2022 calculated. |







 Complete
 Partially complete
 Limited progress
 No progress

Figure 6:
Progress on 2022 strategic initiatives to reduce the impact of our operations

Greenhouse gas emissions

To help manage the overall impact of our operations, we had an independent consultant calculate the 2021 scope 1 and scope 2 emissions of our manufacturing and office facilities in Skive, Denmark.

The carbon accounts were prepared according to UN Global Compact guidelines, the Danish Chamber of Commerce's Easy Climate Guide, and the Greenhouse Gas Protocol, a recognised international standard for reporting emissions.

Following the same methodology, we calculated the emissions for 2022 ourselves. The emissions for both years are presented in Figure 7 below.

The company's scope 1 emissions come from gas-fired heating and three cars, while scope 2 is made of purchased electricity.

For the years 2022-2024, Fossflakes has CO₂-neutral electricity achieved through the purchase and retirement of emissions certificates corresponding to an expected annual consumption of around 1.5 million kWh. For this reason, the market-based scope 2 emissions in 2022-2024 will be 0 tons CO₂ equivalent during the period, which explains the reduction compared to 2021.

| Tons CO ₂ equivalent | 2021 | 2022 | Change |
|---------------------------------|------|------|--------|
| Scope 1 | 153 | 120 | -21.6% |
| Scope 2 (location based) | 52 | 59 | +13.5% |
| Scope 2 (market based) | 138 | 158 | +14.5% |

Figure 7:
Total greenhouse gas emissions for 2021 and 2022

| Tons CO ₂ equivalent / produced item | 2021 | 2022 | Change |
|---|-------|-------|--------|
| Scope 1 | 0.15 | 0.12 | -20.0% |
| Scope 2 (location based) | 0.055 | 0.062 | +27.2% |
| Scope 2 (market based) | 0.15 | 0.17 | +13.3% |

Figure 8:
Greenhouse gas emissions per produced item for 2021 and 2022

Electricity

As explained in the emissions section above, the electricity we use in production is certified CO₂ neutral.

In 2022 we used 417,000 kWh across our production and administrative sites, almost 14% more than in 2021 due to the installation of a second duvet machine. However, in 2022 we also replaced all fluorescent lighting tubes with LED lamps, which should contribute to an ongoing reduction in electricity use. In general, energy efficiency is a key selection criterion for us when buying new production equipment.

| Electricity | 2021 | 2022 | Change |
|--|---------|---------|--------|
| KWh | 366,000 | 417,000 | +13.9% |
| KWh per million DKK sales | 5,463 | 6,242 | +14.3% |
| KWh per thousand finished items | 390 | 583 | +49.4% |

Figure 9:
Electricity consumption – total across production and administrative sites

Heating

Our production site is heated by natural gas, a fossil fuel that contributes to climate change. In 2022, we consumed 51,000 m³ of gas, 19% less than in 2021 due to lowering the temperature of the factory.

| Gas | 2021 | 2022 | Change |
|--|--------|--------|--------|
| m ³ | 63,000 | 51,000 | -19.0% |
| m ³ per million DKK sales | 940 | 763 | -18.8% |
| m ³ per thousand finished items | 70 | 71 | +1% |

Figure 10:
Gas consumption at production site in Skive, Denmark

In 2023 the factory landlord is making two upgrades that will reduce our future consumption of gas.

1. The factory's loading dock will be sealed to prevent heat loss when trucks are backed up to it.
2. New ventilation will move excess heat from the furnace room to other areas where it is needed.

The landlord has also committed to investigate the possibility of roof insulation.

District heating, which is an important part of the Danish government's green energy strategy, is expected to become available to us around 2025. However, due to the design of the factory's heating system, only around 35% of our heating requirement could be fulfilled by district heating. The landlord is open to a redesign.

That said, we note that Skive's new district heating plant will be wood-fired, and in early 2023 there is debate as to whether this energy source can be classified as sustainable. We will follow the debate and remain open to other renewable energy sources such as heat pumps and solar.

