

# COSMO



# COSMO Sustainability 2020 Communication on Progress to the United Nations Global Compact



Impact



Innovation



Integrity



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# 2020 CEO Statement To COSMO's stakeholders

Covid-19. We cannot reflect on the year 2020 without talking about how a pandemic took us all to the brink and still has businesses and people alike struggling to bounce back. COSMO is no exception.

The pandemic that engulfed all of us over the past year reminded us not to take progress for granted. It reminded us that we do not have infinite time to shift away from business as usual when business as usual is neither sustainable for people or the planet. Most of all, Covid-19 reminded us that living – and manufacturing – more sustainably must be accelerated and infused with a sense of urgency by individuals, governments and businesses alike. From our vantage point, the past year alone has provided evidence and data enough to demonstrate that what is not sustainable for people and the planet is in the long run not sustainable for prosperity.

We will return to Covid-19, how it affected COSMO in 2020 and how our people, together with the surrounding communities we are embedded in, managed and adapted to the crisis.

But first: 2020 is a year that we cannot, and must not, forget. Not just because of the virus, and the tragedy it has brought, but because the Covid-19 response and recovery holds invaluable lessons for other emergencies that are on the horizon for people and planet.

As 2020 saw development gains reversed globally for the first time in 30 years of constant overall progress, COSMO has coped and remained ambitious on maintaining our sustainability commitment.

As a consequence, we want to use this report, our 2020 COSMO Sustainability Report, to build a new dimension on last year's report, which was our first to

the United Nations Global Compact.

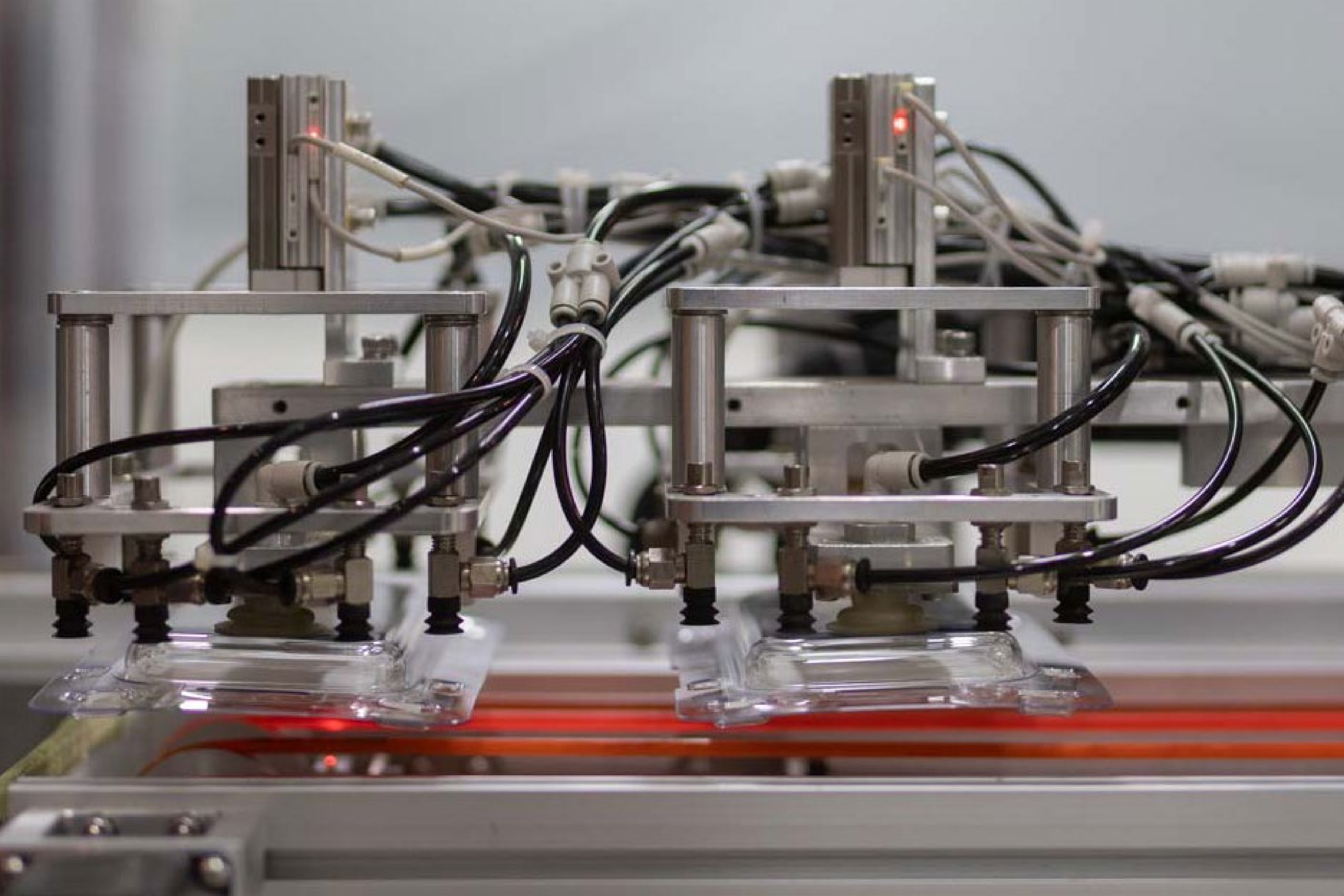
The 2019 report was ultimately assessed as Advanced, the highest tier of UN Global Compact reporting, and it reflected that 2019 was an important year for COSMO as we were integrating sustainability measures in our core business. We converted to renewable energy. We made headway on identifying sustainable materials kicking off a visionary initiative on enhanced biomaterials.

We have continued all of this in spite of the disruptions and we will not slow down, neither on making progress nor on staying honest about our day to day operational challenges.

But with this report we want to set the bar higher.

We want to highlight how we do our best to drive sustainability in an age of emergencies where it is clearer day by day that we are inter-connected as a global community. This perspective leads us to emphasise both our ambition of treating our people and surroundings with the highest level of integrity when they are at risk, and our ambition to take leadership for an innovation drive that can help turn the tide on challenges to sustainability. Challenges that, if left unaddressed, will threaten people and businesses alike. We are humble about the part we can play but that does not stop us from being more ambitious than ever.

So, we will use this opportunity to report on how COSMO has been doing its best in 2020 to do the right thing for the communities we are part of at a time when sustainability and safety, health and well-being are two sides of the same coin. In the sections of the report we



will follow our *3-i Model* evolving around Impact, Integrity and Innovation, however, as higher-level storylines, we can divide our 2020 highlights in two streams: reactive and strategic measures and accomplishments.

**First**, we had to react - as a company and as individuals, from a business and a moral imperative - to protect the health, safety and ultimately the lives of the people of COSMO from a pandemic that has affected every corner of the global population, including in all countries where COSMO is present. Accomplishing our mission to keep Covid-19 cases at zero was not part of our overall sustainability policies because it was a scenario that we could not predict, but it is beyond any doubt that this is one of the key achievements in terms of acting responsibly, with integrity, in our global operations.

We take pride in having provided the right training, the right equipment and put the right systems

in place at short notice when the whole world, including ourselves, were scrambling to find solutions at breakneck speed. We even turned around our production system to begin producing protective equipment when there was a shortage. However, we take even more pride in being able to report that no family member of COSMO employees at all our production sites was infected with Covid-19.

