

clas ohlson

Sustainability Report 2013/14



**Expansion with sustainability
high on our agenda**

Clas Ohlson's vision is to develop a highly profitable, leading international retail chain, thereby, adding value for all our stakeholders.

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 and respect people and the environment.

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About this report

Deepening our engagement in sustainability is increasingly important to our business strategy. This report summarises our 2013/14 sustainability performance and charts the challenges that we are working to address. It marks the first time Clas Ohlson has published a separate sustainability report.

By identifying key issues relevant to our business and sustainability work and reporting on indicators as defined by the Global Reporting Initiative, this report has been informed by the GRI. The data has been collected during the financial year May 2013 to April 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. Our last report, included in the Annual Report, was published in August, 2013.

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

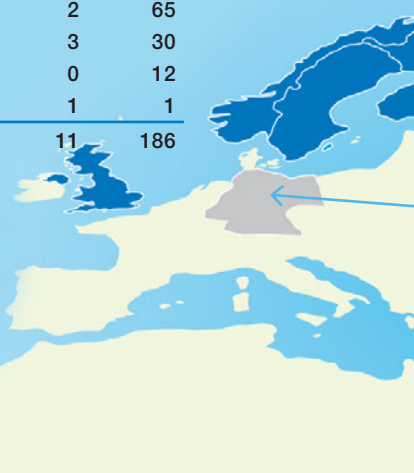
This Sustainability Report has been prepared in Swedish and translated into English. In the event of any discrepancies between the Swedish and the English version, the former shall have precedence.

New markets, new opportunities

Clas Ohlson is an international retail company that is expanding through new offerings, new stores and by establishing operations in new markets. In April 2014, the first store was opened outside of Europe, in Dubai in the fast growing Gulf region and, in the autumn, we will be launching Clas Office, which is our competitive offering for corporate customers.

Number of stores	New	Total ¹
Sweden	5	78
Norway	2	65
Finland	3	30
UK	0	12
Gulf region	1	1
	11	186

¹as of June 2014



Germany – new market in 2015

Clas Ohlson is preparing for entry into the German market with retail stores and online shopping. Initially, 1-2 stores will be established in the north of Germany in 2015. Germany is Europe's largest retail market with annual growth of 2 per cent over the past five years. Clas Ohlson offers a unique concept with a broad product range that makes everyday life easier as well as centrally located stores.

Hardware
Electrical
Multimedia
Home • Leisure



4,700
service-minded
employees

Focus on
sustainability

Net sales
6,808 MSEK

186 stores in
5 countries

15,000
products

73 million visitors
36 million customers

9,500
spare parts

Expansion with sustainability high on our agenda

Clas Ohlson has a clear vision to be an international modern hardware retailer. Sustainability is synonymous with achieving that goal in the right way. Our roots are in the small village of Insjön where our company was founded 96 years ago. A strong corporate culture and values are important starting points for running our business in a socially, economically and environmentally responsible way. Work with sustainability is important and challenging, affecting our operations every day and stretching across our value chain.

Clas Ohlson is expanding both in existing markets and by establishing operations in new markets. In Dubai via franchising, we have opened our first store outside of Europe in 2014 and we are set to open our first store in Germany in 2015.



Sustainability is synonymous with achieving that goal in the right way

As we expand and introduce new business models, with different ways of thinking and working, it is especially important to keep our values intact. With sustainability firmly integrated into our business strategy, we can better handle the opportunities and challenges that come our way.

Sustainability core to our approach

Clas Ohlson has worked with sustainability for several years. We know that addressing these issues is not only good for society; it is also good for business. They are also challenging issues that demand greater transparency and clarity on our part.

In order to deliver results on our sustainability work we need to continue to develop our approach, as well as implement tools and processes to identify and manage risks. We are setting clear priorities and targets and are continuously measuring our progress. There is no doubt that our work with sustainability will better position Clas Ohlson for long-term profitability.

From the eyes of a child

Viewing our impacts from the eyes of a child gives us the long-term thinking that we need. For many years we have had a cooperation with Save the Children to promote better conditions for children in all aspects of our operations, not least along our supply chain where our impacts are the greatest. Clas Ohlson supports the Children's Rights and Business Principles developed by UNICEF, the UN Global Compact and Save the Children. These principles guide us on how we can support and respect the rights of children in the workplace, marketplace and community. We also strongly support the ten principles of the UN Global Compact.

Sustainability integrated into our operations

Responsible sourcing is a key issue for us at Clas Ohlson. The largest share of our suppliers is located in Asia, and on a regular basis, we conduct audits of labour practices and how human rights are protected among our suppliers located there. We also work directly with our suppliers to improve conditions in their factories. Together with other international purchasers on location in China we are helping to improve the lives of migrant workers and their families.

Sustainable transportation is another important issue for Clas Ohlson. To deliver our products to our stores, products are transported from suppliers via our distribution hub in Insjön, Sweden. Since transport is our greatest source of direct CO₂ emissions, it is important for us to continuously work towards greater efficiency.

Importantly, we are always on the lookout for how we can further develop our product offering to give our customers better choices and access to solutions to enable more sustainable lifestyles. We are already seeing



This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.



We have a lot left to learn and do, but I am convinced that we are on the right track

an increase in sales of energy-saving products and we're encouraging our customers to find ways to conserve resources.

