

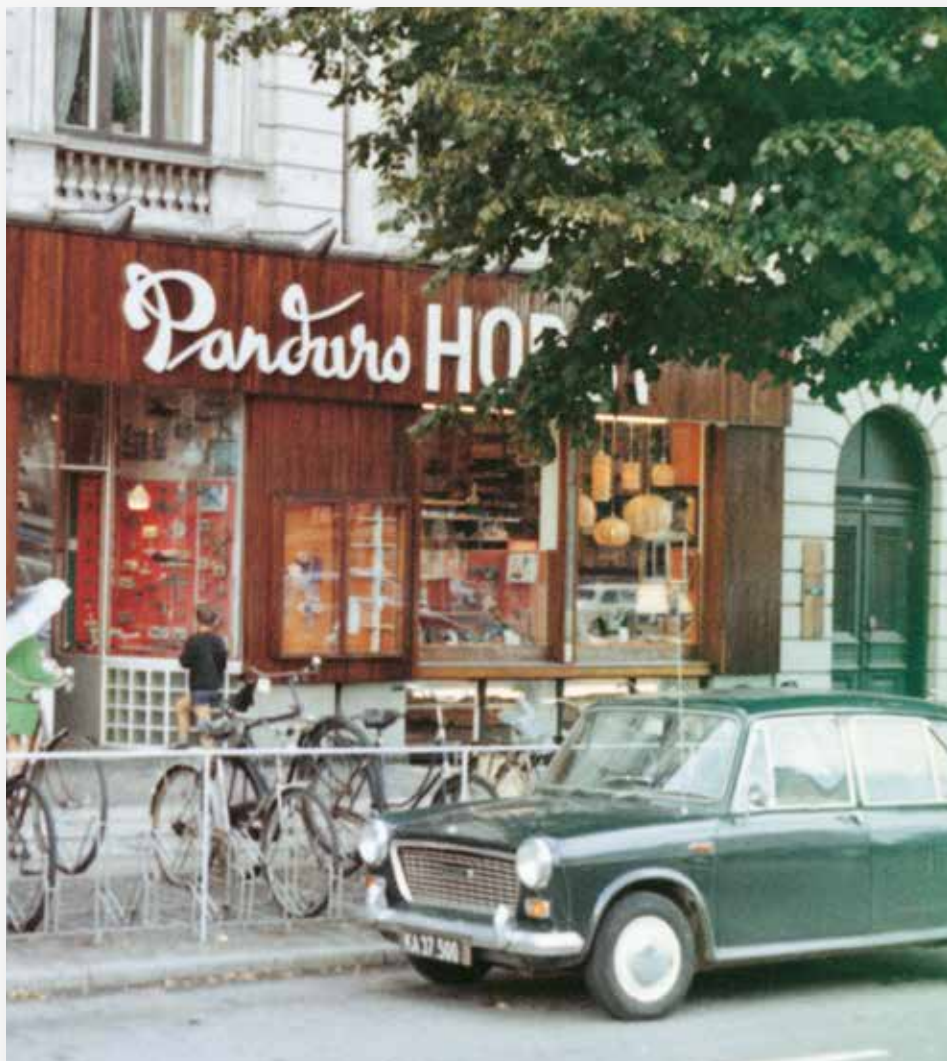


Sustainability report 2018

panduro[®]

CREATIVE
PARTS
OF
SCANDINAVIA

s panduro
SINCE 1954



*The Panduro store in Copenhagen in the mid-1950s.
PHOTO: Private.*

Contents

A word from the CEO	4
About Panduro	4
Sustainability for creative people	5
Sustainability for us	5
Content of the sustainability report	6
Value chain and stakeholders	7–9
Materiality analysis	10–11
Our sustainability goals	12
Further developing work with our Code of Conduct	12
Supplier evaluation via Score Card	12
New sustainability goals	13
Environment	14
Environmental leadership system and energy work	14
Product safety	14
Sustainable assortment	15
Social conditions	16
Partnership with SOS Children's Villages	16
Other partnerships	16
Employees	17
Diversity	17
Our values	17
Human rights	19
Discrimination	19
Anti-corruption work	19

PICTURES: Bli Studio AB unless otherwise specified.



Rickard Kemfors, CEO

A word from the CEO

We take our responsibility seriously

Panduro, we believe that the companies and organisations that take CSR matters seriously will survive into the future.

This is no longer about compliance with laws and changes; it goes further than that.

It is a matter of course that the products our customers buy will be safe and meet all legal requirements. That is easy to write, but requires plenty of prevention and quality assurance in our organisation. But our customers are entitled to expect that. Panduro stands for quality and sustainability. If we are uncertain for any reason, we actively choose not to work with a given supplier or carry a particular product.

And we try to do more than that. One example is our multi-year, close collaboration with SOS Children's Villages.

Panduro works for sustainable social development in accordance with the UN's 2030 Agenda. We recognise that our sustainability work is a small part of the journey and much remains to discover and to be done.

We look forward to continuing our journey together with customers, staff and suppliers.

If you have any questions, tips or ideas, you are always welcome to contact us.

Rickard Kemfors
Rickard.Kemfors@panduro.se

About Panduro

Panduro offers items and ideas that inspire and develop creativity in children and adults. We will be perceived as innovative and we will create new segments within our market. Our customers, employees, suppliers and other stakeholders should trust us on the basis of the quality of our products, our social responsibility and our environmental work. Panduro was born through sheer creativity when Carlo Panduro, of Spanish descent, began making souvenirs and jewellery in post-war Denmark.

His son Jörgen soon joined the family business and began selling materials to the public sector.