**Secondly**, we had to be strategic and balance our rapid response to the existential threat of the pandemic with the awareness that the climate crisis, the local and global environmental challenges, and the needs of our employees are not paused because a pandemic strikes. Although 2020 was a challenging year to infuse a sense of urgency into all the pillars of our *3-i Model* for sustainability, we managed to deliver strategic, measurable progress on reducing our environmental and climate footprint. We maintained a 100 % renewable energy supply. We

reduced production accidents to a new low, halving the previous best from 2019 from 6 to 3 accidents. We refined our ability to translate circular thinking into practice by reducing and recycling waste and resource consumption from our production lines - in many cases by more than 50%. Significant effort has gone into delivering all these changes and there are many more outlined in the report.

At the strategic level it has become increasingly clear in the past year that we need to go beyond the realm of COSMO operations and, to the extent possible, affect positive change on our surroundings. To have a catalytic effect on sustainability, we need to engage more with our communities of stakeholders. 2020 made it clear that the best way of doing so is through COSMO's competitive edge: innovation. We systematically and directly engaged our clients on their demands for sustainable materials to be attractive. By doing so, we spurred progress on the maturity of our COSMO Material Library and began creating a community of business partners with an interest in sustainable product innovation. Our outreach is rooted in the activation of the COSMO material library with 5000+ materials in a Material Solution Index and a Product Solution Index that rank **criteria such as low impact, potential for circularity and similar sustainability considerations** at the core of novel manufacturing materials that can replace materials with negative footprint.

The progress, in 2020, on bringing new, sustainable technologies and biomaterials to a ready-to-launch stage represents potential for a transformation in sustainable manufacturing. As such, it is a prime example of our aim for COSMO's sustainability efforts to be inextricably tied to innovation and oriented towards community-building.

These highlights are fleshed out in the dedicated sections of this report and they are accompanied by an honest account of the many challenges we still face on our journey to reduce our climate and environmental impact, act with the highest integrity,

and innovate for sustainability.

Finally, 2020 was a year when we expanded our COSMO operations with a new factory in Thailand. To open a production site, with the same standards including on sustainability, at the time of a global pandemic was no small feat. It is to the credit of our people on the ground that we can report now that the above achievements are inclusive of the new facility in Thailand. The scaling up of our Thailand-based production will now accelerate in 2021.

Our reporting is still rooted in a transparent account of the main initiatives undertaken in 2020 to continue the integration of the UN Global Compact principles into our business strategy, culture, daily operations and product innovation. We commit to sharing these experiences from our journey with full transparency so other UN Global Compact members and peers can use the lessons of COSMO's sustainability journey. Finally, we also commit to sharing this information with our stakeholders using our primary channels of communication including our website ([www.cosmo.io](http://www.cosmo.io)), social media, email distribution and more.

On the back of a tumultuous year, and as the global quest to deliver the SDGs has this year entered the Decade of Action, the impact of Covid-19 has confirmed our philosophy that there is no better time to act decisively on sustainability than now.

It is against this backdrop that we wish to reaffirm COSMO's support of the Ten Principles of the United Nations Global Compact and, as an active UN Global Compact participant, COSMO is equally committed to supporting the implementation of the wider UN 2030 Agenda and its Global Goals for Sustainable Development.

Sincerely,  

Bernhard Obermaier & Stephan Wembacher  
CEOs & Founders  
21 March 2021

# About COSMO

We are a comprehensive manufacturing solution provider, with a platform covering innovation, design, engineering, manufacturing, and supply chain. COSMO pioneered the engineering soft-goods category 20 years ago, merging the precision, repeatability, and quality of consumer electronics with the luxury craftsmanship of soft-goods. We work with the best brands in the world, helping them to scale from concept to mass production.

We work with customers early in the process, from material development and design through to manufacturing; solving the 'fabric-over-form' challenges along the way.

We are a market-leading manufacturer of engineered soft-good products, spanning consumer electronics to luxury sectors, and we operate with an underlying commitment to sustainability and our customers' products.

Well made. Well in hand.



On our journey to initiate positive change, drive progress through smart engineering to elevate our global partners with advanced holistic sustainable solutions, COSMO's overall values evolve around:

- An unshakable commitment to excellence, to respect our colleagues and partners, and to be socially responsible.
- A culture that succeeds by sharing and discussing ideas freely.
- Reducing our carbon footprint, waste and consumption of energy and water.
- Our clients' confidentiality - which prevents us from showing many of the great products we've made for them.

COSMO's sustainability commitment is rooted in the philosophy and experiences of our +20 year journey as a growing business. This is our second report to communicate progress and challenges to the United Nations Global Compact and, more broadly, to all our stakeholders.

# I. 2020 narrative: From strategy to community

This 2nd Communication on Progress to the UN Global Compact reflects a cornerstone in COSMO's sustainability journey to be systematic, transparent and driven by clear performance indicators.



As COSMO entered 2020, our sustainability aspiration was to deliver on our statement from the 2019 report to build on already strong performance [...] and provide discipline in facing and addressing areas where performance is less convincing.

This humble but ambitious statement was based on stability to work incrementally on COSMO's sustainability efforts that we began to outline, and address, more systematically with our first UNGC report in 2019.

Then the seismic impact of Covid-19 struck, and COSMO, as the rest of the world, had to revisit our planning and goals for 2020. This report is a manifestation that, while doing so, we maintained our sustainability ambitions. Not merely out of a sense of duty but because a new systematic approach to sustainability is an existential asset for the future prospects of a company like ours.

In short, 2020 saw two ways in which our sustainability journey was reimagined and accelerated, against all odds.

First, without planning it that way, 2020 became a melting pot for our business aspirations and our sustainability aspirations. In the beginning of the pandemic this seemed counter-intuitive but as we have bounced back from the brink of both personal and financial disaster, it has become clear that we need to build back better and take our share of the responsibility to manage risks to both people and

planet. In 2020 the threat was Covid-19. In the future it may be a new and different pandemic. It may be dwindling natural resources. And it definitely will be the overshadowing threats of the global climate crisis. In sum, if we do not manage to weave our 3-i – impact, integrity and innovation – sustainability model into the fabric of all COSMO operations we will lack a cornerstone in the foundation from which we face the future.

Secondly, the pandemic proved to us a new level of interconnectedness across sectors and geographic areas. This made us rethink what sustainability means for COSMO and other companies that balance a global and a local presence. Our thinking is evolving towards a conclusion that incremental improvements to environmental and social sustainability performance in our own operations – even if consistent and ambitious for a highly competitive manufacturing sector – may not be enough if they stand alone. Instead this report reflects an emerging focus on the communities that COSMO forms part of. Covid-19 demonstrated that it is our symbiosis with the surrounding communities and environment that the greatest risks to our operations are hidden and, conversely it is in that relationship that our greatest potential sustainability gains lie.

In the following we will give some specific examples of how COSMO managed to engineer a rapid turn-around on issues across all pillars of our *3-i Model* while the window to prevent the virus from entering our production facilities and our communities was closing:

- Immediate rapid response to the Covid-19 pandemic through additional safety and health, including sanitation, measures at offices, production facilities and campus areas (in Dongguan) led to the accomplishment of COSMO's goal of zero Covid-19 cases in the workforce.
- With a renewed focus on reaching out beyond our offices, production facilities and workforce, COSMO helped keep Covid-19 cases among family members at zero.