Water

Our manufacturing site uses water to keep the air and machinery humidified to prevent the development of static electricity. The total annual water use in 2022 was 632 m³, down 19% compared to 2021.

| Water | 2021 | 2022 | Change |
|--|------------------|------|--------|
| m ³ | 780 ² | 632 | -19.0% |
| m ³ per million DKK sales | 11.4 | 9.5 | -16.7% |
| m ³ per thousand finished items | 0.82 | 0.88 | +7.3% |

Figure 11:
Water consumption at production site

Waste

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

In 2022, this amounted to 17.3 tons or 1.4% of production material going to waste, the same as in 2021.

Production waste is currently incinerated, but we aim to find an upcycling partner instead. Despite making enquiries in 2022 we were unable to find a suitable fit, so our search continues in 2023.

As for suppliers' packaging material, we continue to recycle 100% as in previous years. In 2022 this amounted to 1.8 tons of polyethylene and 18.9 tons of cardboard.

In 2022 we planned to analyse other forms of waste (food, paper etc) and investigate options for recycling, however this was down-prioritised. In 2023 it remains a low priority since it will have a relatively low environmental impact compared to actions we can take in other areas.

| Type of material (tons) | 2021 | 2022 | Change |
|-------------------------|-------------|-------------|--------------|
| Cotton & filling | 16.3 | 17.3 | +6.1% |
| Polyethylene packaging | 2.0 | 1.8 | -10.0% |
| Cardboard | 20.4 | 18.9 | -7.4% |
| Total | 38.7 | 38.0 | -1.8% |

| Method of disposal (tons) | 2021 | 2022 | Change |
|---------------------------|-------------|-------------|--------------|
| Reused | 0.0 | 0.0 | 0.0% |
| Recycled | 22.4 | 20.7 | -7.6% |
| Incinerated | 16.3 | 17.3 | +6.1% |
| Total | 38.7 | 38.0 | -1.8% |

Figure 12:

Production waste in tons, shown by material type and disposal method

Product recall

In 2021 we experienced an unexpected increase in demand and our cotton supplier began sourcing shells from a new sub-supplier to meet demand. However, in 2022 it turned out that the sub-supplier's stitching was poor quality. Approximately 8,500 duvets were recalled, of which 3,500 were returned to our factory for rework and shipped back to our customer for sale.

To prevent a recurrence in the future, our supplier has stopped sourcing shells from the sub-supplier and we have upgraded our third-party quality control process.

Transportation

Fossflakes transportation activities break down into two main categories: freight and employee travel. Our new environmental transportation policy guides employees to reduce the environmental impact of the transport they buy and use.

Freight

Our freight activities comprise the inbound supply of materials and the outbound delivery of finished goods. Fossflakes 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 outsourced to third-party suppliers.

Our transportation policy guides us to maximise sea, minimise air and prefer the most environmentally friendly companies where possible. Choice of mode has the greatest impact on emissions whereas choice of supplier within the mode makes less difference to overall emissions.

We would therefore like to be able to report the ton km transported by mode (and associated emissions) for the shipments we arrange, but for 2022 it was not possible to source the full data set.

Fossflakes uses dozens of transportation suppliers and data collection is a manual and time-consuming process. In 2023 we will make a plan for which transport data we should prioritise to collect and report going forward.

We are pleased to report that in 2022 we used air freight only once for a small shipment to a new customer. In 2023 we expect air freight to increase. Since the war in Ukraine it has not been possible for us to use rail freight.