In the mid-1950s, the first Panduro store opened in Nørrevold, Copenhagen. The trip across the Sound was made in 1962, and Panduro's first Swedish shop opened on Södra Förstadsgatan in Malmö.

Panduro has approximately 900 employees in the group and is active in seven countries with 104 stores, and also has sales via e-commerce and resellers. Art supply shop Kreatima was acquired in 2016, which further broadened Panduro's product portfolio.

Sweden 425 employees – 37 stores

Norway 155 employees – 19 stores

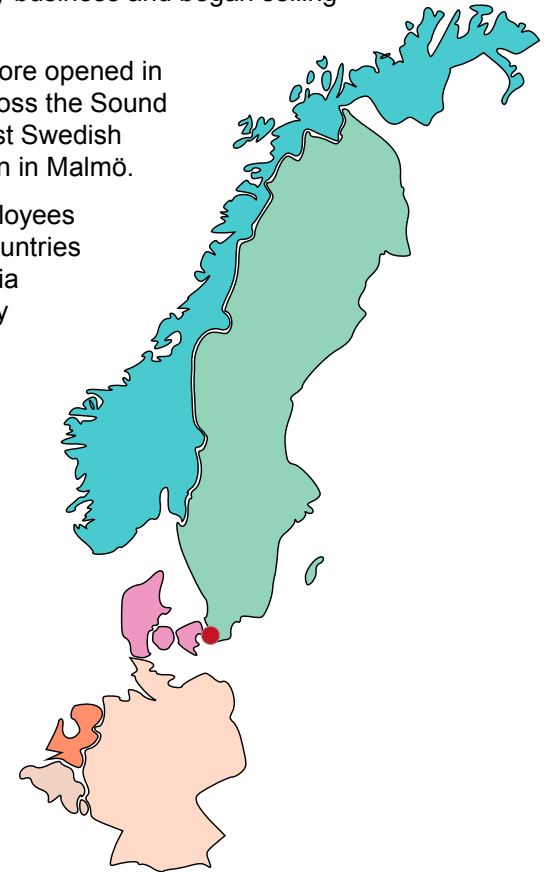
Denmark 141 employees – 18 stores

Germany 21 employees – 3 stores

Belgium 15 employees – 4 stores

Netherlands 159 employees – 23 stores

● **Headquarters and central warehouse, Malmö**



Sustainability for creative people

We believe the world will be a much better place for everyone if more people discover creativity and let the digital world serve as an alternative. Being creative and making things with your hands is good for health because it:

- develops the imagination and the ability to problem solve
- improves concentration and self-control
- generates careful thought and an inquisitive approach
- reduces stress
- provides significant joy and time together with children, family, friends and relatives

We also hope the products in our assortment will contribute to and inspire creativity that leads to the reuse of old products and materials.

Sustainability for us

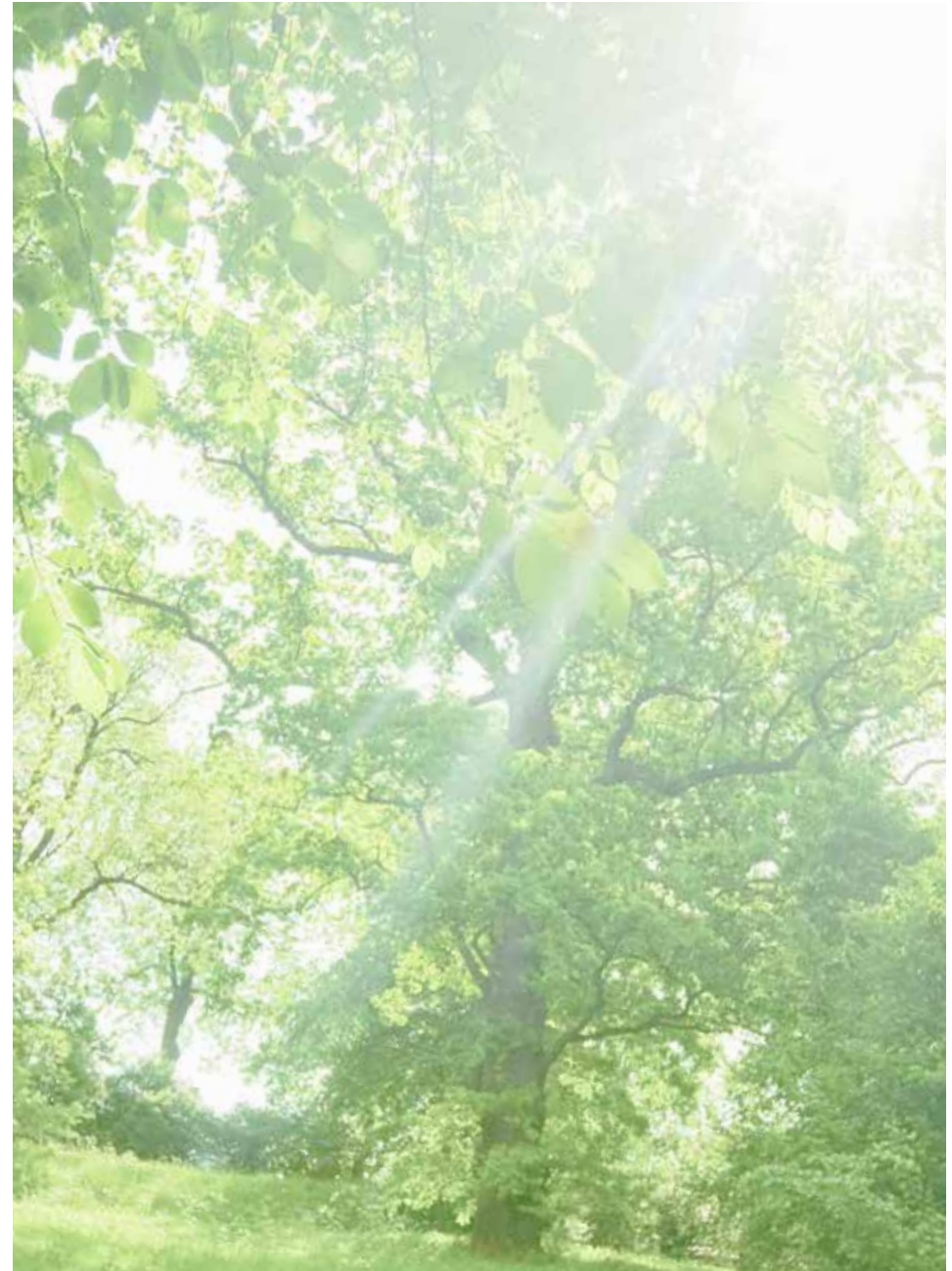
Since 2006, Panduro's headquarters and central warehouse have had an environmental management system that is certified in compliance with ISO 14001. This certification helps us create conditions to achieve our sustainability goals and to work with continuous improvements.