- Rapid response to the pandemic led to a temporary turnaround of the production to deliver PPE such as face masks to COSMO's workforce at a time when there was a lack of PPE supplies.
- In spite of a full recovery and a record of 19000+ rotational workforce, including in a new production facility in Thailand, 2020 saw a new record low in production site accidents, halving the 2019 figure to 3.
- Responding to the 2019 report's call for clearer strategy, policies and systematic approaches on sustainability, COSMO developed in 2020 a new Code of Conduct for all levels of COSMO employees. The new Code of Conduct was paired with the delivery of training to 100 % of all workers on safe, suitable and sanitary working conditions.
- In line with our aspiration to reach out to surrounding communities, the Covid-19 crisis provided an opportunity to work more closely with local authorities, including in Dongguan at a time when knowledge of the virus was limited and public-private collaboration was of the essence.
- In spite of a territorial expansion, with a new production site in Thailand, and scaling up production in China to meet 2020 production targets after the initial lockdown, COSMO maintained 100% renewable energy consumption in all our facilities (Dongguan, Hong Kong, San Francisco, and Thailand).
- We have improved our day-to-day application of circular principles to reduce, reuse and recycle materials, limiting significantly our use of disposable gloves (reduced by 34% in 2020), silicon mats (71%), rags (59%) and polypropylene panels (85%) at production sites, in spite of a record annual production output and expansion with a new factory.
- In 2020, COSMO's investments in an innovation for sustainability drive led to the activation of our material library with 5000+ materials in a Material Solution Index and a Product Solution Index, with sustainability as a core criteria for novel manufacturing materials. The most promising materials in the library went through full testing in 2020, bringing a range of new and more sustainable materials to a ready-to-launch phase that increases the likelihood that our clients will select more sustainable materials and products.
- Aligned to the development of sustainable materials, COSMO rolled out a new campaign, in 2020, to systematically and directly engage with clients on their demands for sustainable materials to be attractive. This helped to not only spur progress on the maturity of the COSMO Material Library but also to begin creating a community of business partners with an interest in sustainable product innovation. This is a central part of COSMO's aim for our sustainability efforts to be increasingly catalytic and oriented towards community-building.

Finally, as a cross-cutting feature, 2020 was the year we cemented the development of COSMO's 3-i Sustainability Model which is anchored in an agile reporting system that (a) relies on the 21 principles for good reporting outlined by the UN Global Compact; (b) systematically draws linkages to the 17 SDGs so we know where we contribute and where we have gaps at this moment when the world has entered the so-called *Decade of Action on the Global Goals* leading up to 2030.

With this in mind, the central narrative for COSMO's sustainability efforts in 2020 has been to solidify our core sustainability efforts to ensure that we go above and beyond regular legally-driven compliance to secure the health and safety of our people, their families and the communities we form part of.

The response to Covid-19 was an acid test of this commitment and, while many other achievements in 2020 are both noteworthy and strategic, the fact that we kept the pandemic fully at bay with 19,000+ people working in COSMO's production facilities is a genuine source of pride.

It is against this backdrop that we consider our 2020 progress on our 3-i sustainability model to be solid, meaningful, and even ties in with several of the UN Global Goals on Sustainable Development. In particular, we have made significant contributions to **Goal 3 on Health and Well-Being** and **Goal 8 on Decent Work**.



# II. Why and how we report

COSMO has embedded ideas, innovations and effectiveness on environmental and social sustainability since the inception of the company. These efforts have been complemented by a recognition that doing our best is not always good enough. We can do more. So, since last year we have decided to submit a yearly Communication of Progress to the UN Global Compact. The reporting relies on interviews with key personnel in COSMO, site visits if possible, and evidence from existing high-quality COSMO data on processes, production output, workforce etc. While the existing data has traditionally focused more on efficiency and compliance, it is now increasingly geared towards reporting on sustainability KPIs at the level we aspire to.





The reporting system of the *3-i Model* is the cornerstone in COSMO's sustainability efforts moving from *ad hoc* and activity-based to strategic and results-based, driven by data that is comparable year on year and allows us to be more systematic and consistent in how we assess, act, monitor and communicate on sustainability.

Submitting our first report to the UN last year was not just about doing more – it was about systematizing what we do. In the same vein, our thinking this year leads us to a three-fold rationale for submitting our 2020 Communication on Progress to the United Nations:

First, we want to systematically refine and drive the implementation of COSMO's *3-i Model* that we have designed and used to shape our collection of sustainability data across the company's multiple global sites, which expanded in 2020 with a production site in Thailand. The *3-i Model* is manifested in a reporting framework that consolidates the best building blocks of UNGC principles, GRI methodology and other sustainability reporting

frameworks such as B-Corp, the Impact Management Project and others. In other words, we are thorough. Second, we want to publish what we do to drive accountability by committing to annual reporting to an external institution with the highest reputation and an established global authority in the field of sustainable development, the United Nations.

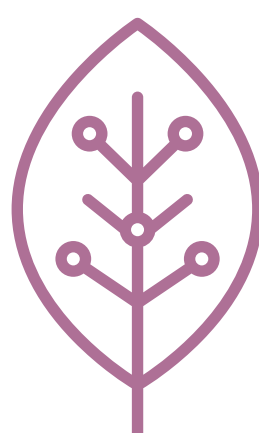
Third, we want to become better at 'working out loud' on sustainability measures. We want the people in our global corporate organization and our partners to be proud of working with COSMO, and we want to develop a community of stakeholders with whom we will ideate and co-implement around a shared interest in addressing our three i's through a prism of sustainability: reduce impact, act with integrity, and innovate for a more sustainable future.

The rationale for reporting diligently, with regular intervals and increasingly outward-facing – with progress anchored in our partnerships – is to operationalize our annual UN GC report to go beyond communication and serve as an accountability tool to improve our core business model.

COSMO's sustainability reporting remains anchored in a self-assessment matrix with +50 questions, which is shaped by COSMO's *3-i Model* focusing on *Impact, Integrity, Innovation* and is adapted every year to focus on the most timely range of sustainability issues.



Impact



Innovation



Integrity

The assessment matrix is designed based on the following globally recognized building blocks:

- The 17 UN Global Goals for Sustainable Development and its framework of targets and indicators
- The 10 UN Global Compact principles on environment, labour rights, human rights and anti-corruption
- The 21 UN Global Compact reporting principles
- Inspiration from (a) other sustainability reporting frameworks, such as Global Reporting Initiative, B-Corp and the Impact Management Project; and (b) other corporate sustainability reports, practices and networks



# III. Impact – the imperative of more factories, less footprint

With premises of +1 million square feet of factory and office space divided over 4 production facilities and 3 Innovation Labs – across three continents – and with +50 million products manufactured per year, the quest to keep greening COSMO's operations and reducing our footprint is a responsibility we take seriously. We consider it not only a sustainability parameter but also a business parameter that we need to increasingly address in order to future-proof our operations.



2020 has been a critical year for COSMO's journey towards reducing our footprint on the climate and our environment. We have been challenged primarily in two ways.

First, the impact of Covid-19 has challenged the primacy of climate and environmental risk. Secondly, in our territorial expansion, with a new production site in Thailand - and scaling up production in China to meet 2020 production targets after the initial lockdown - the speed of the production machinery has been accelerated at times in a year that has generated an unprecedented stop-and-go dynamic in terms of both client demand and production capacities.

These are the realities within which COSMO has aimed to maintain the priority of reducing negative environmental and climate impact of our operations.

The aspiration of maintaining an ambitious impact agenda in the volatile business environment of 2020 has led to a number of tangible actions that can roughly be divided in two categories: first, the internal actions that are within our own span of control, and secondly, the actions that aim for catalytic impact by influencing our surrounding communities.

In the first category we find the following progress made in 2020, building on the measures already reported in our 2019 Communication on Progress to the UN GC.