Employee travel

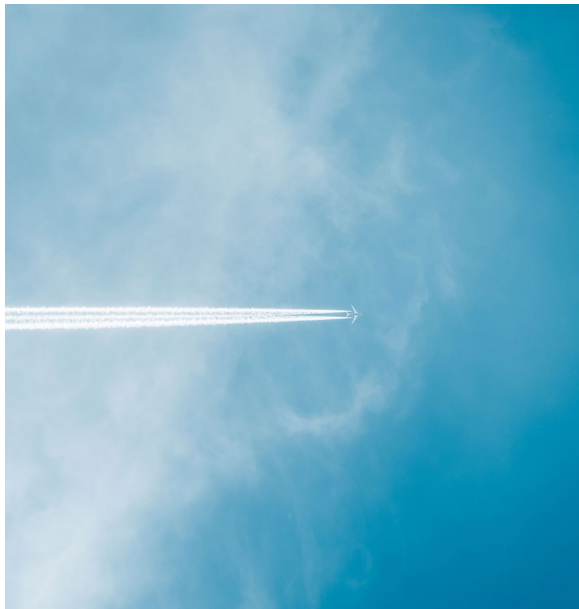
Our business travel by employees includes international and domestic trips. Internationally we travel to suppliers and customers while domestically we travel to customers and commute between our production site in Skive and our marketing and e-commerce office in Copenhagen.

Our total emissions for business travel in 2022 was around 6.7 tons CO₂e.

Overseas

Covid-19 taught us that not all overseas travel is necessary. Pre-pandemic it was normal for us to visit our overseas business partners twice per year. These days once per year is sufficient, given the growing acceptance of online meetings. However, not all objectives can be accomplished online.

In 2022 our travel was the lowest it has been for many years – just four trips requiring flights. In 2023 we expect travel to increase, but still below pre-pandemic levels. This is a necessary increase to strengthen existing relationships, create new ones, and inspect supplier operations. The visits also help to progress our sustainability action plan.



Domestic

Within Denmark, most of our travel in 2022 was by car. The total distance driven was approximately 20,000 km, down from 30,000 km in 2021.

In 2022 Fossflakes had three company cars – one diesel, one diesel-hybrid, and one petrol-hybrid. We regretted to learn that – given our driving patterns – hybrid cars may be more environmentally damaging than petrol and diesel cars. Indeed, it is our experience that the hybrid car uses more fuel than the diesel car it replaced. We may replace them in 2023.

Quality management

In 2023 we will review our quality management process to help ensure consistent quality across our product range. We expect this to reduce the amount of waste cotton.

Strategic initiatives for 2023



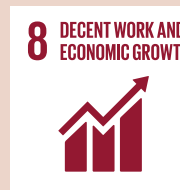
- 01 Find an upcycling partner that can use our waste cotton and filling
- 02 Reduce waste cotton through improved quality control
- 03 Implement heat-saving initiatives and plan next steps for further reductions
- 04 Agree plans for switching to district heating



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

Strategic initiatives for 2022

The table below shows the actions we committed to in last year's report and our progress against them. For more details read the following pages.

| Initiative | Status | Commentary |
|--|--------|---|
| 01 Integrate social, environmental and ethical requirements into all contracts. | | All suppliers have received and signed our code of conduct. |
| 02 Map risks in the value chain and follow the situation regarding high-risk suppliers in China. | | China remains a high risk. We have not mapped our suppliers. |
| 03 Establish a solid baseline of sustainability KPIs. | | We developed KPIs for each of the four tracks of our programme. |
| 04 Sign the United Nations Global Compact. | | Joined and published our first communication on progress. |

Complete
 Partially complete
 Limited progress
 No progress

Transparency

In 2022, all our cotton was purchased from suppliers in China, a country with a high risk of forced labour in cotton farming and weaving. We have raised our concerns with the Danish Chinese Business Forum, the Confederation of Danish Industry (DI), and other Danish businesses selling cotton products.

To aid our evaluation of cotton suppliers, we are members of the Business Social Compliance Initiative (BSCI), providing us with supplier audit information including on the topics of human rights and labour rights. All our Chinese suppliers have undergone third party audit to validate compliance with the BSCI code of conduct. In 2022 we aligned our own supplier code of conduct with BSCI's code and all suppliers signed it.