To work in a goal-oriented and effective way, our goals, policies and procedures are documented in our environmental management system. The system also contains support for handling cases in reporting, correction and prevention of deviations. We have developed action plans for how to work in order to achieve our established goals.

Our customers are interested in sustainability and expect Panduro to be able to demonstrate initiatives we have implemented and to show how we are improving within the area.

The 2030 Agenda is the UN's plan for sustainable development, with 17 global goals that affect the entire world. The purpose of the agenda is to improve the world for future generations by ensuring that everyone helps to advance sustainability work.

Our customers are interested in how we work with sustainability, which is made clear through the increased number of questions we receive. Customers expect Panduro to be at the cutting edge and through sustainability work, we have the opportunity to demonstrate our development and how we improve the sustainability of what we do.



Content of the sustainability report

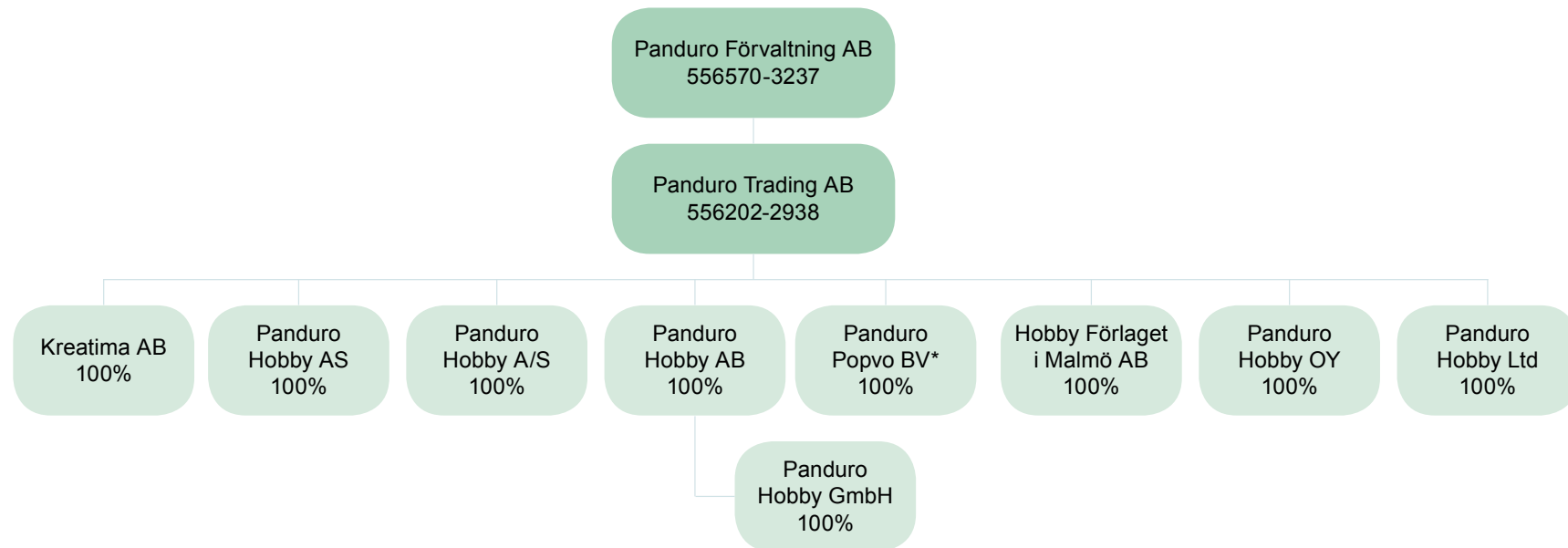
The content of this report refers to the Parent Company, Panduro Förläggning, org. no. 556570-3237. The companies included are Panduro Trading, Panduro Hobby AB, Panduro Hobby AS Norway, Panduro Hobby A/S Denmark, Panduro Hobby GmbH Germany and Popov BV. The following companies in the group are dormant: Kreatima AB, Hobby Förläggning i Malmö AB, Panduro Hobby OY and Panduro Hobby Ltd.

The purpose of the report is to inform our stakeholders about our work to create a more sustainable society. The goals included in this report are based on the UN's 17 global sustainability goals.

The sustainability report is carried out in accordance with the amendment 2016:947 to the Annual Accounts Act 1995:1554. The report pertains to financial year 2018 and the key figures reported were taken from this period.