- Fundamentally, we have maintained a sharp focus on those elements of our sustainability strategy that are not dependent on the buy-in of clients or other partners. A prime example of this approach is that we can report that, in spite of COSMO's expansion with a new factory in Thailand, our production facilities use 100% renewable energy (Dongguan, Hong Kong, San Francisco, and Thailand). This cements for the second year running our commitment to green energy and, in turn, our contribution to SDG 7 on Clean Energy as well as to SDG 13 on Climate Action.
- We have improved our day-to-day application of circular principles to reduce, reuse and recycle materials. Examples to highlight include our significantly limited use of disposable gloves (reduced by 34% in 2020), silicon mats (71%), rags (59%) and polypropylene panels (85%) at production sites, in spite of a record annual production output and expansion with the new facilities in Thailand. This demonstrates our commitment to contribute towards a more circular economy and global environmental goals.
- We have further accelerated the transition towards reducing our climatic and environmental footprint by cutting out single-use items such as plastic bottles, with full implementation for our San Francisco office and in progress for our Hong Kong, China and Thailand offices, facilities and campus premises.
- We have scaled up our application of tech solutions, such as online meeting platforms, to meet increasing comms needs leading, in turn, to less travel and ultimately less CO2 emissions.



- To reduce our impact on air emissions COSMO furthermore implemented the following four measures across our production facilities in 2020: (i) we identified the air pollution sources on a pollution discharge map; (ii) Set up the waste air treatment system; (iii) we developed the SOP, set up standard for operation and maintenance these equipment; (iv) we set up an air monitoring mechanism to measure air quality.

In the second category of catalytic actions and policies, we were challenged in the past year as partners and communities were highly focused on the pandemic and coping with the financial hardship it caused for people and businesses alike. Nonetheless, we managed in 2020 to move the needle on a number of issues that are likely to create a ripple effect by changing practices of local partners. Here are some.

- To ensure catalytic impact of our actions and policies beyond our own COSMO operations, we have introduced responsible disposal requirements in contracts with all third party waste management companies. For example, our contracts with waste management providers in Dongguan oblige these partners to reuse 90% of liners from adhesives.
- COSMO's design and production of PPE during the pandemic was done with a focus on re-using and limiting waste generation. The design has now been completed but the cost has turned out to be too high for the commercial market.
- We intensified regular communications with local governments in the areas where our facilities are located. This resulted in Green Business certificates (San Francisco, Dongguan) but even more important.

Finally, and importantly for the cohesion and synergies of our 3-i Sustainability Model, we have further strengthened the link between impact and innovation - an intersection that lies at the core of COSMO's DNA.

When we innovate for sustainability, it strategically positions COSMO and it helps us build business partnerships but process and product innovation also holds a potential that we are tapping to reduce waste and replace material with negative climate and environmental impact of our daily operations.

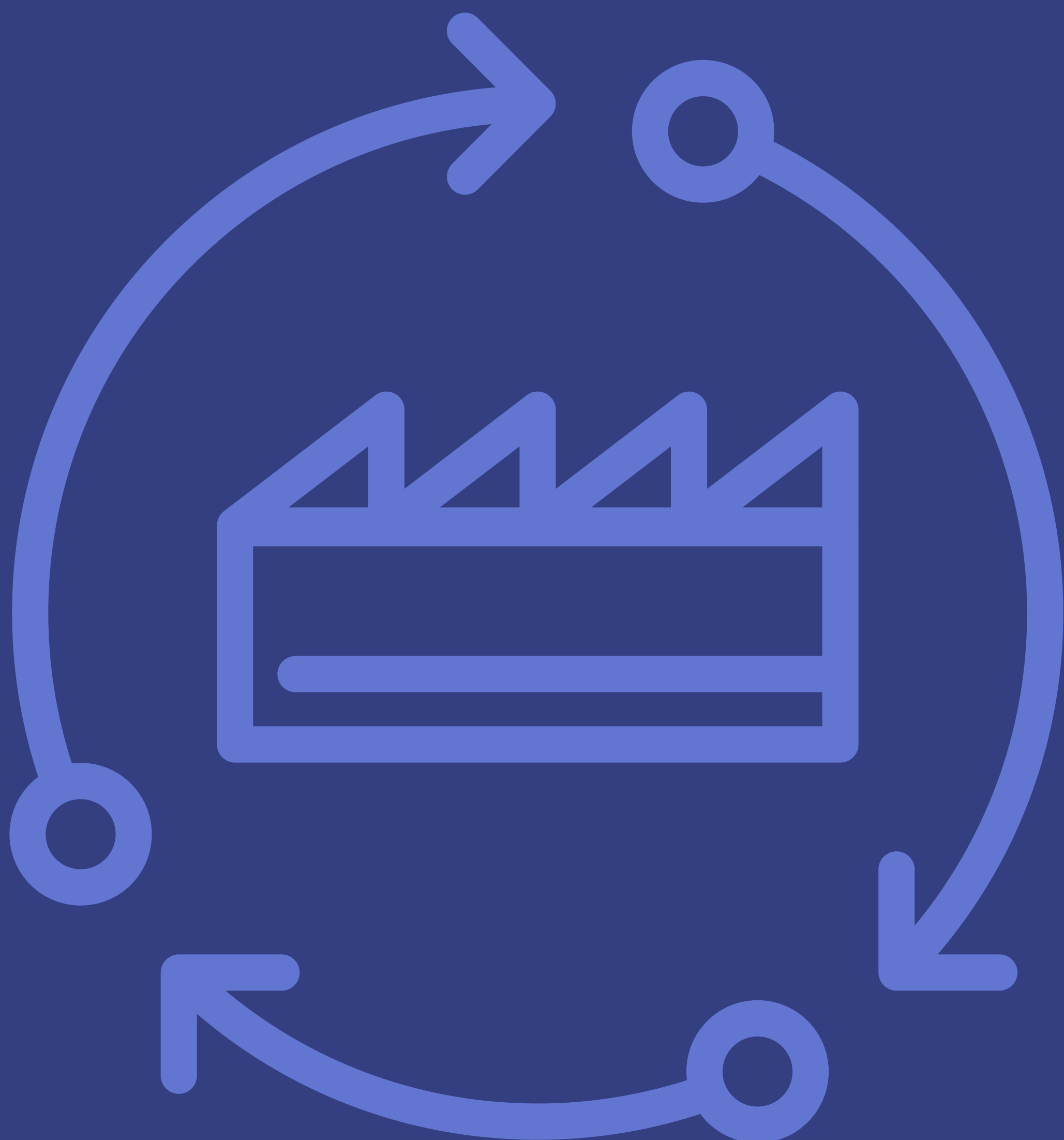
A prime example is in our ongoing replacement of adhesives, which is traditionally a core component in COSMO's manufacturing processes, with materials that have less negative environmental impact.

In the best of scenarios we at COSMO can use our innovation capacity to fuel our journey towards greener operations and these examples are illustrative for our ambition to move beyond mere reduction and rather replace the usage of materials with negative impact with novel materials and greentech solutions that hold potential for COSMO to leapfrog towards reducing the footprint from our operations on both nature and climate.

In sum, 2020 was - in spite of Covid-19 disruptions - characterised by progress on four central building blocks of our Impact agenda: (i) the commitment to renewable energy; (ii) scaling up the application of our reduce-reuse-recycle principles on circular economy in our production; and (iii) reduction of emissions to mitigate our climate footprint; (iv) working with partners across sectors (business, local government, and communities) to be increasingly catalytic in what we do.

