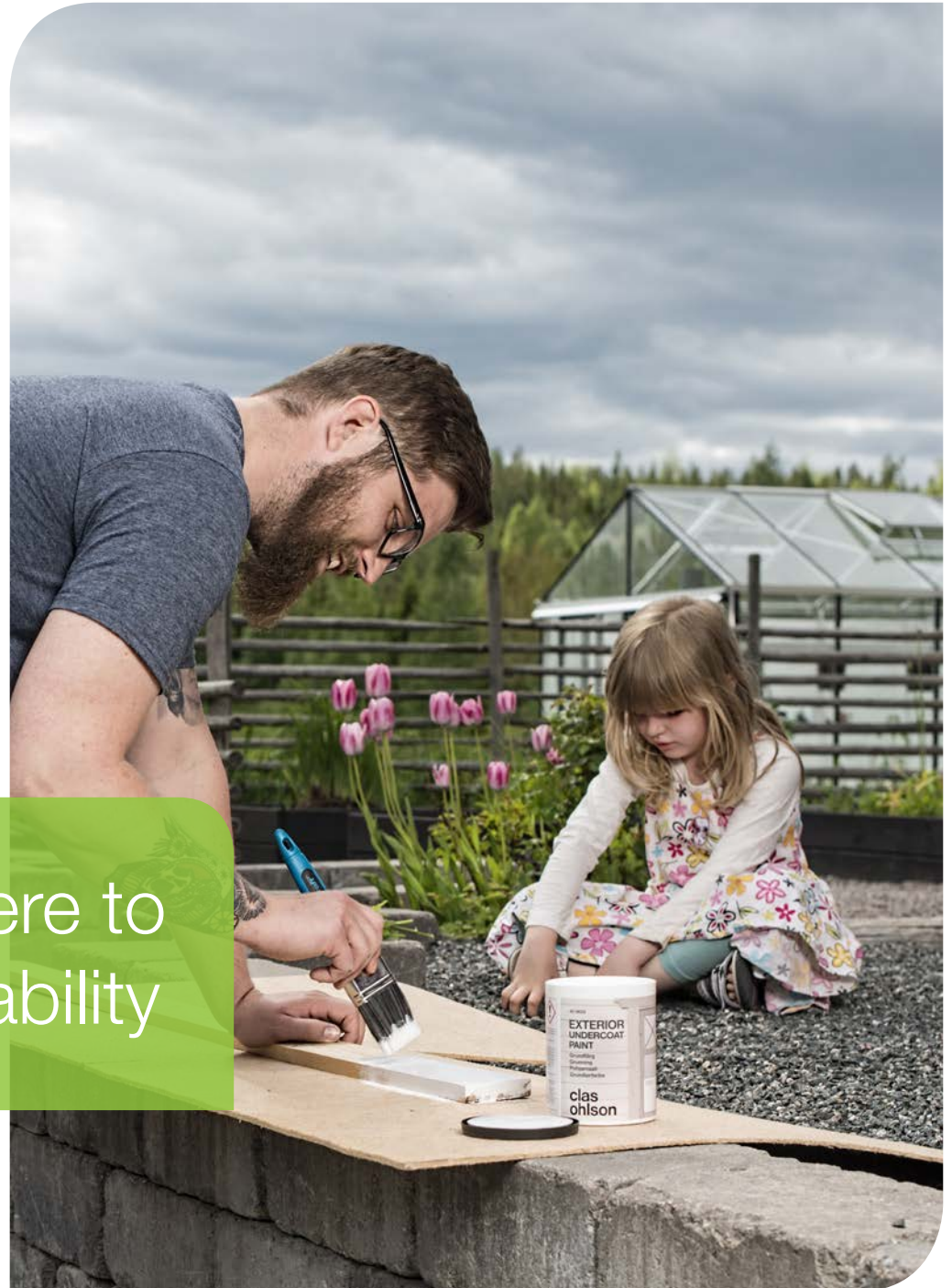


clas ohlson

sustainability report
2014/15

From Here to
Sustainability



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We view our sustainability efforts as a long journey we are taking together with our customers. We call this journey From Here to Sustainability.

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Contents

The sustainability agenda is becoming increasingly integrated in Clas Ohlson's business strategy and way of working. This report presents a summary of our efforts in 2014/15.

Clas Ohlson strives to report our sustainability work in a relevant and transparent way. We have applied the Global Reporting Initiative's (GRI) G4 guidelines in this work. To the greatest possible extent, we have used G4 disclosures to structure the report and, where relevant, its indicators to measure progress. A GRI index, published as a separate document, is available online.

With the exception of energy consumption, all data has been collected during the May 2014 to April 2015 financial year. Methods for collecting data on transportation and CO₂ have been adjusted during the reporting year. No significant changes to the organisation have been made since the publication of the most recent report in August 2014.

As our Communication on Progress, this report also highlights how Clas Ohlson's approach reflects our commitment to the ten principles of the UN Global Compact. The report has been reviewed by Clas Ohlson's Board. It has not been subjected to external review.

Please visit us at about.clasohlson.com or contact Åsa Portnoff Sundström, Head of Sustainability.

This Sustainability Report has been prepared in Swedish and translated into English. In the event of any discrepancies between the Swedish and the English version, the former shall have precedence.

CLAS OHLSON

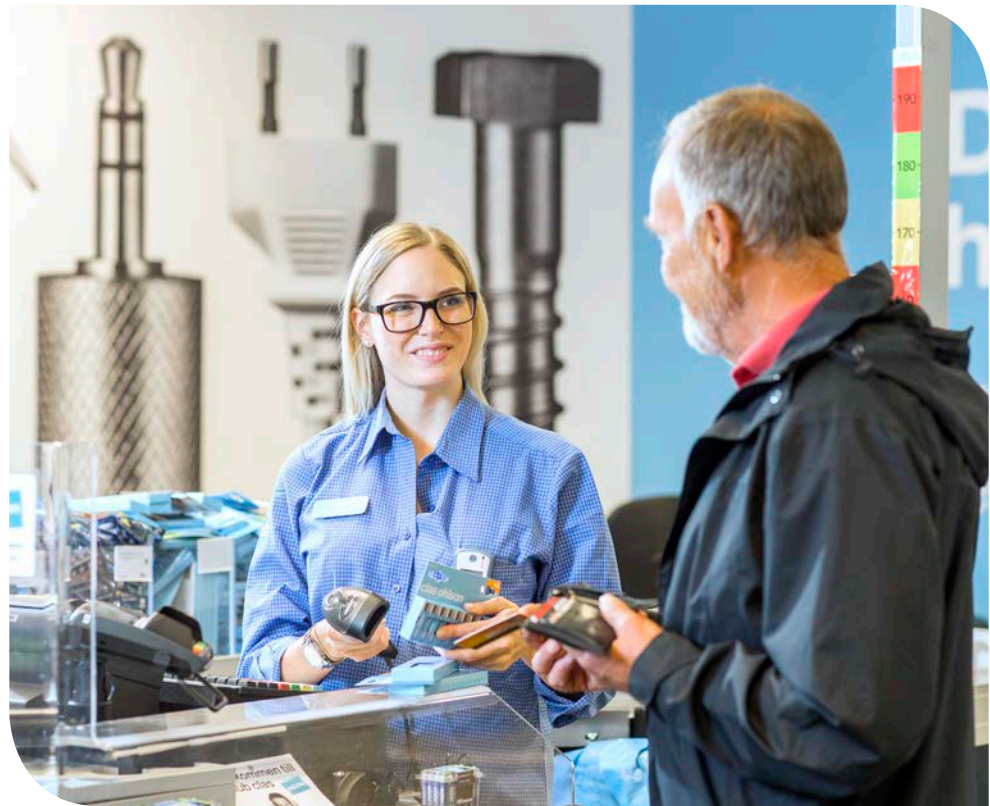
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This is Clas Ohlson

Through our vision of developing Clas Ohlson into a leading international modern hardware retailer, with high profitability we add value for all our stakeholders.