Going forward, we will only use suppliers with a third-party audit demonstrating compliance with BSCI guidelines. We will also ensure full implementation of our new Environmental & Social Due Diligence Policy for Supply Chain Management.

Although BSCI provides a degree of reassurance, there is no transparency at the farm level. We have therefore decided to start buying cotton from Better Cotton farmers in 2023. Better Cotton trains farmers in more environmentally and socially responsible methods. These include working

conditions of freedom, equity, security and human dignity. By the end of 2023 we expect around two-thirds of our purchased cotton will be Better Cotton.

Farmer training provides no guarantee of actual working conditions therefore Better Cotton is a first step to reduce the risk of supporting forced labour. In 2023 we will take further steps including visiting suppliers, considering alternative countries of origin, evaluating certification by GOTS and Oeko-Tex Step and investigating alternative materials.

Sustainability key performance indicators

In 2022 we agreed key performance indicators (KPIs) for each track of our sustainability programme. These KPIs aid internal alignment around core sustainability issues and performance monitoring and reporting. We have upgraded our ERP system to ensure it supports the KPIs.

Sustainability reporting & communications

To demonstrate our commitment to ongoing improvement in our sustainability performance, we joined the United Nations Global Compact in early 2022 and published our first communication on progress in May that year.

The report was well received by our business partners and strengthened our reputation in the wider Danish business community. It prompted leading organisations such as Copenhagen Business School, the Danish Management Society (VL) and the Confederation of Danish Industry (DI) to share our story. We were happy to participate and hope to inspire other companies to act.

The report was also selected as one of the best by a small or medium sized company by Global Compact Network Denmark and FSR Danish Auditors. They commended its openness and fullness and we aim to maintain the high level of transparency, while increasing data content.

War in Ukraine

After the start of the war in Ukraine, one of our customers selling in Russia decided to close its stores and we ceased to do business with another, therefore our products are no longer sold in Russia.



Strategic initiatives for 2023



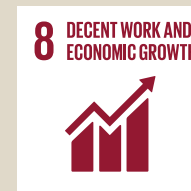
- 01 Switch to Better Cotton and plan next steps to reduce risk of forced labour
- 02 Set targets for sustainability KPIs
- 03 Ensure implementation of the supplier due diligence process



Attractive workplace

Caring for our people

Contributing to UN Sustainable Development Goals





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

Strategic initiatives for 2022

The table below shows the actions we committed to in last year's report and our progress against them. For more details read the following pages.

| Initiative | Status | Commentary |
|---|--------|---|
| 01 Safe work environments striving for zero accidents and no lost time injury to keep our people safe and operations running. | | Accident-free factory except two incidents resulting in three days of absence. |
| 02 Strengthen competence development to secure our competitiveness and develop our people. | | Formalised our practice into a written policy for all employees. Did not create a competence development plan to identify and fill skills gaps. |
| 03 Develop further activities to increase diversity, ensure equal opportunities and wellbeing. | | Prioritised female applicants for open senior management position. |

- Complete
- Partially complete
- Limited progress
- No progress



Fossflakes' values

Over the years we have developed a set of values that employees, management and the board use to help 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

A change in the management structure of the production team has been well received by the production employees. The promotion of two employees to production team leader means that the team is now empowered to make more decisions itself without referring to a manager in the office.

To help the senior management team ensure it understands the needs of employees, the company has hired an independent consultant to gather feedback from our staff. The report will be delivered in the second quarter of 2023.

Sustainability engagement

Sustainability is a highly relevant topic for attracting and retaining talented employees. However, since we formalised our sustainability programme in 2021, the management team has held most of the responsibilities. In 2023 we will involve more employees and improve internal communications around the programme. This should contribute to employees' job satisfaction and progress towards our goals.

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 and access to health insurance.

In 2022, we had two accidents resulting in a total of three days of absence. One of the accidents prompted us to provide workers with new instructions, signs and handling descriptions.

Absence due to sickness was on average 5.7 days per full-time equivalent.