# IV. Integrity – keeping our people safe and healthy

As we stated in our first UN Global Compact report from 2019, the people who work for COSMO are the backbone of our company – from the production line staff in our factories to our global executive team. +3,000 of our employees live in our campus facilities in Dongguan, China. 2020 made us realise to a higher degree than before that this statement comes with a responsibility to go above and beyond compliance in what we offer to our workforce.





The Covid-19 pandemic and its negative impact on both markets, clients, production facilities and, above all, our surrounding communities, carried with it implications for our business in 2020. The principle of acting with Integrity as a cornerstone in COSMO's 3-i sustainability model was put to a monumental test.

A core element of acting with integrity is to abide by the UN Global Compact central principle of transparency and as COSMO's business was increasingly affected as the initial wave of Covid-19 lockdowns rolled over the world, we want to be transparent and upfront about the challenges we faced. In just one quarter of the year, as our clients were impacted, we had to release 500+ workers before July 2020.

As we overcame the adversity of the pandemic and bounced back to reconfigure our production in

Dongguan and to operationalise our two new factories in Thailand, which were set up in April 2020. With one of the two new factories in Thailand fully operational and the other in testing mode, we began scaling up our workforce including in Thailand where we, at the end of 2020, were approaching our target of 500.

The above is a critical part of any story of 2020. Basic socio-economic risks, including jeopardised employment opportunities, took prominence in a year dominated by fragility. Integrity, however, means more than just preserving jobs. We have made a conscious effort in 2020 to not use the pandemic as an excuse to not make progress on our qualitative goals. So, as 2020 unfolded, the below crystallised as the cornerstone of our efforts to embed integrity in every aspect of our relations with the cadre of people who make up COSMO.

- First and foremost, we responded directly to our 2019 UN GC report's call for clearer strategy, policies and systematic approaches on sustainability by developing, in 2020, a new Code of Conduct for all levels of COSMO employees.
- The new COSMO Code of Conduct, which put in place new policies including on harassment, was paired with the delivery of 102 training sessions by the Environmental Safety and Health unit to reach 100 % of all workers on safe, suitable and sanitary working conditions. The new COSMO Code of Conduct was also accompanied by a communications campaign and measures such as a comms channel to ensure easy access to raise conduct-related issues to management, including on an anonymous basis.
- Immediate rapid response to the Covid-19 pandemic through additional safety and health, including sanitation, measures at offices, production facilities and campus areas (in Dongguan) led to the accomplishment of COSMO's goal of zero Covid-19 cases in the workforce.

● With a renewed focus on reaching out beyond our offices, production facilities and workforce, COSMO helped keep work-related Covid-19 cases among family members at zero. We did this by systematising some highly specific measures including:

- Covid-19 prevention awareness promotion / training / newsletters / posters at all our facilities as well as sanitary actions (cleaning, disinfection, wearing of mask)
- Putting in place comprehensive Environmental Health and Safety procedures
- Providing PPE, temperature testing, comfortable quarantine rooms, 1-meter distance measures including for dorms, transportation and common spaces including our campus canteens, regular disinfection of our facilities, and free Covid-19 tests for workers returning from other provinces.
- Employee status tracking through internet / wechat to check where employees have been and that they are in good health.
- Resume the productions step by step after proper monitoring.

● Our rapid response to the pandemic led to a temporary turnaround of the production to deliver PPE such as face masks to COSMO's workforce at a time when there was a lack of PPE supplies.

● We ramped up community engagement during the pandemic. Our factories reside within villages and the pandemic accelerated our ambition to engage more with the development, and protection, of our surrounding communities. Due to the virus our direct outreach was limited but COSMO made donations of PPE to surrounding local communities.

● In spite of a full recovery and a record of 19000+ workforce, including in a new production facility in Thailand, 2020 saw a new record low in production site accidents, halving the 2019 figure. In total there were 3 workplace injuries in the production in China and Thailand with a workforce of 19,000 employees divided on more than 1 million square feet of factory space. In comparison, there were 6 injuries in 2019, 10 injuries in 2018 and 12 in 2017. This decline in accidents is linked to the swift management response to regular audits on safe, healthy working conditions for all our employees.

- Full compliance with labour law requirements, including on occupational safety and health, working time, rest, and continued provision of living wages. The basic salary at the main production facility in Dongguan is deliberately set around 10% above the minimum wage, and diligent tracking and payment for overtime. We maintained this commitment to pay our employees above the local requirements throughout the Covid-19 crisis.
- We strengthened our ties with Trade Unions in 2020 and we keep communicating with the TU leadership team on how to improve the working & living conditions, and drive better engagement activities in the campus. Currently 1539 employees are Trade Union members which represents about 30% of the average headcount.
- Equal employment opportunities for women and men, with a workforce that is well-balanced (54% women, 46% men) and where women on average have a lower turnover, with women making up 61% of the longest-serving (2 years or more) COSMO employees. In terms of age, the COSMO workforce consists of 3 evenly divided groups, with 33% below the age of 30, 33% between 30 and 40, and 34% above the age of 40.
- To ensure fair treatment and anti-harrassment measures the following mechanisms are already in place: (i) Hotline in place; (ii) regular communication meeting; (iii) suggestion box.
- Safe, healthy living conditions in the Campus in Dongguan where 3000+ employees live in 3 dorms that were, in 2020, improved by surveying the priorities of our employees, including on preferred improvements to dormitories, canteens, recreational rooms, Campus playground and preferred recreational activities.
- A key principle for us in 2020 was that COSMO continued to provide the equivalent conditions to our employees during Covid-19 lockdowns, including food and well-maintained campus surroundings at our production facilities. In cases where quarantine was required COSMO covered the cost of hotel accommodation.
- To ensure progress on our People Development goals, COSMO pushed all Managers to identify development needs for their teams and employees as well as action plans for how to make progress. We are currently working with an external consultant to develop leadership programmes.

- A new skills- and merit-based classification system for staff and leadership growth path (to supervisor/managerial level) developed in 2019 was implemented, albeit in its fledgling phase, in 2020. With this, we introduced a development review in our performance management to assess not only strength and development area but also specific development actions of employees, for example on critical competencies such as problem solving, leadership, innovation capability.
- In total 6686 employees joined classroom training on a range of training topics, covering Functional Training, Leadership & Management Training, Code of Conduct, Social Responsibility and Business Ethics Training. As a prime example of the enhanced focus on longer-term people development, we started implementing the Leadership & Management course in 2020 with 161 colleagues participating in the training sessions. The total amount of training hours spent upgrading the skills of COSMO employees was 10,718 hours.
- In line with our aspiration to reach out to surrounding communities, the Covid-19 crisis provided an opportunity to work more closely with local authorities, including in Dongguan at a time when knowledge of the virus was limited and public-private collaboration was of the essence.

Finally, COSMO is still, as throughout the lifespan of our company, in full compliance with international conventions and standards of the ILO and other international organisations on the abolishment of forced labour, all forms of child labour and any other human rights abuses. COSMO has equally ensured a full commitment to national and local labour laws in the production facilities, including on minimum wages. This is a core part of ensuring that our efforts on the integrity component of our *3-i Model* contribute to SDG 8 on Decent Work.