Our business

We help and inspire people to enhance everyday life by offering a broad range of smart products at attractive prices, a proactive, knowledgeable and available customer service, and an inspirational shopping experience through all sales channels. Our operations must be sustainable; respecting people and the environment.

You can find us here

- We are located in Sweden, Norway, Finland, the UK and Dubai through a well-distributed store network comprising 198 stores and online shopping as well as in China with our own purchasing offices. Starting in summer of 2016, we will also establish operations in the German market.

- The major portion of our store network is located in city centres or centrally located in popular shopping centres.
- The aim is to offer fully integrated sales channels through an omni-channel structure.

Our core values

Our strong core values are the compass for all work conducted by the Group and the guiding principle for how we approach and communicate with each other, our customers, suppliers and society at large.

Salesmanship is the core of the Clas Ohlson spirit and rests on four cornerstones: drive, warmth, innovation and commitment.

5 markets

7.3 billion SEK in sales

15,000 products

4,700 employees

76 million visitors

198 stores

Business concept

We will sell dependable products at low prices and with the right quality according to need.
(The founder, Clas Ohlson's original business concept)

Our vision

To develop Clas Ohlson into a leading international modern hardware retailer, with high profitability that adds value for all stakeholders.

clas
ohlson

Our mission

To help and inspire people to improve their everyday life by offering smart, simple, practical solutions at attractive prices.

Our values

Salesmanship is the core of the Clas Ohlson spirit and rests on four cornerstones: drive, warmth, innovation and commitment.

Long-term financial objectives

- Sales growth in comparable units of at least 2%.
- A forecast for the number of new stores is given each year.
For the 2014/15 financial year, the target was ten to 15 new stores, the same target has been set for the 2015/16 financial year.
- An operating margin of at least 10%.

Strategic focus areas

1 Our customer offer

We will be the natural choice for practical problem solutions

2 Our customer interaction

We will increase customer loyalty and attract new customers

3 Our expansion

We will continue to expand operations

4 Our supply network

We will continue to optimise our supply chain

5 Our ways of working

We will enhance efficiency and simplify our ways of working

6 Our people

We will ensure a high-performance and customer-oriented organisation



Focus on a more sustainable lifestyle

Clas Ohlson has existed for 97 years. This knowledge humbles me ahead of the assignment that I and my 4,700 colleagues have been entrusted with, namely taking care of our inheritance and, in parallel, setting the course for the next 97 years.

We understand that the world in which our customers will be living, with climate change and increasingly limited resources, will fundamentally change expectations of us as a company. We must be well prepared to meet these expectations. A commitment to sustainability is a direct prerequisite for the long-term development of the company if we are to compete for customers, employees and the right products in the future.

This means creating value at all stages, applying a long-term approach and understanding our role in society. We have decided to become a leading international modern hardware retailer and our sustainability agenda supports us on this journey.

Our strong core values are the guiding principle for how we approach and communicate with each other, our customers, suppliers and society at large. This is a strength when we are now integrating sustainability in our operations. In our long-term business planning, we have defined six strategic focus areas that we must succeed with to reach our targets. We bring sustainability to life in day-to-day operations through all employees visualising their roles as we develop our customer offer, our customer interaction, our expansion initiatives, our supply network, our ways of working and our people. It's wonderful to see the energy in the change process that is taking place every day in various parts of the business.

Moreover, when we have our new business system in place we will be able to further raise the tempo in terms of implementing all of the good ideas that promote our sustainability efforts.

During the year, we defined the criteria that a Clas Ohlson product must meet to be considered as promoting a more sustainable lifestyle and set a target for these products' proportion of total sales. Two examples of products for a more sustainable lifestyle that we launched during the year are: the world's first reusable tea light and the range of eco-labelled paint we now offer. And more products are on their way. With our broad product range and store traffic of 76 million visitors every

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I am convinced that retailers can play a major role in changing society for the better.

”

year, products promoting a sustainable lifestyle comprise the most important method by which we can drive positive change.

To ensure that the products we retail are manufactured under good conditions, we have an audit team in place in Asia. The team is responsible for verifying, assessing and monitoring suppliers' compliance with our Code of Conduct. The audits we perform also provide us with an excellent entry to dialogues on the development of suppliers' sustainability efforts. During the year, we carried out 395 audits.

Another part of our operations with a major impact is our supply chain. Much of our efforts here focus on moving overland freight to rail and we have set ambitious new goals for how we will reduce environmental impact from our transportation by 2020.

From the long-term perspective, it is important to view the entire value chain to identify how we can contribute to changes that have the greatest impact. I am convinced that retailers can play a major role in changing society for the better. Trade creates improved economic conditions for many people

and, moreover, with the products we sell and the knowledge we convey, we can change the attitudes and behaviour of our customers. Collaboration with other organisations is important to be able to understand the full picture. Our core expertise is in retail but, on other issues, we are trying to learn as much as possible from other organisations with expertise in other areas.

One good example is the UN Global Compact, of which we are a signatory. This comprises ten principles covering human rights, labour practices, environment and anti-corruption and which act as an excellent guide for our relationships with all stakeholders along the value chain. With regard to children's rights – an issue in which we have long been committed – we base our efforts on the Children's rights and business principles. We also collaborate with Save the Children, currently in a project that aims to help the large number of migrant workers and their families moving from the Chinese countryside to urban areas for work.

There is scope for substantial improvement. Given the targets we have set for operations, sustainability efforts can never cease. Among other initiatives, we need to continue building an understanding of these issues and providing our employees with tools to meet customers'

future needs, and convey information about how customers can reduce their environmental impact.

During the year, we will increase communication in stores, catalogues and through online shopping so that our customers will be able to make more sustainable choices. In parallel, we will increase sustainability training initiatives for all employees.

We view our sustainability efforts as a long journey we are taking together with our customers.

We call this journey From Here to Sustainability.



Klas Balkow, CEO and President, Clas Ohlson
Insjön, Sweden, June 2015



Our sustainability agenda

Our commitment to sustainability is a key element in reaching our vision of being a leading international modern hardware retailer. Therefore, the sustainability agenda permeates all aspects of our business strategy.



Four questions about our sustainability agenda to Åsa Portnoff Sundström, Head of Sustainability:

How does Clas Ohlson view sustainability?

“We see sustainability as a precondition for healthy financial development. We can always be clearer on how sustainability and business goes hand in hand, which is something we try to achieve every day. In the long term, we want to create value for our customers and that a sustainable mindset permeates our operations. For us, it is most important to retail products and services that support a more sustainable lifestyle and for customers to be able to use products longer. We call this ‘wear but not waste’.”

What has stood out in Clas Ohlson’s sustainability efforts since the last sustainability report?

“We have done our homework in terms of the strategic direction for sustainability efforts. In our strategy

work, we took the time to work through the issues with a fine tooth comb to define how we want to work.”

What does that mean in practice?

“We have carried out a materiality analysis, which defines the importance of various issues for our stakeholders and our business development from an overall perspective. Based on this analysis, we have defined relevant targets, key indicators and activities for sustainability and integrated them into operations and the six strategic focus areas that comprise our business strategy.”

Our approach to sustainability is not an aside. With roots as a family-owned company, long-term thinking is fundamental to how our Board works and how we perceive our role in society. In fact, our sustainabili-

ty agenda and non-financial risk management are regularly on the Board’s agenda. To back up our commitment, we have sustainability-related policies and targets in place.”

How will Clas Ohlson customer notice this?

“Customers will notice this perhaps primarily when meeting our colleagues. During the year, we have prepared a new training course for our employees that deals with sustainability in general and how we work with these issues in a tangible format. This benefits employee who gains greater confidence as well as the customer who receives better information how the products we sell are used most efficiently and their environmental impact.”

Eight prioritised areas

By working strategically in these eight areas, Clas Ohlson can create value for its key stakeholders and contribute to a reduction of the negative impact along our entire value chain.