The sustainability report is for the entire group. All key figures presented refer only to the Swedish company Panduro Hobby AB, org. no. 556073-6356. Panduro Hobby A/S Denmark, Panduro Hobby AS Norway and Panduro Hobby GmbH Germany are primarily sales offices with leased premises. The majority of the products sold in Denmark, Norway and Germany are purchased centrally from Sweden and distributed from the central warehouse. The suppliers to these three subsidiaries are thus completely suppliers negotiated via the Swedish parent company and are therefore handled from the principles applicable there. Popov BV*, which is active in both the Netherlands and Belgium, makes 38 percent of its purchases via the Swedish company.

*** Popov BV operate stores and e-commerce under the name Pipoos.**



Vision: To make the world a little bit more creative and fun.

Mission: Lead the development of craft in Europe by inspiring and stimulating customers' creativity through knowledge, innovation and quality products.

Business model: Panduro's selection consists of both our own developed products and products from other brands. We sell through three channels: 1) Stores, 2) E-commerce and 3) Resellers. We work with external partners for the manufacturing of products under our own brand.

Value chain and stakeholders

Panduro's most important stakeholders are our customers, employees and suppliers. It is important that we communicate with our stakeholders and are sensitive to their expectations, demands and wishes in the area of sustainability. In 2019, our goal is to conduct surveys and studies, for example on customer and employee satisfaction.

Our value chain comprises five steps, from selecting a product in the assortment all the way to the product reaching the customer. By beginning from our value chain and simultaneously keeping the entire lifecycle of our products in mind, we are able to identify how we can work for sustainable development. The overview (see pages 8 and 9) presents the identified risks as well as the policies and other measures the company applies in our different sustainability areas.