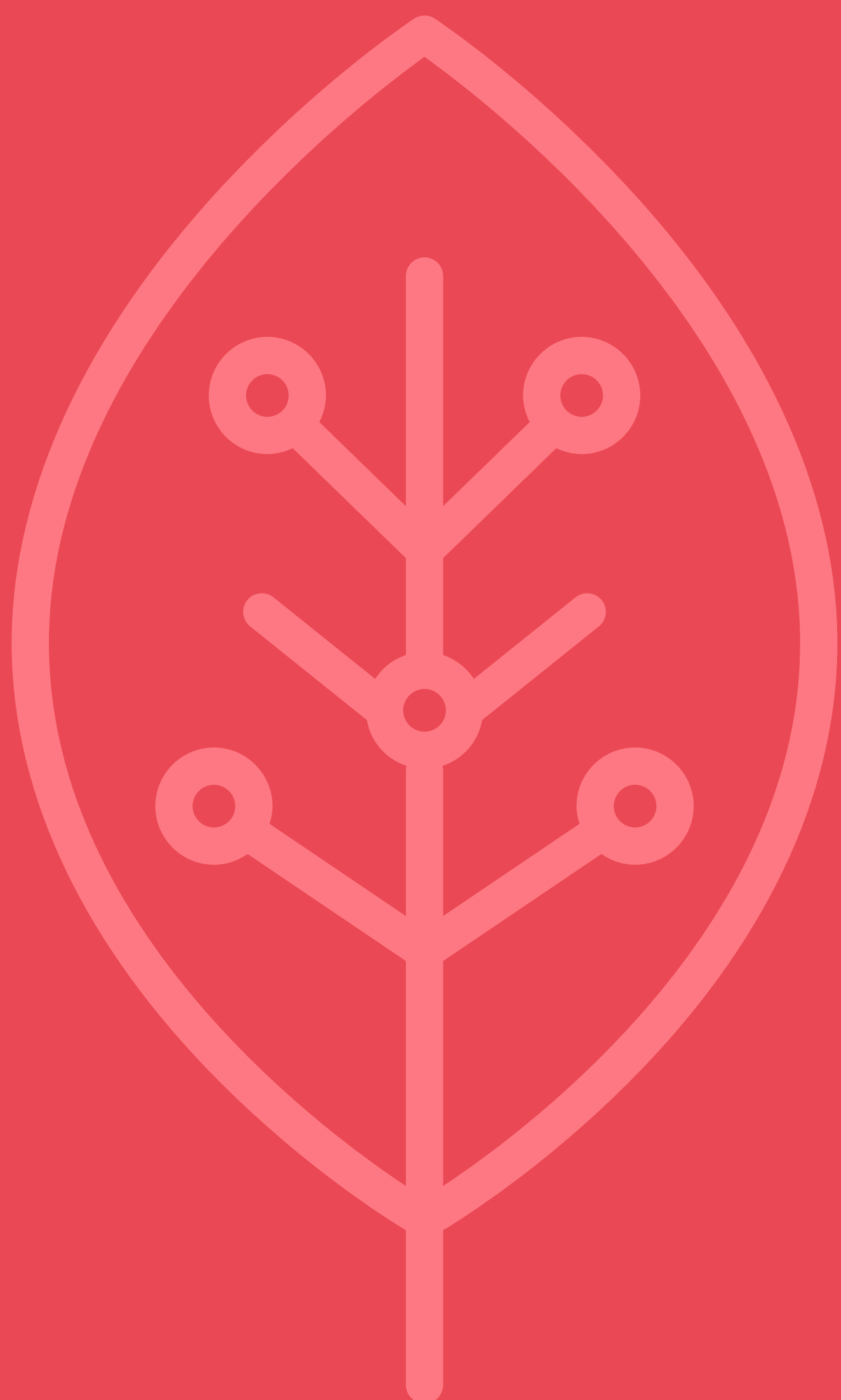
It is on this foundation of the above we confirm that integrity in our relation with our people and partners is an indispensable part of the COSMO *3-i Model* and will remain so in the years to come. It is where our sustainability promise is fulfilled or broken - and it is an area where we need to keep pushing our boundaries. This means we will continue to be ambitious on issues such as Occupational Safety and Health, working conditions, living (Campus) conditions, employee engagement, harassment, gender diversity and women's equal opportunities, anti-corruption etc.





# V. Innovation – COSMO's catalyst for sustainability

At COSMO, we believe that innovation and design are ways to drive sustainable product solutions with our customers. Our Innovation Labs are focused on creating and accelerating solutions for our customers, spanning manufacturing process, materials, and design. We work to reduce time to market, de-risk the development cycle, and accelerate solutions. Our labs anticipate customer and market needs, to create proactive solutions with design-sensibility and a focus on sustainability.



2020 has been a year with dual dynamics for COSMO. On the operational side some of our sustainability aspirations have been challenged or reoriented towards maintaining the safety and health of our people and our surrounding communities. On the innovation and R&D side of our business, however, the imperative to design new products, identify new materials and forge innovative collaborations with our networks of partners has been more important than ever before.

Equal to the imperative of reducing our planetary impact and ensuring that we relate to people and communities with integrity, the imperative of the third I of our *3-i Model* - innovating for sustainability - is at times compatible with reducing cost and gaining immediate market shares but can, at other times, be associated with raised costs and need for investments. 2020 provided a difficult environment for raising the cost of materials and ultimately products due to the implications of the global pandemic.

As a consequence, we decided to do two fundamental things. First, to expand our material library - highlighted in its fledgling stage in the 2019 UN GC report - and bring it closer to a ready-to-launch ramp,

making it easier for clients to select biomaterials, recycled materials and other sustainable options. Secondly, we decided to reach out and engage our community of partners - in the collaborative spirit of the UN Global Compact initiative and SDG Action campaigns - to co-construct a new Material Solutions Index and a new Product Solutions Index.

The objective of prioritising these elements in the era of a global pandemic and recession was driven in equal parts by the business case and by sustainability: business case because sustainable innovation is - along with the manufacturing line - where COSMO adds value, expertise and comparative edge in the offer to our clients; sustainability because the imperative to shift to more sustainable practices is essential for how we define ourselves and how we see COSMO as a future-proof company. Together, these lines of thought aligned to solidify our path towards new frontiers of sustainable innovation - and ultimately the position of COSMO as a catalyst for moving the needle on the Global Sustainable Development Goals.

Practically, we translated these principles and aspirations into action in two primary ways in 2020.

- First, based on the digital database we developed in 2019 to catalog the vast array of materials across all categories and material types, we built on our material library to provide customers with a simplified Material Solution Index. This Index parses down the 100s of bits of technical data behind a material and presents materials in a simplified view across 7 key dimensions<sup>1</sup> of which Sustainability is central. This Index makes it easier for COSMO's business clients to compare and select the right material for their product needs, and highlights the sustainability implications of their choices. COSMO's material library now houses over 5000+ materials from 100+ global material suppliers and showcases the latest materials from emerging trends, to targeted solutions, to sustainable market innovations, across the full spectrum of material categories:

- genuine leather; leather-like alternatives; textiles; foams / polymers / resins; adhesives; yarns; logo / embellishment; coatings and treatment

- Second, we embarked on a COSMO-led initiative to develop a community of business partners with whom we can test the potential of new sustainable materials and products, thereby increasingly co-creating the material and product solutions indices. We developed this initiative by reaching out, through Typeform, and sparking a dialogue on sustainable materials with our suppliers and clients.

Rooted in these two workstreams, our 2020 sustainable innovation efforts culminated as we selected the most promising and relevant sustainable materials from our library, built them into complete products, and went through the full product reliability test specification. The result goes beyond just a swatch of material, and rather looks at the material in a full product, with real-life testing and manufacturability feedback. This is the backbone of our Product Solution Index which is created to visualize and compare the end-result - alongside the physical prototypes - parsing down all the data into 9 key dimensions<sup>2</sup> including sustainability dimensions that factor in both how the product is made and its end-of-life impact.