LEADING THE WAY

By being an industry leader with an innovative and sustainable product range as well as by reaching out to as many as possible with an attractive offering, we can position ourselves as a more sustainable company and help our customers to live in a slightly more aware fashion.

- **Products for a more sustainable lifestyle**
- **Resource-efficient business models**



DECISIVE

By offsetting our negative impact on the environment and people from our growth strategy with more energy and resource-efficient solutions and by attracting and retaining the right employees, we have the right conditions for long-term profitability.

- **Being an attractive employer**
- **Energy efficiency**
- **Materials and chemicals in products**



MEETING EXPECTATIONS

By being a listening organisation, acting in line with the expectations of others and by being aware of our role in society, we create confidence in our brand and our way of doing business.

- **Human rights, children's rights and working conditions**
- **Business ethics**
- **Our role in society**

How we prioritise

To find our compass, we have to first identify the issues that have the greatest influence over our ability to create long-term value and have the greatest significance for our stakeholders perception of us. As part of our strategy work, we pinpoint these issues and assess where their impacts lie.

As part of strategy work in 2014, we analysed which sustainability issues were most important through a materiality analysis.

Initially, we defined key stakeholders to be our customers, current and prospective employees, our investors and owners, not-for-profit organisations as well as the media and legislators.

In terms of which issues have the greatest possibilities of creating long-term value, the starting point for assigning priorities was a list with approximately 50 issues. These were divided into the following categories: corporate governance, the environment, society, employees and human rights.

The basis of the analysis was to look at the issues from the perspective of their impacts on both product and our company and their relevance to 2020 were assessed. We also compiled insights from external factors, stakeholder dialogue, employee surveys and our own strategic planning.

The outcome of the analysis was 10 areas. Eight areas identify 'what' we should focus on. The other two areas – being a value-driven company and building and positioning Clas Ohlson as a sustainable brand – describe 'how' we should efficiently integrate these eight areas into our operations.

The results of the materiality analysis were reviewed by Clas Ohlson's Group Management and Board of Directors.

Mapping boundaries

Analysing the issues along the value chain allows us to understand their direct and indirect impacts and how we should manage them.

We re-evaluate the issues' importance and impact on the value chain each year. The annual review helps us ensure that our strategic priorities are in line with our stakeholders' expectations of us, in terms of the sustainability agenda and with changing market conditions.

Focus on our greatest impact

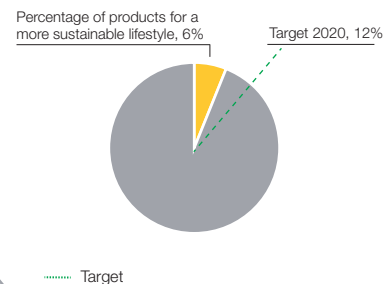
The eight prioritised areas define what we should work with, why these areas are important and how we will measure our progress.

Products for a more sustainable lifestyle

Our product range of more than 15,000 products is where we have the possibility to make the greatest difference from a sustainability perspective. By defining criteria that must be met for 'products for a more sustainable lifestyles' we are setting the products with significantly enhanced environmental performance apart from comparable products. Accordingly, 'products for a more sustainable lifestyle' pertains to an additional level over and above our requirements for quality, product safety as well as labour and environmental standards.

Target: The share of products for a more sustainable lifestyle at least represent 12 per cent of sales by 2020.

Sales pertaining to products for a more sustainable lifestyle, %



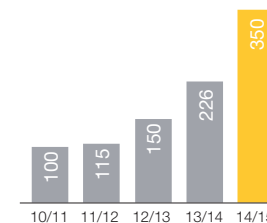
Resource-efficient business models

Our society is shifting slowly from a traditional linear approach to manufacturing, use and waste toward a more circular economy.

To meet the challenge of the circular economy, Clas Ohlson needs to further develop resource-efficient business models. Moving forward, when we have more products for a more sustainable lifestyle, more environmentally-minded customers and more ways to contribute to the recovery of end-of-life products, we will have a reduced negative environmental impact and generated less waste.

Developments in the area will be analysed before targets are set.

Sales trend for spare parts, %

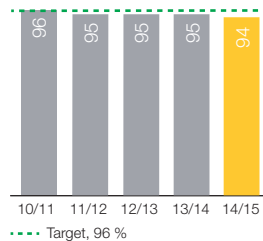


Being an attractive employer

Today, Clas Ohlson has about 4,700 employees in six countries. We need to both attract new skilled colleagues and develop the skills we have in the company in pace with our expansion. We have to train and develop our employees' skills, ensure that we focus on health and well-being, and continue to strengthen our leadership. Part of successful leadership includes taking into account diversity issues, since we believe this benefits innovation and helps us to anticipate the needs and challenges of our growing markets.

Target: Employee attendance should exceed 96 per cent.

Employee attendance, %

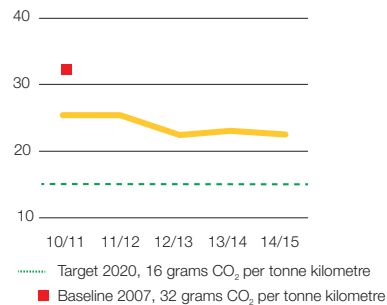


Energy efficiency

Identifying more efficient transport solutions contributes most to our direct CO₂ emissions reductions. We'll achieve this aim by carrying more of our goods by rail instead of by road and use sea transport instead of air. We also work with reducing energy use in our daily operations – our stores, our warehouses and our offices. As part of our energy saving program, we are switching to more energy-efficient LED lighting in stores.

Target: Reduce relative emissions of CO₂ attributable to freight 50 per cent by 2020 (compared with 2007).

Relative CO₂ emissions from transportation, gram CO₂ per tonne kilometre



Materials and chemicals in products

Requirements stemming from consumers and legislation regarding chemicals and materials used in products and packaging are becoming increasingly stringent.

We have imposed higher requirements than those set by legislation for textiles and leather products and for products used by children as well as products that come into contact with skin or food.

We work with improving our procedures for managing information about chemicals in our products. We will increase customer confidence through greater transparency.

The area must be analysed in more detail in order to define long-term goals and indicators.

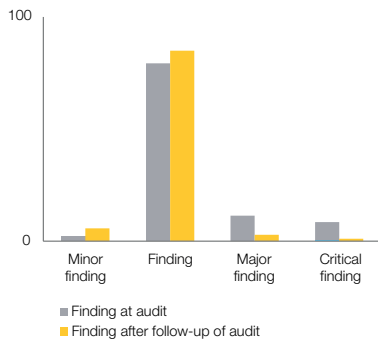


Human rights, children's rights and working conditions

Our supply chain comprises 600 manufacturers and 700 suppliers in about 30 countries. Although Clas Ohlson is often a relatively small customer for many of our suppliers, we see that we can make a difference by setting high standards for human rights, labour conditions and children's rights issues. We can influence and support suppliers in work with human rights and improved working conditions, not least through collaboration with other companies and organisations.

Developments in the area will be analysed before targets are set.

Finding at supplier, %



Business ethics

We build trust and integrity through responsible actions from each Clas Ohlson employee. A strong corporate culture based on our core values is a good start. In addition, there are structures and policies at the company to support individuals in issues pertaining to business ethics. Our updated Code of Conduct and Code of Business Ethics contain a clear framework for all employees and partners to respond to.

Target: That during the year, all employees in the relevant functions undergo a course in practical guidance regarding business ethics.

The area must be analysed in more detail in order to define long-term goals and indicators.