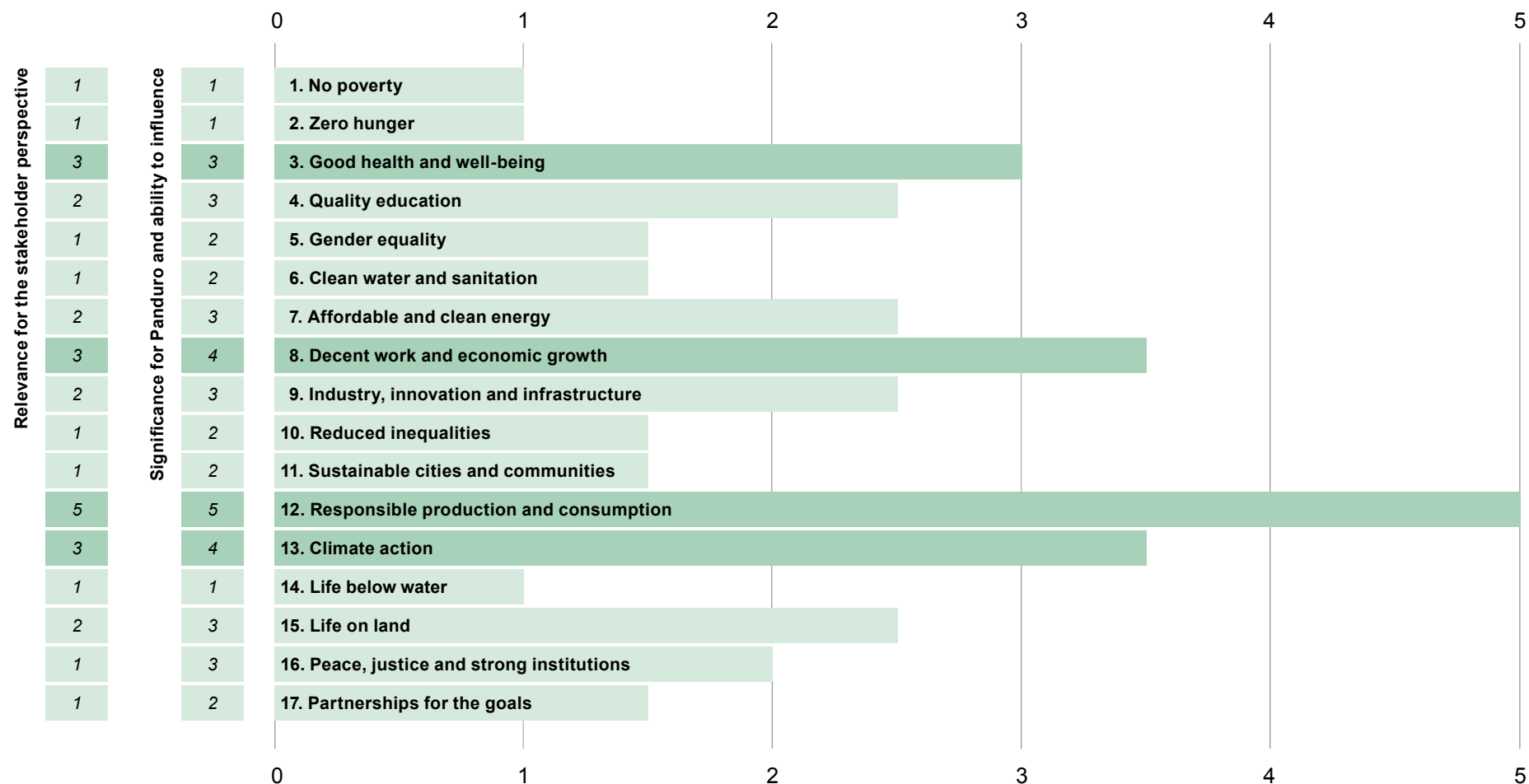


Sustainability risks	Part of the value chain	Measures	Policy documents
Environment			
Limited natural resources	Entire value chain	Choice of materials in products and packaging. Work to improve our packaging in terms of recycling. Parts of the assortment facilitate reuse and repairs.	Internal focus: Environmental and Responsibility Policy. External focus: Code of Conduct.
Emissions	Manufacturing, logistics, employees	Follow-up of emissions from transports. Monitoring returns flows. Work with joint loading and efficient packing.	Internal focus: Environmental and Responsibility Policy, Car Benefit Policy, Travel Policy. External focus: Shipping info and packing guidelines, Code of Conduct.
Energy consumption	Entire value chain	Follow-up of energy consumption via energy mapping at the headquarters and in stores. Lighting replacement in stores.	Internal focus: Environmental and Responsibility Policy. External focus: Code of Conduct.
Water consumption	Manufacturing, assortment, employees	The company bears the Kranmärkt label: we only serve tap water and have no bottled water in the operation.	Internal focus: Environmental and Responsibility Policy. External focus: Code of Conduct.
Animal ethically sustainable production	Manufacturing	All suppliers in the relevant product categories are to have signed the Panduro Animal Welfare Policy.	External focus: Animal Welfare Policy.
Product safety and use of chemicals	Assortment, manufacturing, customer	Requirement documents to suppliers. Product checks through tests, analyses and content reviews.	Internal focus: Environmental and Responsibility Policy, product check procedure. External focus: Code of Conduct, Requirement documents for different product categories.
Product quality	Assortment and manufacturing	Physical checks of products and product samples.	Internal focus: Environmental and Responsibility Policy, product check procedure.
Waste management	Entire value chain	Follow-up of waste quantities from headquarters and warehouses. Information about waste management of packaging and certain products to customers via the website.	Internal focus: Environmental and Responsibility Policy, waste management procedures. External focus: Code of Conduct.

Sustainability risks	Part of the value chain	Measures	Policy documents
Social conditions and personnel			
Salaries	Manufacturing, logistics and employees	Contractually agreed salaries paid regularly and on time. Continuous work for gender-equal pay. Suppliers are to ensure acceptable working conditions, salaries and rights for employees.	Internal focus: Staff handbook, Gender equality plan, Diversity policy, Work environment policy. External focus: Code of Conduct
Health and safety	Manufacturing, logistics and employees	Systematic work environment initiatives. Agreements for occupational health care, computer glasses and a workout pass via the wellness contribution. Suppliers are to train employees in workplace safety.	
Overtime	Manufacturing, logistics and employees	The company's employees are to work based on national legislation, the applicable collective agreement and the guidelines in the staff handbook. Suppliers are to ensure that work hours and overtime do not exceed the guidelines in the Code of Conduct.	
Cooperation	Manufacturing, employees	Employees have the freedom to form and be members of a union and to negotiate with employers in accordance with national legislation.	
Respect for human rights			
Children and forced labour	Manufacturing	Suppliers must ensure that no children are subjected to potentially hazardous or dangerous work. Suppliers must ensure no forced labour occurs.	Internal focus: Staff handbook. External focus: Code of Conduct.
Young workers	Manufacturing, employees	All employees and all employees of suppliers between the ages of 15–18 are to be treated with consideration for their young age. Limits to work and overtime should be especially respected for young employees.	
Disciplinary measures	Manufacturing, employees	Employees are to be treated with respect and dignity. No employees, under any circumstances, are to be subjected to any form of physical, sexual, or mental punishment or harassment.	
Discrimination	Manufacturing, employees	Employees may not be discriminated against on the grounds of ethnicity, gender, religion, political affiliation, nationality, social background or for any other comparable reason.	Internal focus: Gender equality plan, Diversity policy. External focus: Code of Conduct.
Anti-corruption work			
Corruption, undue payments and bribes	Manufacturing, logistics and employees	It is not permitted for employees or suppliers to offer, request or accept undue payments in connection to Panduro's operation.	Internal/external focus: Code of Conduct.

Materiality analysis

Panduro has created a materiality analysis in which the UN’s 17 global sustainability goals form the foundation. The purpose of the analysis is to prioritise the sustainability issues that are most important for the company and our stakeholders. The analysis was conducted based on the guidelines from the Global Reporting Initiative (GRI). We have scored the relevance from a stakeholder perspective and the significance for Panduro and the company’s ability to have an impact. The scoring is based on a scale of 1–5, where 5 has the highest relevance.



UN's 2030 Agenda for Sustainable Development – 17 Sustainable Development Goals



The following four goals have been assessed as the most relevant for Panduro:



Goal 12 Responsible consumption and production:

We consider it important to manufacture products in a sustainable way. At the same time, we promote knowledge of reuse and offer a broad assortment in order to reuse products. It is important to us to minimize the quantity of hazardous chemicals in our products and to handle waste responsibly.



Goal 8 Decent work and economic growth:

It is important for us to continue to be innovative and to continuously grow within the area. At the same time, we safeguard our employees' rights and want to foster a safe work environment. Dignified work and equal pay for equal work are fundamental values at Panduro. We offer annual internships and work training for people on long-term sick leave.



Goal 13 Climate action:

Through our environmental management system, we continuously work to improve our environmental initiatives and to educate our employees in the area. Among other things, we work to reduce the climate impact of incoming transports from suppliers and outgoing transports to stores and customers.



Goal 3 Good health and well-being:

Creativity is good for people. Creativity promotes the development of imagination and the ability to problem solve. Making something with your hands also reduces stress. It is important for all people in our value chain to thrive.