In sum, these efforts accelerated sustainable solutions for customers, offering proactively tested materials and ready-to-launch solutions with a built-in graphic index of materials. This represents a step change towards a new phase in COSMO's sustainable innovation journey - one that has potential to be highly catalytic for all components of our 3-i sustainability model by replacing materials, such as for example adhesives, that reduce the recyclability of products that COSMO manufactures, and by aiming to select materials - for example water-based polyurethane (PU) - that protect the health and safety of our employees.

Building these elements of sustainable innovation and circularity more systematically into future generations of COSMO products will ultimately allow us to make a significant contribution to a range of the Global Goals, such as SDG9 on Sustainable Innovation, SDG 12 on Responsible Production and SDG 13 on Climate Action - to just mention a few.

<sup>1</sup> Durability, Chemical, Manufacturability, Yield, Sustainability, Cost, and Agility.

<sup>2</sup> Mechanical/Chemical/Environmental testing performance, Sustainability (how it's made and end-of-life), Design (cosmetics and tolerances), and Cost (agility, and relative cost).



An area where we were challenged on our plans for 2020, was the series of outward-facing events we had planned as a part of building a community of like-minded partners who we can work with to expand our efforts on sustainability-driven innovation. It was a priority emanating from our 2019 UN GC report to keep sharing experiences, rallying partners and forging a community on sustainability with like-minded partners, so in 2020 COSMO hosted the following events in Q1 of 2020 before the onset of the pandemic prevented us from convening our communities of partners.

**Fashion & BeautyTech event with 80 participants at SF COSMO Lab (Jan 2020)**

with focus on Sustainability & Inclusiveness in developing products and building new brands (beautytechcommunity.com). COSMO Lab Material Innovation’s Director, Amber Blair, discussed the high demand for sustainable materials used in manufacturing and its life cycle. Industry leaders on the panel discussed the future of sustainability.

**Green Business Awards (Mar 2020)** at California Academy of Sciences to welcome and recognise 140 new businesses into the SF Green Business community, with awards by local city officials including Senator Scott Wiener. The SF Green Business program works with businesses to conserve resources, build community, save money, and protect the health and safety of your employees. COSMO Lab SF was awarded first for Certified status then **upgraded to our current Innovator Status**. COSMO was recognised for participating in the community, hosting events related to sustainability, and promoting Earth Day volunteering. <https://greenbusinessca.org/business/details/SanFrancisco/CosmoLab>



We are currently planning how we can resume these outward-facing events on sustainable innovation in 2021, and aim to pair them with our progress on cultivating change through sustainable product and material innovation that helps our partners thrive on their journeys towards sustainable production and consumption patterns.

These are examples of how we believe COSMO’s commitment to placing innovation at the heart of our sustainability journey can spread ripples in the water.



# VI. The transformational challenge: staying honest

As our Communication on Progress has highlighted, COSMO responded effectively to the main challenges of 2020 - in particular the big headline of Covid-19 impact - in spite of a complex globalised corporate structure. We experienced a temporary reduction in capacities and workforce but had no significant downtime, executed our production targets flawlessly through a fast rebound.

While we take pride in our response to the challenges of 2020 in terms of preserving jobs and securing the safety and health of our people and while we have registered parallel progress on reducing environmental and climate footprint, COSMO senior management is still acutely aware that we can do even better on the various sustainability bottom lines of our *3-i Model*.



This section is a transparent reflection of some elements where we have work to do. Transparency is a fundamental part of any COSMO Communication on Progress to the UN Global Compact - and this report for 2020 is no exception. We believe that these challenges hold as many lessons as our achievements for UN Global Compact members and other peers alike, so we aim to share lessons rather than merely results in this report, with a view to contributing towards the element of the UN Global Compact as a platform for knowledge-sharing.

Anchored in this aim to be honest and transparent we look forward, at the beginning of 2021, with our gaze fixed on a number of specific areas where we would like to improve.

In 2020 we realised, for example, that if we want to truly deliver on health and decent work - making our contribution to SDGs 3 and 8 - this cannot only include production line accidents. We need to expand our definition as we learn about the issues that concern our people. In that vein 2020 taught us, for example, that we need to do more on mental health during periods affected by an external threat such as the pandemic. We also keep seeing that part of continuously improving the well-being of our employees must rely even more than now on developing a fully transparent and open culture to highlight and address needs for improvement collaboratively with employees.

With that in mind, some of our specific priorities for strengthening our sustainability efforts in 2021 and beyond are:

- To engage, and help protect, the communities surrounding our production facilities in China and Thailand through building knowledge and skills for environmental protection and share with the schools - including through a waste categorization campaign at our factories and in the surrounding villages.
- Design stronger systems on environmental projects with importance for surrounding communities, such as a sanitary wastewater & storm water separation project that is in the pipeline.
- To go above and beyond our legal obligations to the safety of our workforce and provide care to our employees whose family or friend have been affected by the impact of Covid-19 or other tragedies - for example through psychological counseling to employees in need during the Covid-19 period which has taken its toll on mental health of people all over the world, especially those facing periods of quarantine.
- To help our people develop through leadership programs, and through an inclusive management style with focus on the process of people development at all levels.



- To engage our people across levels of seniority through diversifying employee activities and continuously improve living conditions for those who live in our campus facilities (Dongguan). The set-up of facilities for sports (badminton, basketball etc), karaoke, a freshly renovated canteen etc. are based on employee engagement and assessment of priorities.
- To engage dynamically with the local governments surrounding our facilities to understand and, if possible, help inform their planning and engagement of local networks that can collectively take preventive actions in advance of crises. This will ideally help us give our employees early warnings in cases where they need to prepare for rapidly changing scenarios.
- On the back of Covid-19 impact, we want to build our preparedness to transform our production even more rapidly to produce PPE in advance of a similar future scenario.

As always, some of these changes will be gradual and seamless, while others will require a change in our internal corporate culture. Some changes will make us more efficient and lower our transaction costs so the business case for acting swiftly will be logical. Other changes will have a cost attached and will require commitment from COSMO senior management to let actions be guided by a triple bottom line with focus on people and planet – *integrity* and *impact*.

With this knowledge of the necessary trade-offs, and with a healthy portion of realism about the effects of the global pandemic on the competitiveness and focus on price points of clients and business partners in the manufacturing sector that is the economic core of COSMO's activities and revenue, we still confirm that

we want to move the needle on sustainability in as many of these areas as possible. As this 2020 report demonstrates we are tackling both low-hanging fruits that come with savings attached as well as longer-term transformation with cost attached on the path towards greener COSMO processes, production, people management, material choices, community relations and more.

In short, there are multiple areas where we can improve to better serve the climate, the environment, our people, surrounding communities and future generations. The recurring self-assessment, reporting and road map framework we have developed over the past two years is already infusing COSMO's sustainability journey with more predictability, transparency and quality.

Finally, we want to emphasise that transparency must go hand in hand with accountability and continuity. We need to report year-on-year from an apples-to-apples principle and with clarity that we will follow up the coming reporting cycle, even on the elements where we have not performed optimally.

That is the reason we have now put the central building block in place for that next level of progress by developing and continuously using an agile but rigorous self-assessment methodology with +50 matrixed questions anchored in a range of sustainability issues with the highest relevance to our business model and operations. The model adapts principles and focus questions from the UN GC and GRI reporting frameworks and the data collection is rooted in active, consistent participation from COSMO's global Executive Team and the layer of operational Directors. In total, 19 key informants from within the company have informed the report through interviews and separate follow-up with supporting evidence. This was carried out in spite of challenges caused by Covid-19.