Our role in society

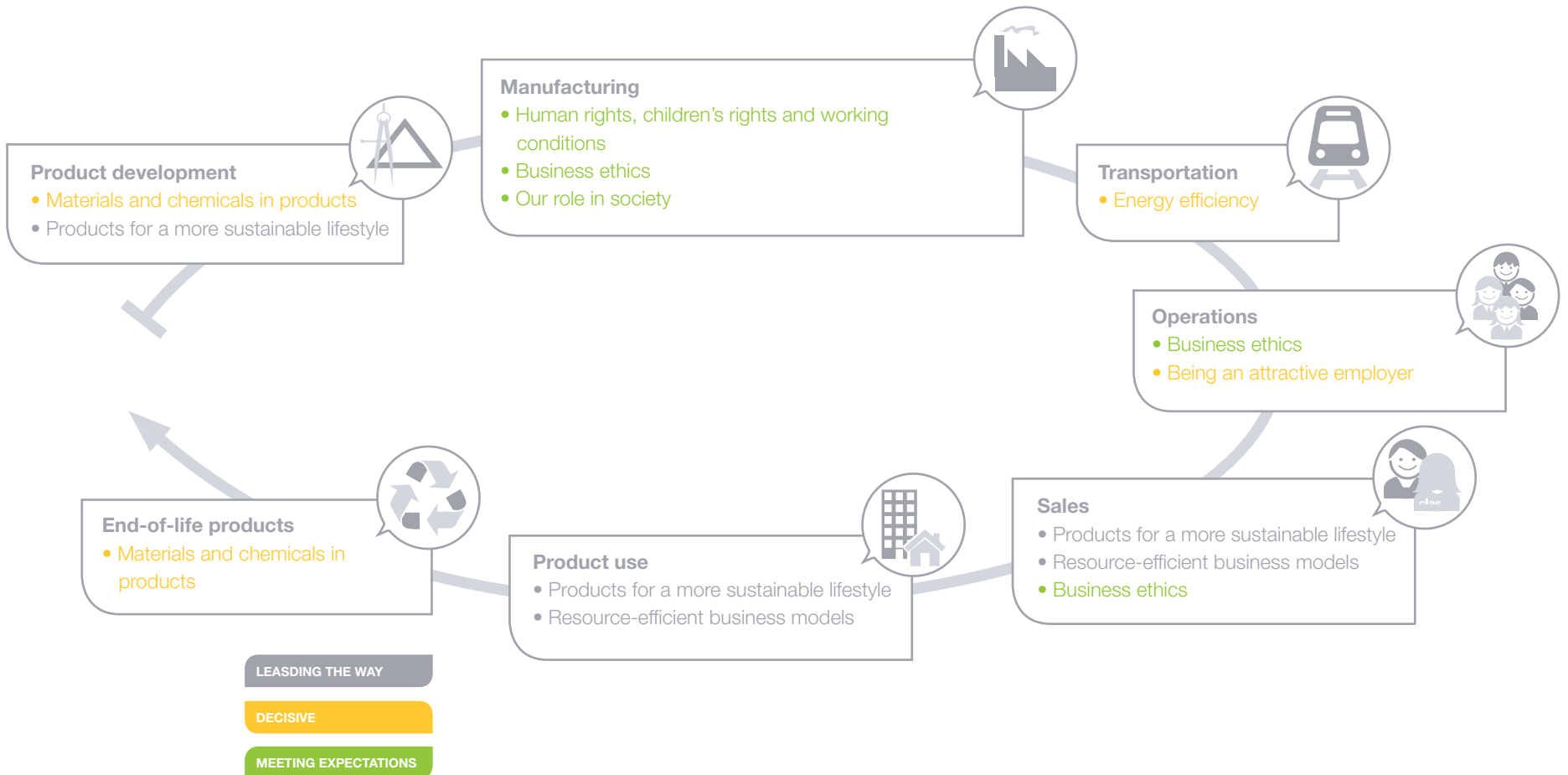
By acting as a positive force in the communities in which we operate, we increase our commitment and build trust among employees, customers, and other local stakeholders. Another core commitment for us is working to strengthen children's rights. For many years, Clas Ohlson has pursued preventive efforts on issues to do with child labour, product safety and responsible marketing but also other issues that have an impact on children.








The area must be analysed in more detail in order to define long-term goals and indicators.



Our value chain

Effectively managing our negative and positive impact requires an understanding of where in the value chain we can make the biggest difference. The value-chain perspective helps us to identify possibilities and risks, take responsibility and create value for our stakeholders.



	 Product development	 Manufacturing	 Transportation	 Operations	 Sales	 Product use	 End-of-life products
AREA	Develop innovative products for our own brands together with strategic partners	600 suppliers and 700 manufacturers, with 69 per cent of our products manufactured in Asia.	A large amount of products were transported	4,700 employees in six countries	Sales via 198 stores, web shop, catalogue and telephone sales channels	Many electrical products have their greatest impact during the use phase	Participate in collection and recycling schemes
ISSUES	<ul style="list-style-type: none"> • Water and energy efficiency • Replace materials with more sustainable alternatives • Packaging • Recyclability • Functionality • Product life 	<ul style="list-style-type: none"> • Code of Conduct and quality requirements • Anti-corruption and bribes • Human rights in new and existing markets • Migrant worker conditions 	<ul style="list-style-type: none"> • Emissions of CO₂ and energy consumption • Transportation efficiency • Packing rate 	<ul style="list-style-type: none"> • Skills development • Diversity • Health and well-being • Young people in our workforce • Energy efficiency and waste • Anti-corruption and bribes 	<ul style="list-style-type: none"> • Availability of products with favourable environmental performance • Information about products for a more sustainable lifestyle • Energy efficiency in stores 	<ul style="list-style-type: none"> • Product life • Environmental impact during the product life cycle • Hazardous chemicals • Product safety • Services for a more sustainable lifestyle • Spare parts 	<ul style="list-style-type: none"> • Waste • Recycling • Reuse • Producer responsibility and collection system • Chemicals
VALUE CREATION	<ul style="list-style-type: none"> • Reduced impact from product use and recycling • Brand differentiation 	<ul style="list-style-type: none"> • Contributing to raising standards for suppliers, their workers and families and local communities • Increased confidence in the Clas Ohlson brand 	<ul style="list-style-type: none"> • Curb CO₂ emissions from transportation, thereby addressing a key challenge for Clas Ohlson and society • Achieve cost and environmentally efficient transportation solutions • Enable expansion into new purchasing markets 	<ul style="list-style-type: none"> • A high performing organisation • Attract and retain skilled employees • Increased employee commitment 	<ul style="list-style-type: none"> • Differentiated product offering, tailored to future customer needs • Increased sales • Reduced energy costs • Committed employees and satisfied customers • Increased transparency about environmental impact 	<ul style="list-style-type: none"> • Loyal customers • High confidence in the products • Reduced waste and increased resource efficiency • Reduced energy consumption and CO₂ emissions • Cost savings 	<ul style="list-style-type: none"> • Contribute to the circular economy • Reduced waste and increased material recycling • Less chemicals to the environment

An integrated approach

Clas Ohlson has a forum that works with defining strategy, setting targets, planning and following up our environmental, social responsibility and community involvement initiatives. The composition of the group represents all significant parts of our operations and helps us to work in an integrated fashion with environmental and social priorities. We have asked the forum to explain its view of how to integrate sustainability into operations.

Klas Balkow (KB), CEO and President
 Åsa Portnoff Sundström (ÅPS), Head of Sustainability
 Karin Svenske-Nyberg, (KSN), Director of Human Resources
 Sara Kraft Westrell (SKW), Director of Information and IR
 Eva Berg (EB), Category Manager
 Lars-Johan Strand (LJS), Marketing Director
 Magnus Högman (MH), Director of Supply Network
 Tina Englyst (TE), General Counsel
 Roger Edbom (RE), Contoller

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The first phase of the transition is to equip the organisation to be among the industry leaders in sustainability efforts.

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To start with, are you facing challenges in your striving to integrate sustainability into Clas Ohlson's operations?

KB: “I would say both yes and no. Yes, in that it is always a challenge to work with long-term change. No, in that our corporate culture lays a strong foundation for us to treat each other and our operating environment with respect.”

ÅPS: “I agree, sustainability cannot be something we conduct in parallel. In that case we would never reach our long-term goals and contribute to society's shift from a linear to a circular mindset.”

KSN: “However, it's clear that there are challenges. Gaining the commitment of all employees to our goals is not without complications, even if deep down our employees want to make a difference. I believe that the materiality analysis will make things much easier. It clearly states what we need to focus on.”