Our sustainability goals

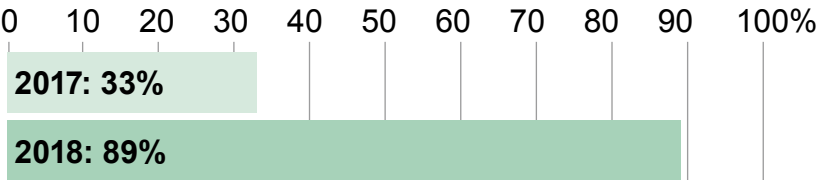
Further develop work with the Code of Conduct



For several years, Panduro has gradually worked to ensure our suppliers sign our Code of Conduct. The work began with suppliers who are active in countries we considered to have the greatest sustainability risks, for example suppliers in Asia. In 2018, our goal was for all European suppliers among our hundred largest product suppliers to have signed Panduro’s Code of Conduct. At the end of the year, only a few signatures were missing.

Two new goals were established regarding work with the Code of Conduct in 2018. First, all product suppliers are to sign the document by 2020. Our mission is also for our hired shippers and suppliers who only deliver to Popov BV to sign the document. In the same year, we will also have developed a system for how to follow up whether suppliers are compliant with the requirements stipulated in our Code of Conduct.

In 2018, all European suppliers from among our 100 largest product suppliers are to have signed Panduro’s Code of Conduct.



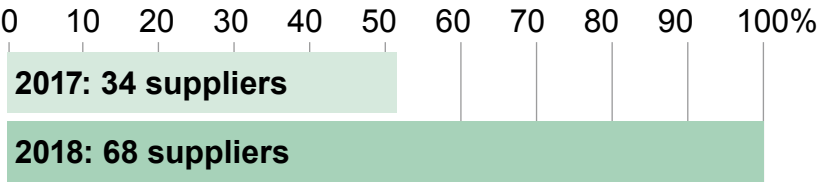
Supplier evaluation via Score Card



Panduro assesses our suppliers’ performance based on a system we call Score Card. This supplier assessment includes a broad spectrum of parameters ranging from price, quality and service to legal compliance and documentation availability. The purpose is for the assessment to be able to be used when meeting suppliers to create an open dialogue that supports a long-term customer relationship. In 2018, the goal was to evaluate 60 suppliers. We successfully achieved this goal and at the end of the year, 68 suppliers had been evaluated.

The goal in 2019 is for Panduro’s 100 largest product suppliers to be evaluated in accordance with the system.

Supplier evaluation via Score Card: In 2018, 60 suppliers were to have been evaluated.



New sustainability goals

In 2018, Panduro established two new sustainability goals which the company will work with in the next few years.



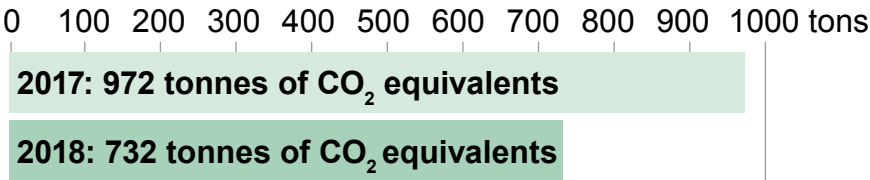
Our packaging:

The first goal involves making sure we use our limited global natural resources more efficiently by reviewing the materials in our packaging. The overarching goal is to increase the share of recyclable packaging and packaging manufactured from recycled materials. In an initial step, in 2019 we will develop an agreement for the suppliers who provide products in plastic packaging. Subsequently, by 2020, we will have conducted a survey of the share of plastic packaging that can be recycled from among our packaging for products under our own brand.



Reduce emissions from our transports:

The second goal involves our climate impact from the transport of goods, because this contributes to climate change, which is one of the greatest sustainability challenges of our era. Therefore by 2020, at Panduro we want to reduce carbon dioxide emissions from our transports by 20 percent compared with 2017. To achieve this goal, we have established a sub-goal which involves a 30 percent reduction in the number of pallets delivered to our stores in Sweden, Norway and Denmark by 2020, compared with 2017. In 2018, the number of pallets delivered to our stores declined by 10 percent.



Environment

Environmental leadership system and energy work

Panduro's headquarters and primary warehouse have an environmental leadership system that has been certified in accordance with ISO 14001 since 2006 and we thus take responsibility for continuously improving our environmental work. Significant work was carried out in 2018 to improve our environmental leadership system and to ensure we are meeting the requirements of the latest version of the standard (ISO 14001:2015). Via the system, Panduro has several documented policies and procedures related to environmental issues. Key among them are our Environmental and Responsibility Policy, Animal Welfare Policy, and our Travel Policy. The management system helps us to have clearly documented work for legal compliance in the area of the environment. Certification means that Panduro's environmental work is reviewed annually by internal auditors as well as an external auditor. These review processes contribute to ensuring that we continuously improve our environmental work.

In addition to the environmental goals reported under the sustainability goals above, we also have goals for our communication about the environment to customers. We also measure waste quantities, and electricity and heat consumption. The largest quantities of waste generated in 2018 comprised corrugated cardboard and burnable waste that could not be sorted for recycling. During the year we began to collect textile waste for recycling as a measure to reduce our quantity of burnable waste.

In 2017 and 2018, certified energy auditors carried out energy mapping of our business. This procedure resulted in a report that describes several measures that could be taken to reduce our energy use. Many of these measures require significant investments and Panduro is currently working to review the possibilities to implement the most relevant measures. Electricity use during the year amounted to 988,038 kWh and heat use to 1,251,916 kWh. Both of these figures are at the same level as the previous year.

Our customers and employees are becoming increasingly environmentally aware, and we are sensitive to this fact. We regularly receive questions and tips for environmental improvements from our customers and employees. Through a carefully considered system for documenting these important viewpoints, they contribute to continuously improving our sustainability work.