Diversity

At the end of 2022 we had 35 employees. Our ranks included 8% with limited ability to work ('Flexjob' employees) and 10% non-Danes.

Our overall women-to-men ratio was 2:1, which reflects the dominance of women in the bedding industry. However, at senior management level the gender ratio is reversed, at 1:3. We actively tried to improve this ratio in 2022 by hiring a female headhunter to find a woman for an open leadership position. Unfortunately, no match was found. We shall continue to look for ways to redress the imbalance.

All three board members are male.

Employee development

To help grow the business and retain employees we invest in skills development. To formalise and clarify our skills programme we developed an Employee Competence Development Policy, which we have added to our employee handbook.


In 2022, we provided people leadership training to a member of staff who started as a production worker and is now a team leader. Our marketing director originally started as an intern and she is one of two employees whose MBA education we funded. Our e-commerce manager also joined us an intern. Two of our production employees requested the opportunity to gain their forklift truck license and we supported this too.

We also intended to make a competence development plan to identify and fill current and future skills gaps, however this was down-prioritised. In 2023 we shall evaluate whether it should be reinstated to the action plan.

Local reputation

To ensure we are known locally as an attractive place to work we will maintain dialogue with the local newspaper, Skive Folkeblad. In 2022 we sent them our 2021 sustainability report and the result was a positive two-page feature on the business, although not mentioning sustainability. We hope to succeed in telling our sustainability story in the newspaper in future.

Strategic initiatives for 2023



- 01 Conduct employee survey and interviews
- 02 Ensure the company is resourced and organised to provide attractive working conditions
- 03 Ensure the new competence development policy is fully implemented

APPENDIX:

Progress towards 2024 goals

Our current sustainability plan covers the years 2021-2024 and 2022 was the first full year of implementation. While the previous pages provide a snapshot of our activities and progress in 2022, this appendix is intended to give an indication of our overall progress towards our 2024 goals.

| 2024 goals | Progress | Commentary |
|--|----------|---|
| New products based on more sustainable raw materials | | Difficult to find alternative materials that meet our requirements. |
| Lowest carbon footprint products in our category | | Lacking data to be able to assess current position. |
| Offering clever and flexible packaging solutions – fossil free | | Implementing new solutions to cut emissions, but no significant progress on reusability of sales packaging. |
| Established as a sustainable brand in the market | | Low volume of marketing communications so far. Lacking data to be able to assess current position. |

| 2024 goals | Progress | Commentary |
|---|----------|--|
| 100% renewable electricity and heating | | Electricity is certified carbon neutral wind power. Not yet possible to switch heating to renewable sources. |
| Zero production waste to landfill or incineration | | Have not yet found a partner that can use waste material. |
| Using only the most environmentally friendly transportation companies | | Difficult to incorporate sustainability requirements into freight purchasing. |

Good progress
 Some progress
 Little progress

Responsible conduct

| 2024 goals | Progress | Commentary |
|---|----------|---|
| Responsible procurement measures implemented and functioning | | Starting to switch to more sustainable suppliers. |
| Seen as trustworthy partner based on sustainability performance | | Seen as trustworthy but need to report more sustainability metrics. |
| Communicate openly about sustainability performance | | Two sustainability reports published. Won an award for openness and fullness. |

Attractive workplace

| 2024 goals | Progress | Commentary |
|--|----------|---|
| Be well known locally as an attractive place to work | | Good local reputation which can be enhanced when we improve our performance on some of the goals below. |
| Provide an attractive, safe and meaningful workplace | | Maintaining safety record and believe we have a good level of employee satisfaction. Data will validate whether this is accurate. |
| Diverse, equal opportunity employer | | Good gender mix across the business. Employ several Flexjob workers. Actively trying to get more women in management. |
| Ensure good opportunities for career development | | Have provided advancement opportunities to several employees. More structured approach will strengthen progress. |

Good progress
 Some progress
 Little progress

Thank you

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

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