Can we achieve full integration without a materiality analysis?

SKW: “It's about focus. It is important that change has a clear direction and an understanding of the issues that are key to Clas Ohlson and why. Moreover, this

means that we know which actions will have the greatest effect and the greatest value for our stakeholders.”

EB: “For example, our range of products for a more sustainable lifestyle. Here, I can see that we need to continue efforts to identify strategic partnerships with suppliers that help us get there, both in terms of developing products that help our customers live more sustainably and to increase transparency regarding the impact of the materials and chemicals used.”

LJS: “And to increase the availability and visibility of sustainable products in our sales channels. We have to maintain a strong customer focus in everything we do. If we can get customers to understand the product's impact during the use phase as well as the importance of extending the product life and recycling, we will create value in several stages.”

Is success dependent on the right suppliers?

ÅPS: “Having suppliers who are strategic partners in our sustainability efforts is an absolute necessity. But we also need to be better at guiding our suppliers in what we need and expect from them. We have a little work left to do there.”

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It is important that change has a clear direction.

”

MH: “We are currently helping suppliers meet our expectations regarding the Code of Conduct to ensure that they live up to the requirements we set with respect to human rights, labour conditions and the environment. This comprises a challenge given that we are often a relatively small buyer to many of our suppliers, but we can see that we can make a difference and that we are progressing.”

Many of Clas Ohlson’s suppliers are in China. Does this pose any particular challenges?

TE: “Aside from the work carried out promoting human rights and working conditions in the supply chain, there is a general risk of corruption in the purchase process in several of the countries that we buy products from. We need to ensure ethical working methods, primarily through education and information in this area.”

RE: “Yes and, naturally, the fact that we have long transportation routes from our purchasing markets mean that we face a challenge in achieving transportation solutions that are both cost and environmentally efficient.”

ÅPS: “I would like to add that we have to do our homework with regard to our impact in the transpor-

tation stage, namely to refine methodology to calculate our CO₂ footprint and better understand the environmental impact of the supply chain.”

What role do Clas Ohlson’s employees have in sustainability?

KB: “Everything starts and finishes with personnel. The first phase of the transition is to rig the organisation to be among the industry leaders in sustainability. This means that we must provide all employees with knowledge about what we are doing and why.”

KSN: “How we develop internal skills and give employees possibilities to grow within the company are also key elements. We have to attract the right skills and this means we must act in line with the expectations tomorrow’s employees will have of a sustainable employer.”

TE: “We are onto something here. Being a sustainable company is a competitive advantage even for employees. In the same manner as consumers, tomorrow’s employees require that our actions are sustainable and that they are given the possibility to influence and make a difference.”



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We have to maintain a strong customer focus in everything we do.

Lars-Johan Strand
Marketing Director

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Progress over the past year

Over the past year, Clas Ohlson made progress in all eight prioritised areas. Our most significant achievements pertained to supply chain and transportation.



Three questions about how we are managing our sustainability work to Peter Jelke, Deputy CEO:

Why is it important that sustainability issues are managed effectively?

“To ensure that our sustainability work is making a difference, we must follow up and report on targets in a systematic way. At the moment, our focus is on developing tools for identifying and managing risks. In 2014/15, we also worked to clarify our priorities, to integrate sustainability into the pertinent processes and to identify relevant targets and key indicators for our prioritised areas.”

Are there management processes in place in all prioritised sustainability areas?

“We are currently implementing a new business system to support our growing organisation. Sustainability is a natural part of this work and all eight prioritised areas will be included. We are also working proactively to strengthen our culture and values and to ensure compliance with our Code of Conduct and Code of Business Ethics. Internal audits, third-party audits and training contribute to effective risk management and have a positive impact on Clas Ohlson and on our suppliers.”

What are your main management tools?

“We have policies in place for ethical, environmental, conduct and human resources issues. Our policies are linked to clear processes. For example, Clas Ohlson’s Code of Conduct contains a number of requirements that we impose on ourselves, our manufacturers and our suppliers with respect to such issues as work environment, working conditions, environmental impact and anti-corruption. We are continuing our efforts to refine our supplier risk assessment model in order to become even more efficient at prioritising our resources as we now expand into new purchasing markets.”

Products for a more sustainable lifestyle

The number one item on Clas Ohlson's sustainability agenda is the development of products that help our customers reduce their own negative environmental impact. To succeed in this task, we must work in close cooperation with our suppliers.

At Clas Ohlson, we aim to promote products that maximise our financial objectives, strengthen our brands and support our sustainability agenda. The key to achieving this balance is to expand our range of products for a more sustainable lifestyle. That's why we established during the year qualifying criteria products must meet.

Our goal is to increase the proportion of products that promote a more sustainable lifestyle from the current level of 6 per cent to 12 per cent by 2020. This is something our customers want. Our surveys show that 54 per cent of our target group demand sustainable products.

According to our definition, a product that supports a more sustainable lifestyle is one that has a positive

or significantly lower environmental impact during its life cycle than a standard product in the same category. Products for a more sustainable lifestyle are characterized by at least one of the following:

- Reduce customers energy or water consumption at home.
- Support recycling or are made from recycled materials.
- Help reuse or reduce waste.
- Have an improved environmental performance, e.g. are eco-labelled.
- Materials use is optimised or potentially hazardous chemicals are replaced.

We have established an approval process for products for a more sustainable lifestyle and established a com-

mittee that is responsible for assessing whether products fulfil our criteria.

We will continue to develop our range of products for a sustainable lifestyle, with a focus on Clas Ohlson's own brands. To succeed, we must gain a greater understanding of the coming needs of our current and future customers. This means that we also need to develop relationships with strategic suppliers who can support us in this process. At the same time, we must review our existing range and replace the products that have the most negative environmental impact.

We are also developing a branding concept for our range of products for a more sustainable lifestyle, regardless of whether customers choose to shop in our stores or online.





During the year, Clas Ohlson introduced a rake made from recycled plastic. The material comes from broken plastic crates once used to transport products from our distribution centre to our stores. Thanks to an efficient use of resources and lower cost of materials, we can offer the rake at a highly favourable price.

Eva Berg, Category Manager, explains how Clas Ohlson began selling the world's first eco-labelled and reusable tea lights:

“The inventor actually called our purchasing department. He explained that he had an idea and wondered if we would be interested in working together to develop the product. The decision was a no-brainer.

A recyclable tea light. Quite simply a brilliant idea! We set a date to meet and started discussing what to do next. We considered various alternatives and tried out different manufacturers. Two years later, we had a reusable tea light in our stores – without the disposable aluminium cup and made from 100 per cent stearin. Customers truly appreciate this product and we are now looking at how we can optimise the packaging and further reduce its environmental impact.”



The addition of paint to our product range marked another change during the year. Customer demand for these products has been high and many people appreciate being able to buy everything they need to paint under one roof at convenient locations in the city centre or shopping centres. Clas Ohlson's paint is marked with the EU Ecolabel and sold at highly competitive prices.



“ Sales of spare parts have increased 50 per cent every year for the past two years. ”



Resource-efficient business models

Under the catchphrase ‘wear but not waste’, we actively seek new methods of delivering services and encourage consumers to use their products for a long time and in the right way.

Global driving forces such as increased consumption and limited access to resources are progressively becoming more relevant. By taking action to address these issues, we can help create value for ourselves, our customers and society as a whole.

We must design for improved recyclability, manage the recovery of end-of-life products, involve customers in our efforts to extend the product life and ensure that end-of-life products are properly managed. For many products, the greatest impact occurs when products are in use. That’s why it is important to train and involve our employees so that they can help customers choose the right product and quality, and explain how products are to be used.

We feel it is a natural step to offer customers repairs in Clas Ohlson’s own workshops, as well as spare parts in order to extend the life of their products. By making our spare-parts range, which comprises some 10,000 parts, more visible in our online store, we have increased our sales by more than 50 per cent every year in

the past two years. This is good for our business and for our customers, and also means that we are using fewer resources and producing less waste.