Product safety

With our broad assortment, at Panduro we have the opportunity to make a difference by choosing materials and products that are consistent with our values. We endeavour to deliver products of high quality and good reliability with regard to safety, health and the environment. We therefore have document procedures for ensuring that all products are safe for human health and for the environment. We work with requirement specifications for all product categories in our assortment and they are updated regularly when laws change. Legal requirements and recommendations from authorities and industry organisations are our minimum requirements.

Our product safety work also involves a significant focus on reviewing test reports and product content. It is important for the product to be adapted to the user and the safety of products intended for children is especially important.



Panduro Dough
Bio Organic

*Panduro Dough Bio Organic,
our children's clay with organic ingredients.*

Sustainable assortment

In accordance with our Environmental and Responsibility Policy, through our products, we want to foster creativity that leads to extending the life of other products and increasing the use of materials. By offering products that contribute to extending the life of other products, we want to promote a more sustainable society and therefore try to market how our products can be used for this purpose. In 2019, we will work with this additionally in our marketing of a number of different paint series in our assortment.

Our goal is to increase our sustainable selection. For example, we have an entire line of Swan-labelled paints. The Swan ecolabel means the contents of the product have been reviewed and approved by a third party with consideration for the product's environmental impact.

We also work in other ways to make our assortment more sustainable, for example by excluding critical ingredients from certain products, such as palm oil from one of our soap bases. Active ingredient decisions have also been made in our work to develop a new clay for children that only contains organic plant-based ingredients and various salts.

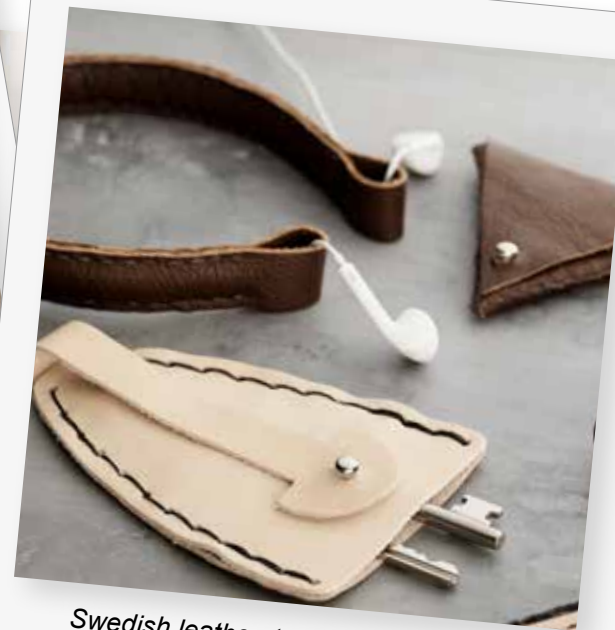
Panduro also has an Animal Welfare Policy which sets requirements for the ethical treatment of animals. We are aware of the challenge of following up on these requirements and we therefore participate in dialogues with stakeholders and others in the business. We also work to make active choices regarding suppliers and the origins of the raw materials used to make our products. This is to reduce transports, but also to more easily ensure the ethical treatment of animals and safe use of chemicals. We therefore have a line of leather products from Sweden, for example.



Vegetable soap base, high glycerin content for extra moisturising properties. Free from sulphate and palm oil.



Repainting old objects is an environmentally and climate-smart way to update things you already have at home.



Swedish leather, tanned with plants. Safer for both people and the environment.

Social conditions

Good social conditions are a fundamental requirement for everyone who works with producing or transporting our products. Panduro wants to ensure the products are made in accordance with acceptable standards for work environment and work safety. Panduro's Code of Conduct is the most important policy document for this area and it contains requirements for suppliers regarding salaries, health and safety, overtime work and participation in a union for employees.

Partnership with SOS Children's Villages

Since 2014, Panduro has collaborated with SOS Children's Villages to help vulnerable children worldwide. SOS Children's Villages is an organisation with no political or religious affiliation, whose task is to provide kids with a safe and loving childhood. Among other things, the organisation helps orphaned and abandoned children find a new family in one of the children's villages.

We believe all kids should be able to grow up with a sense of security, no matter where they were born. That is why we work with SOS Children's Villages and support their fight for vulnerable children worldwide. Since the collaboration began, together with our customers we have collected SEK 1.4 million!

Since 2017, we have opted to focus on SOS Children's Villages' initiatives in Santa Cruz, Bolivia, where the majority of the population lives in poverty and many children are orphans or at risk of being left alone. SOS Children's Villages works to strengthen families so that they can stay together and to give children who have been separated from their families a safe childhood.

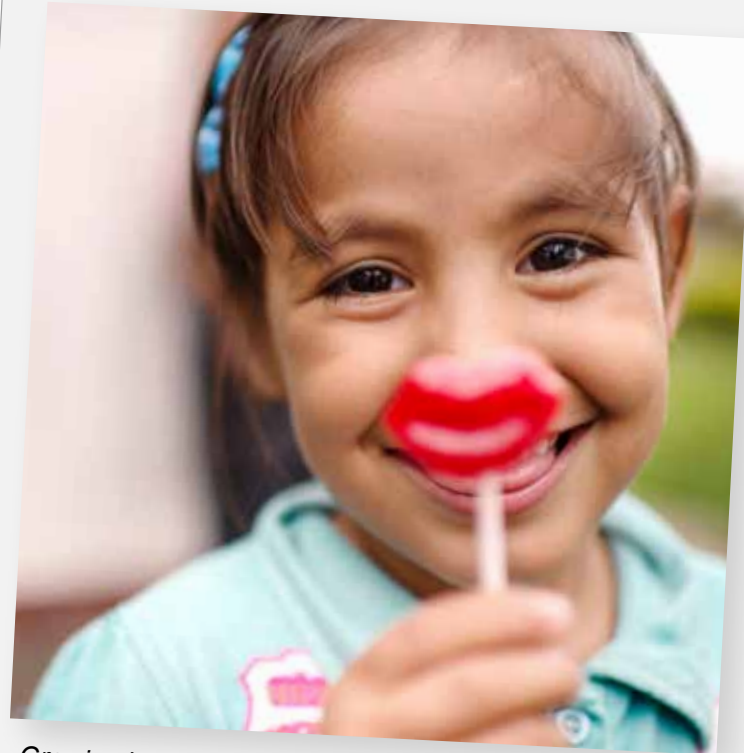
In some of the most vulnerable areas in Santa Cruz, SOS Children's Villages runs an integrated village for children, preschools and a programme to strengthen families. Through the programme in support of families, 924 children and adults receive help to continue living together. Currently, 56 children live in eight SOS families in the children's villages and in late November an additional five family homes were ready for move-in.