The process in its entirety is, as in 2019, driven from start to finish by COSMO's Founders and CEOs. Importantly, the exercise to develop this systematic approach has been led by external, experienced and independent sustainability reporting consultants without any financial interest in COSMO<sup>3</sup> to ensure that bias is limited, that data is as transparent as possible, and that where transparency is lacking it is being credibly and swiftly addressed. Those are the high standards COSMO commits to.

<sup>3</sup> Independent Senior Sustainability Consultants: Rune Orloff, [runeorloff1212@gmail.com](mailto:runeorloff1212@gmail.com) and Pelle M. Lütken, [pelle.moller.lutken@gmail.com](mailto:pelle.moller.lutken@gmail.com)



# VII. Conclusion & way forward

2020 has been a dramatic year for all of us. A year that reminded us not to take progress for granted. It is complicated to draw conclusions on a year that, in one way, tested all our coping mechanisms and, in another way, proved the strength of all our systems at COSMO. A year that slowed down our ambitions to hit the ground running with a new production facility in Thailand, although that is now ramping up, while at the same time allowed us to recover lost ground and reach record numbers in terms of our production and workforce.

At a time of global recession this is no small feat but the question here is how did it affect our sustainability journey and the commitments we made in our first Communication on Progress to the United Nations Global Compact in 2019?





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Our primary conclusion is that 2020 confirmed to us that in any given context - even one affected by global crisis - there are three fundamental ways that COSMO can and wants to drive sustainability on a meaningful and global scale. They can be captured in the following three commitments:

- **be as progressive as possible in the choices we – rather than our customers - make in our operations;**
- **influence our customers, in particular by identifying, and encouraging the use of, sustainable design and material choices for products that we will manufacture; and**
- **let sustainability considerations drive decisions on COSMO's own line of products where we have full control over design, process and material choices.**

We have continued to roll out these strategic commitments by accelerating our experiments with replacement of less sustainable materials. We have rooted this progress in the development of a Material Solutions Index and a Product Solutions Index which have converted the data from 5000+ materials in our material library (reported in 2019), rated by sustainability criteria as well as price range and other analysis, into ready-to-launch options for our business partners. This allows us to deliver on our commitment to inspire our customers to progressively select more circular, recyclable materials where possible.

In addition to mapping alternative materials, and gravitating towards the most sustainable ones, we have also continued to harness the existing culture of efficiency within the company to make sustainability gains. For example, 2020 saw additional progress from our factories in Dongguan on recycling scraps in the production, leading to the dual result of reducing both waste and usage of raw materials. We also continue to make headway on the Impact component of our 3-i Sustainability Model through maintaining our full transition to renewable energy.

Our second key conclusion from 2020 is that with zero Covid-19 cases in our offices and production facilities due to the introduction of diligent systems for protecting our workforce - and even recalibrating our production to manufacture PPE - as well as a

further reduction of production-related accidents to a minimum, COSMO has maintained the highest possible integrity towards the people who form the backbone of our company.

To ensure that the many dimensions of our goal on the Integrity component of our 3-i Sustainability Model are not overshadowed by the Safety and Health considerations of the Covid-19 response, we have had a sharp focus on keeping our commitments to pay a living wage, comply with basic human and labour rights conventions including those of the UN International Labour Organization, as well as increasingly providing our people with skills and talent development opportunities. We have not allowed Covid-19 and its implications to narrow the scope of our delivery and ambitions.

Our third overall conclusion from 2020 is that the importance of engaging from a community-based lens is more important than ever before. The pandemic has demonstrated a new level of interconnectedness and a new importance of local community-led responses in addition to the overall legal frameworks we operate under. We want to continue reinforcing our collaboration with surrounding communities, which in 2020 led us to work more closely with local governments, produce a modest supply of PPE to surrounding communities, and to forge a common dialogues on sustainable product choices with our

business partners by reaching out through Typeform and other mechanisms at a time when physical interaction was limited to a minimum.

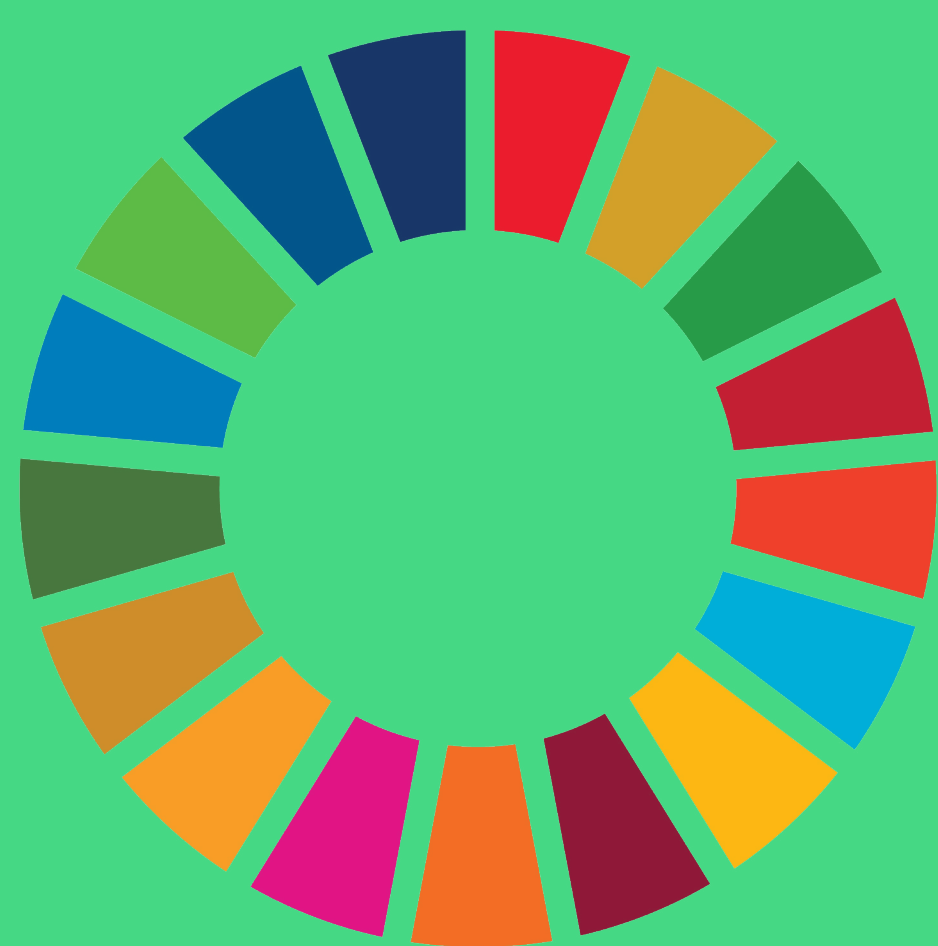
As we embark on a new year, which will hopefully be less affected by the pandemic, it will be key for the way forward on our sustainability strategy that we find new and strengthened ways of being catalytic in delivering on all elements of our *3-i Model* of Impact, Integrity and Innovation. This means it will also be key to continue identifying ways to reduce waste, water and electricity consumption, and maintain our commitment to renewable energy - and it means we must aim to replicate all of the effective mechanisms

we have built up in the production facilities in China in our new factories in Thailand. It also means we will continue to inspire our business partners to select innovative and sustainable material and product solutions, joining COSMO on the journey to improve the protection of people and planet alike.

It is against this backdrop we commit to continue contributing to a range of the Global Sustainable Development Goals in 2021 and that we continue our commitment to report annually with the highest possible quality and transparency to the United Nations Global Compact.



# COSMO



## **COSMO Sustainability 2020 Communication on Progress to the United Nations Global Compact**

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