The next step in the development of our spare-parts operation will be to begin offering our most frequently used spare parts in our stores during the next year. Given the positive trend in online shopping and our expansion into additional channels in order to increase availability, we believe that demand for our spare-parts range will be even greater in the future.

New reuse initiative

In a circular economy, the focus is on reusing products or their components. At Clas Ohlson, we support this approach and our goal is to develop a model for handling the reuse and recycling of end-of-life products in a more effective manner and involving our customers in the process.

In spring 2015, we introduced just such an initiative in Sweden and Finland. By collecting used ink and toner

cartridges for printers at our stores, we ensure that these products are handled properly rather than ending up in customers’ household waste. Our return service is available to all customers, and members of our loyalty program Club Clas and our concept targeting business to business customers Clas Office are even reimbursed for returning their used cartridges. After the used ink and toner cartridges are returned, we send them to our supplier, where they are refilled and returned to us. We then sell them under our own brand at a favourable price. During the first two months of the initiative, 20,000 cartridges were collected for reuse. The project is now being evaluated and may be expanded into other markets.

To better meet the expectations of our future customers and position ourselves as a sustainable and profitable company, we will continue to develop our existing concepts, as well as new, more resource-efficient business models. We must also gain a better understanding of and give prominence to CO₂ efficient sales channels.

Being an attractive employer

A high-performance organisation is a prerequisite for succeeding with our expansion strategy. We must be able to develop the skills we have in the company and attract new, talented employees. This will require strong leadership and a deliberate focus on providing the right of competency.

Through our induction programme, we ensure that all new employees receive a broad understanding of Clas Ohlson's history and values to carry with them when dealing with customers. Our sustainability efforts are a natural part of this programme. As of summer 2015, all employees who participate in the induction programme will receive our updated training on sustainability.

We are convinced that a growing number of people, particularly young people, feel it is important that the companies they work for share their personal values. Our goal is to be the workplace for the modern family, where we treat our employees responsibly and offer safe working conditions. In order to better understand and measure how well we are meeting our employees' expectations, we conducted an employee survey during the year, in which we looked at such factors as commitment and leadership. A full 89 per cent of Clas Ohlson's employees chose to participate in the survey, compared with 84 per cent in the most recent survey in 2012/13, which suggests that our employees are committed to improving their workplace.

The survey also shows a healthy work climate and good leadership. We use a Net Promoter Score (NPS) to measure how attractive Clas Ohlson is as an employer and how loyal our employees are. In total, just over 85 per cent of the employees who responded to the em-

ployee survey stated that they are proud of working for Clas Ohlson, and the majority would recommend us to others as an employer.

Based on these results, we have developed action plans to further increase the commitment of our employees.

The results of the employee survey are also systematically linked to the customer surveys we perform, and

based on this, we can see a connection between employee commitment, customer satisfaction and profitability.

Another way to gather feedback from our employees is through all employee dialogues, which we conduct every year. We also further developed our process for employee dialogues during the year in order to include additional aspects of our employees' performance.



Good health a prerequisite for success

Ensuring the well-being of our employees is naturally important when it comes to creating the right conditions for long-term success. Our long-term goal is for employee attendance in the Group to exceed 96 per cent on an annual basis. The figure for 2014/15 was 94 per cent. A pilot project was launched at the end of the financial year to evaluate whether we can reduce short-term sickness absence by helping employees who fall ill to contact a healthcare provider more quickly, combined with clearer follow-up of the reasons for the absence. A number of stores in Sweden will be included in the evaluation stage of the project.

Focus on diversity

We believe that diversity creates innovation and helps us to anticipate the needs and challenges of our growing markets. We work to increase diversity through recruitment and focused skills development.

One of our goals pertains to equality and states that neither men nor women should account for less than 40 per cent of any individual professional category. In 2014, 33 per cent of Group Management were comprised of women, down from 38 per cent in the previous year. This was due to the appointment of an additional man to Group Management.

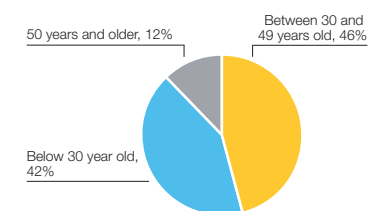
We have a relatively low average age among our employees and 42 per cent are under the age of 30.

Through a project conducted with the Swedish Public Employment Service, we have been working since 2013 to help young people – who are excluded from the labour market to a certain extent – to gain important practical work experience. In 2014/15, within the framework of this programme, we hired 107 trainees in our Swedish stores, approximately 40 per cent of whom were offered jobs at the end of their trainee period, which is to be considered a high figure. We are now working to expand the programme to include training in other areas in order to provide the participants with additional skills and experience.

In Finland, Clas Ohlson has offered its store personnel continuing sales and management training since 2013. After the year-long programme, employees earn a professional diploma in sales (store sales representatives) or special professional diploma in store management (store managers or team leaders). We have seen positive results in the stores where employees have undergone such training and plan to take another step during the coming year by offering international trainee opportunities within the framework of the programme.

Over the next year, we will also focus on developing our leaders and strengthening our internal supply of expertise through our work with succession planning and related development plans, as well as offering skills development to raise the level of competency among our existing employees.

Age distribution, %



“ We have established a challenging new target of a 50-per cent reduction in our relative CO₂ emissions from transportation by 2020.
Peter Bergstål
 Transport Manager ”

Energy efficiency

We are now entering the next phase of our work to reduce our climate impact. We are raising our ambition level when it comes to reducing our CO₂ emissions from transportation and broadening our programme to optimise our in-store energy consumption.

More than 75 per cent of our direct CO₂ emissions are linked to the transportation of goods. Accordingly, we are focusing intensely on further improving our transportation efficiency. The fact that we have a high proportion of sea transport, compared with road and air transport, is helping to reduce our CO₂ emissions.

When procuring transportation, we require that the trucks used to transport our goods are equipped with Euro IV engines. We also require the transport companies to sign our Code of Conduct. As part of the tender procedure, we require that companies submit their environmental policy. Companies engaged to transport our products agree to submit an environmental report once per year, which serves as a basis for follow-ups of our objectives and key indicators.

During 2014/15, 86 per cent of our products were transported by sea. This form of transportation accoun-

ted for 55 per cent of our CO₂ emissions deriving from freight transportation.

In conjunction with changing our calculation model for CO₂ emissions from transportation, we also saw an opportunity to set a new, challenging objective for reducing relative CO₂ emissions. Our current objective is a reduction by 50 per cent between 2007 and 2020, compared with our previous objective of 30 per cent. In total, we reduced our relative CO₂ emissions from 23 grams to 22 grams per tonne kilometre of goods during the year. This corresponds to a reduction of 4 per cent.

Another objective is to increase the share of overland freight carried by rail to 50 per cent by 2020. During the year, we reorganised the transportation of goods between Insjön and Gothenburg to stores in the UK, changing to rail transportation. We also started to see



the effects of our new transport agreement in Norway, under which we now transport goods from Oslo to six distribution hubs by rail. The goods are then distributed to stores by road. Today, 41 per cent of overland freight goes by rail. We are on track to realizing this objective.

Another change that is yielding results is the introduction of stackable plastic pallets for deliveries from our distribution centre to our stores. This has enabled us to reduce the number of return trips with pallets from the stores to the distribution centre by 3 per cent, thereby saving money and reducing our CO₂ emissions.

This reduction in CO₂ emissions should be viewed in light of the new calculation principles and methods we developed during the year. To allow us to better follow up the results of implemented and future fill rate optimisations and other improvements with respect to

transportation, we now use a calculation model based on the actual weight of the goods, rather than the weight used for tax assessment purposes. Historical data from 2007 and onwards has been restated in accordance with the new model.