Preschool operations run by SOS Children's Villages in Santa Cruz will comprise 190 children in 2019. SOS Children's Villages also helps train preschool teachers in Montessori education in order to help and support the children.

Other partnerships

Panduro also supports children's activities at the **Louisiana Museum of Modern Art** in Danish Humlebæk and at the **Henie Onstad Art Center** outside of Oslo.

In addition, Panduro sponsors **Ung Företagsamhet**, which in collaboration with organisations such as the Confederation of Swedish Enterprise, trains primary and upper-secondary school students in entrepreneurship, creativity and business skills. This takes place for example through the students starting and running their own companies.



*Growing into a secure adult requires a secure childhood.
The children of today will lead and influence our
society tomorrow. We will need them in the future,
and they need us now. PHOTO: Maja Brand.*

Employees

Panduro is a family company that takes care of its employees. If our employees are doing well, then so is our company. We work based on established policies which are characterised by sustainability. These are supplemented by and collected in a staff handbook, gender equality plan, diversity policy and work environment policy.

To ensure the best possible organisational and social work environment, Panduro encourages an open dialogue between managers and employees, annual performance reviews and a good work environment. The physical work environment for our employees differs among the stores, warehouses and offices and is adapted accordingly. We have a detailed work environment policy and continuously work with systematic work environment initiatives. Our goal for 2019 is to carry out employee surveys to follow up how employees perceive Panduro as a workplace.

Sick leave in Sweden amounted to 6 percent in 2018.

We actively work with health improvement measures. We have agreements for occupational health care, computer glasses and beneficial agreements for workout passes via the wellness contribution that covers all employees.

Our gender equality work is to be an ongoing process in staff and operational development. Gender equality is to be on the agenda as a recurring element of departmental meetings and as a component of leadership training.

The composition of Panduro's employees in Sweden in 2018 was 87 percent women and 13 percent men.

As part of our gender equality work in conjunction with recruitment, our goal is to first hire individuals of the underrepresented sex when candidates have equal qualifications. We also work to prevent sexual harassment and the goal is for everyone to feel safe in our environment.

Diversity

Panduro's business is permeated by the understanding that everyone has and is to be ensured equal value no matter their gender, ethnicity, religion, belief or sexual orientation.

We are keen to comply with wishes and make adjustments based on, for example, religious or ethnic considerations. It is important to us to actively work against all forms of harassment.

In our hiring process, we work to encourage applications from people of different backgrounds. Our diversity work is guided by our diversity policy.

Our values

In light of our value chain and to gather our employees around shared values and strategic goals, in 2018 we launched and implemented our Core Values in the Scandinavian countries. Our Core Values are an important part of the business and a shared platform in our collaboration. Workshops were held in 2018 to implement our Core Values in the daily work in all departments and functions in the business.

Passion

- we are passionate about our customers, products, brand and employees

Focus

- we are focused and able to prioritize, make choices and decisions

Have fun

- we celebrate success and create a good atmosphere

Team play

- we stick together, show interest, share knowhow amongst colleagues and take care of each other

Entrepreneurship

- we are doers, curious, eager to learn and take initiatives



Team play



Jörgen Panduro
Entrepreneurship



Passion



Have fun



Focus

Human rights

Social responsibility is a fundamental requirement for Panduro's entire operation. At Panduro, we have a responsibility to our customers to ensure all products are manufactured under acceptable work conditions and with respect for human rights. Suppliers are responsible for ensuring products are manufactured in agreement with:

- 1) the UN's Declaration of Human Rights
- 2) the UN's Convention on the Rights of the Child
- 3) ILO's conventions on labour standards and rights at work

Suppliers are also responsible for their businesses complying with relevant national legislation.

Panduro works to ensure that no one involved in the production of our products has violated human rights or has been subjected to physical or mental suffering. The requirements are regulated in our Code of Conduct, which is one of our most important policy documents.

Discrimination

It is important to us that our suppliers' employees are not discriminated against at work on the grounds of ethnicity, gender, religion, political affiliation, nationality, social background or for any other comparable reason. In addition, all employees with equal experience and qualifications must receive equal pay for equal work.

Panduro's requirement that discrimination may not occur is regulated in our Code of Conduct, which is based on, among other things, ILO conventions 100 and 111.

Anti-corruption work

We affect society through our operation and it is therefore important for Panduro to run our business with high standards for business ethics. It is not permitted for employees or suppliers to offer, request or accept undue payments in connection to Panduro's operation. We follow the code on gifts and rewards as described by the Swedish Anti-Corruption Institute. In 2018, Panduro included a separate clause on fighting corruption in our Code of Conduct, which all product suppliers are to sign in order to work with Panduro.



On 10 December 1948 the UN adopted the Universal Declaration of Human Rights. For the first time, the world had an agreement that recognised all people as free and equal.