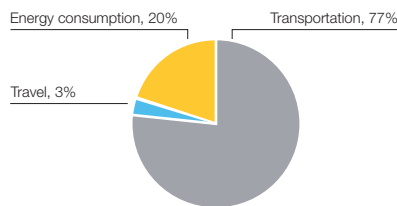
In addition to our efforts to reduce our CO₂ emissions from transportation and travel, we are also working to optimise our energy consumption in our daily operations – at our stores, our warehouse and our offices. For example, at our offices and stores, we are saving energy by automatically turning off lights and lowering the temperature in unused areas.

We also have a good opportunity to influence our electricity consumption by installing more energy-efficient lighting in our stores. For the past couple of years, we have had an energy efficiency programme in place for our stores, focusing on lighting issues, effective cooperation with suppliers and the proportion of energy-efficient light fixtures and fittings. During 2014/15, we reduced electricity consumption in nine stores rebuilt within the framework of this programme by a total of 27 per cent and the electricity consumption of our Nordic stores by 16 per cent compared with the preceding year. Over the next year, we plan to rebuild

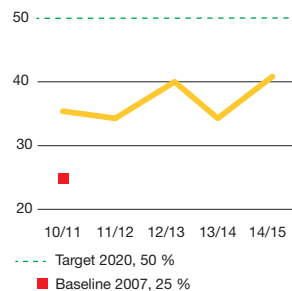
ten additional stores in Sweden, as well as preparing to introduce the energy efficiency programme in Norway.

We do not own our store premises, and heating and ventilation are often included in our rent, which means that it is currently a challenge for us to have any major influence in these areas. Our efforts to reduce the total electricity consumption in our stores must be carried out in cooperation with our landlords and property owners. When signing new leases, we require that LED lighting be installed in the premises.

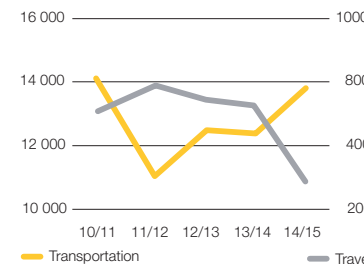
CO₂ emissions from Clas Ohlson's operations, %



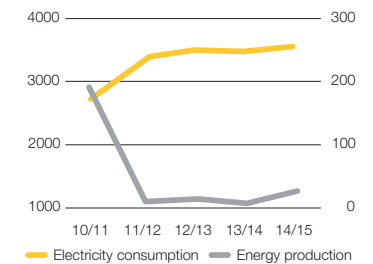
Share of total overland freight carried by rail, %



CO₂ emissions from transportation and travel, tonne



CO₂ emissions from electricity consumption and energy production, tonne



Materials and chemicals in products

We work continuously to replace materials and hazardous chemicals with more sustainable alternatives throughout our product range.



We see growing awareness and greater interest among consumers for sustainability. There is also increasingly, stringent legislative requirements and raised insight into how chemicals impact our health and the environment, setting new, challenging expectations for us as a company. In order to stay ahead of meeting these expectations, we have to manage and be transparent about materials and chemicals in products, and strive to replace these with more sustainable alternatives.

To a great extent, our work with chemicals in products is about ensuring that we meet legislative requirements and have access to correct information. Through setting clear requirements and diligent follow-up with suppliers, we can provide our customers and authorities with the information they need and are entitled to. We impose more stringent requirements than those set by legislation for products that come into contact with skin or food and for products intended for children.

Risk-based testing

We carry out a risk assessment for each new item in our product range on the basis of material, use, sales

volumes and past experience of collaboration with the supplier. The risk assessment determines which tests we perform and their frequency. Each delivery of high-risk products is subjected to test and analysis. Methodologies are defined in standards and our own requirement specifications.

During the year, we launched a new series of detergents and a range of indoor paints in which all products are eco-labelled. Eco-labelling sets stringent requirements in terms of the chemicals used in the products and that the products must be at least as effective as other products.

Our expectations are also in line with the EU's Timber Regulation. This means that we must be able to ensure that the products we retail do not come from illegally harvested forests. We have also specified requirements for and information on biocides in products and carried out a substantial review of and expanded the requirements for materials that come into contact with food.

Objective for the use of palmoil

An area in which our work has been driven by growing consumer awareness is palm oil, and we have now defined our position on the use of palm oil in candles. The aim is for all palm oil to be Roundtable on Sustainable Palm Oil (RSPO) certified from June 2015 and, in addition, that from June 2016, it should be possible to trace palm oil to its source of origin.

Continued efforts to build strategic partnerships with suppliers for greater transparency in terms of chemicals and materials used in the products forms the basis for being able to work even more proactively with phasing out undesirable chemicals and optimizing the use of materials. We will focus on this area moving forward. During the year we will also analyse and define our needs in terms of how we are developing our chemical management system. When we have a better overview, we will be able to define relevant targets and key indicators in this area.

Human rights, children’s rights and working conditions

By adopting a clear stance we can make a major impact on many people’s lives. It comes down to dialogue, audits, training and building strategic partnerships if we are to succeed in creating lasting change.

Clas Ohlson strives to be a responsible employer and contribute to society. Our Code of Conduct outlines our expectations with regards to environmental performance, human rights, working conditions and business ethics. The Code of Conduct applies to practices across the value chain – from supplier practices to product use and how we deliver our services.

69 per cent of the products we retail are manufactured in Asia, where the risk of deviations from the Code of Conduct are relatively high. Therefore, we place great focus on ensuring that suppliers meet our stringent requirements. Even as a small customer, we can contribute to lasting change through the combination of audits, training initiatives at factories and involvement in issues.

Audits in China

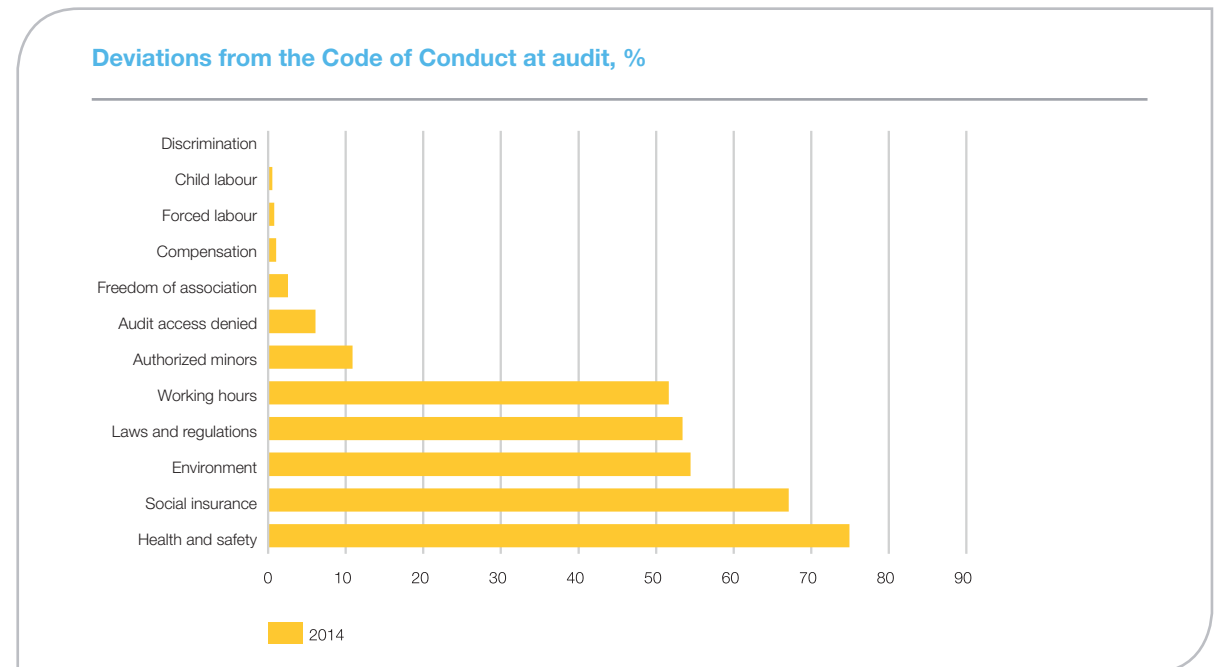
Our audit team in China is responsible for verifying, assessing and monitoring suppliers’ compliance with our Code of Conduct. Before we start working with a new supplier, we assess whether our requirements are fulfilled, and if not, whether the supplier is willing to rectify any deviations. All new suppliers have been assessed according to working conditions criteria. During the year, we have further improved procedures, which include the audit team and purchasing organisation,

to more quickly rectify serious shortcomings at our suppliers.

A new routine for this year, is that we perform complete audits prior to placing the first order.

In 2014/15, we carried out 395 audits of plants that

we assessed as having a significant level of risk, which is in line with our target of 400 audits per year. Of these, 126 were first-time audits and 269 were follow-ups. 364 audits were carried out by our own auditors and external companies audited a further 31 plants in Taiwan, Vietnam, India and China. We carry out both announced and unannounced audits.



We seldom come across child labour when we conduct audits. When it occurs, we work with the factory, the child and the parents to identify a solution that will safeguard the child's rights in the best possible way.

During the year, two cases of child labour were identified, in both cases the children were almost 16. The action plan included pay compensation up to the day the children turned 16 and it became legal to work.

We also encountered three plants where salary payments had not been made on a monthly basis, a form of forced labour. In two of these cases, the factories changed their payment routines and we now follow this up on a monthly basis. The third plant is no longer one of our suppliers.

Terminating collaboration with suppliers is seen as a last resort. During the year, six agreements were ended either because we were not given permission to audit the factory or because the supplier was not prepared to take the necessary measures that had been identified by the audit.

Through collaborating with suppliers, we support them in their improvement initiatives. One example of how we work to develop our key suppliers is the Excellent Programme. We are convinced that by actively working with long-term change initiatives and skills development, we contribute to positive development.

Together with other companies and partners, we have also developed a new educational tool, QuizRR, which consists of four training modules: health and safety, fire

safety, labour rights and how to promote an enhanced workplace dialogue at Chinese factories. QuizRR comprises short educational films followed by multiple-choice questions. The aim now is to reach more plants, improve the quality of the training and to make the training courses more effective and enjoyable. In September, the first prototype of QuizRR was tested at three of our suppliers and in July 2015, a pilot project was started to run over a three-month period.

As a complement to our programme for suppliers, we are also working together with strategic partners on local projects to improve conditions for suppliers' employees and their families, not least through our long-term collaboration with Save the Children. At present, we work primarily with helping Chinese migrant workers and their families. The project's target is to reach 300 children and 1,000 migrant workers. More information is available about our work with Save the

Children on page 30. Collaborating with organisations with expertise in human rights, children's rights and working conditions is an important method for us to gather knowledge and continue developing our initiatives.

In 2015/16, we will focus on expanding existing supplier program to include all new and existing suppliers in high-risk countries and to improve our assessment model to enable prioritisation of which factories to audit.

Having the right skills in place internally is equally as important as our ability to raise awareness levels at external suppliers. Part of these efforts comprises a new internal training course on sustainability which, naturally, also includes the Code of Conduct, which all employees at Clas Ohlson will be able to attend.

Kyle Zhang, auditor and responsible for the Excellent Programme:

"Last year we evaluated the Excellent Project and we have now remade it into a programme. In October, I assumed responsibility for the programme and, since then, I have been working with each of the 12 suppliers who are participating in preparing a detailed development plan. The programme comprises three areas – management system,

health and safety, and the environment. Efforts focus primarily on the management system, since this forms a prerequisite for being able to improve other areas. With the focus we now have on improvement efforts in partnership with strategic suppliers, we are noting clear, positive commitment, which also builds relationships with suppliers."



Business ethics

All of Clas Ohlson's employees, irrespective of where they work, must know and act in line with our values. These values comprise the foundation for how we work and our corporate culture. We are to maintain high ethical standards and our Code of Business Ethics and training in business ethics is designed to support this.

Our Code of Conduct and our Code of Business Ethics describe our expectations on employees, suppliers and business partners for high ethical standards. For us, an ethical approach means sound business decisions without consideration for personal or third party gains. It also means that we neither accept, offer nor pay bribes, that we comply with laws and regulations and act according to applicable competition law.

Clas Ohlson has zero tolerance for corruption and bribery. We are clear that violation of this policy could, in addition to the termination of the partnership, lead to consequences under labour law and criminal law.

Regular trainings

Our most significant risks for corruption exist in the purchasing process and when entering into larger contracts. Therefore, we conduct regular training for all our employees who work with high-value contracts and purchasing and for our agents in Asia. Continued development and the management of ethical risks is

particularly important as we expand into new purchasing markets.

Now, when we are rolling out an updated global training programme with practical guidance in business ethics we are placing more focus on this issue. The aim is that all employees in relevant functions and selected partners undergo training in 2015/16. The Code of Business Ethics is part of our Code of Conduct, which is included in all purchase agreements and which we strive to include in all major contracts.

Colleagues and employees are encouraged to report any suspected deviations from the Code of Conduct and Code of Business Ethics by e-mail, to their immediate superior or to the nearest Manager or the company's General Counsel. Any such report can be made anonymously.



**Tina Englyst, General Counsel,
on the new business ethics course:**

“After updating the Code of Business Ethics, in 2014/15, we developed a new training course to provide deeper understanding of our core values and our approach to working with, among other things, zero tolerance of corruption, competition law and related-party transactions. We conduct trainings in smaller groups, using relevant language, in which interactive discussion examples are a key component. Thus far, we have trained employees at our offices in China. To date, three of our key agents in China have completed this training. In the next phase, the course will continue to be rolled out at Group level. The aim is to fully implement this training in the 2015/16 financial year.”

Our role in society

Clas Ohlson has a tradition of giving back to society and our commitment extends throughout our value chain – from projects in the countries where our products are manufactured, through our role in the local community to engaging our customers on key issues.



A core commitment for us is working to strengthen children's rights. In 2014/15, we continued our collaboration with Save the Children, where our focus was supporting migrant worker families in China. In China, many workers have moved from their homes in the countryside to work at a factory that is often located far from home. Since the right to education and health care is tied to where one resides, this causes major problems for migrant workers and their families. Therefore, we believe it is important to support with homework and other after-school activities for the children. Migrant workers are also offered consultations with regard to health, education and integration, as well as legal support in the case of labour disputes, if necessary. Through a fundraising campaign in our stores, we and our customers together have donated money to Save the Children's project in China.

Another of Save the Children's projects in China is WeSupport. Under WeSupport, we work together with

Disney, HP, H&M and ICA, with the aim of increasing suppliers' skills in how to, for example, manage cases of child labour, work actively to promote a better dialogue between workers and factory management and support workers in their role as a long-distance parent, for those that have moved, from rural to industrial areas and left their children with grandparents. Clas Ohlson also contributes to their disaster relief fund, that allows Save the Children to be on site immediately in disaster-stricken areas.

Record in the Battery Hunt

Clas Ohlson participated in the Battery Hunt for the second consecutive year. In Sweden, the competition is organised together with Håll Sverige Rent and VARTA and, in Norway, together with Miljøagentene and VARTA. The Battery Hunt is a fun and instructive competition for fourth-year students that, in addition to the contest in which the pupils gather as many used batteries for recycling as possible, includes a training

package regarding why it is important to handle spent batteries properly. The commitment of Clas Ohlson employees and all of pupils was fantastic and, together, we managed to collect 287.5 tonnes of batteries in Sweden and 80 tonnes of batteries in Norway during the competition in March setting a record for Battery Hunt. A total of 46,000 pupils took part in the competition in Sweden and Norway, up again from last year.

New partnership with ECPAT

Clas Ohlson has entered into a collaboration with ECPAT Sweden. ECPAT works with preventing and stopping all forms of commercial sexual exploitation of children. During the year, we will work together with ECPAT Sweden to review and update our policies and guidelines in terms of travel, IT and business ethics to clearly take a stand against sexual exploitation of children, and manage risks of inadvertent associating Clas Ohlson with related commercial activities.

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