A moving target

At Clas Ohlson, we say that our sustainability work is a moving target. We have a lot left to learn and do, but I am convinced that we are on the right track. While we are making progress, the issues are becoming all the more challenging. But what is most important is that all of us at Clas Ohlson are engaged together with our customers and suppliers.

Klas Balkow
President and CEO Clas Ohlson
Insjön in June 2014

Evolving governance structure

As our company changes, our governance structure for managing sustainability, including policies and practices to guide our way of working, are evolving. At the same time, we're retaining the values and culture that define the spirit of the company.

Building a structure for managing sustainability issues throughout the organization is part of our holistic approach to sustainability. We've been working hard to build a strong values-based corporate culture, and establishing policies, tools and procedures are our focus moving forward.

Sustainability organization

Clas Ohlson's sustainability work is coordinated through a forum that is convened by the head of Sustainability, includes relevant corporate functions and is led by the CEO. The forum makes decisions on objectives, strategies and activities for the company's sustainability efforts and ensures that we work effectively toward achieving set objectives. The overall aim is to make sustainability an integral part of our strategy, and each function is responsible for its implementation in the organisation.



The core values are the foundation for how we work and for our corporate culture. Through drive, we make things happen. Through warmth, we radiate kindness, consideration and the desire to give good service. Through innovation, we always look for new opportunities and simple solutions and through commitment, we undertake personal responsibility.

Led by values

The core values are the foundation for how we work and our corporate culture, supported by our Code of Conduct (see sidebar) and Code of Business Ethics. The Code of Conduct will be supported by introduction of a new Workplace Standard, which defines code requirements. High ethical standards in business practices are outlined in the Code of Business Ethics but are also included in the Code of Conduct. Clas Ohlson applies a zero tolerance to corruption and bribery. An email address is available for employees and suppliers to report suspected violations.

Managing risks

In recognition that our greatest risks for corruption exist upstream, through the purchasing process, regular train-

ing seminars are conducted with all staff involved in procurement and with agents. Case studies and case law are provided to gain an in-depth understanding of the Code of Conduct and relevant legislation. As we grow our business through franchising, a new challenge is to ensure that new partners reflect consistently high standards and customer focus. We are further developing our approach to risk assessment to meet these challenges.

Training prioritised

Sustainability is included in induction programmes for new employees and in e-learning programme through our Learning Academy. As of 2014/15, a new sustainability training program will be launched for all employees. Engaged store staff have requested such training, which is designed to improve knowledge of sustainability and raise awareness of our goals in this area.

Strengthened Code of Conduct

Clas Ohlson's Code of Conduct, adopted in 2005, contains standards for our employees, our suppliers and our business partners regarding working conditions, workplace health and safety, business ethics and the environment. The Code refers to international conventions and national laws and regulations, including the UN Declaration on Human Rights and Rights of the Child, the ILO core conventions, the OECD Guidelines for Multinational Enterprises and the UN Global Compact.

In 2014, we undertook a major update of the Code of Conduct, given evolving expectations and new and updated international standards. These include the UN Guiding Principles for Business and Human Rights, the Children's Rights and Business Principles and the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. Among the changes is that our Board of Directors must adopt the Code, which they did in 2014. The updated Code will be communicated widely to employees and partners, with updated training material and translation to relevant languages.

Partnering on shared aims

Engaging in strategic partnership and dialogue enables us to have a greater impact on issues of mutual concern for us and our stakeholders. The strong relationships we have with employees, labour unions, suppliers and NGOs, are critical to our approach to sustainability.

Clas Ohlson engages in dialogue and partnerships to access new competence and innovation as well as improve understanding of expectations. Listening to stakeholders is also about being accountable for our actions and open about our decisions and impacts.

Finding common ground

We have a strategic partnership with Save the Children (see sidebar) aligned with our approach to view our impacts from the perspective of future generations. We have also gained insight from ECPAT, a global network dedicated to protecting children from commercial sexual exploitation. During the autumn ECPAT will support us in developing our IT and travel policies.

We have an ongoing dialogue with the NGO Swedwatch, which focuses on Swedish business relations in

foreign countries as regards environmental and social issues. A 2012 Swedwatch report assessed Clas Ohlson and other retailers' supply chain policies and programmes in Asia. The recommendations have been taken on board and informed our thinking on how to further improve our practices.

Strength in numbers

Through Save the Children partnership, we also team up with multinational companies that source products in China on building up a local network of service providers to address the issue of child labor and to support migrant workers (see CAPS p. 21). This enables a far greater impact than any one company could accomplish working on these complex issues alone.

Putting children first

Clas Ohlson has a strategic partnership with Save the Children to improve the situation for children in society and uphold their human rights, as expressed in the Children's Rights and Business Principles. Through this long-term cooperation, we are able to leverage each other's strengths towards that shared aim.

In 2014, we entered a new three-year agreement with Save the Children, which focused on community support for migrant families in China; supply chain capacity building; local projects in Sweden, Norway, Finland and the UK, and contributions to an emergency fund.

Elisabeth Dahlin, Secretary General of Save the Children, shared her views on what her organization hopes to achieve from the partnership:

Our mission at Save the Children is to change conditions in society that will improve the welfare of children. With Clas Ohlson, we have shared values and a common agenda anchored with the company's top management, which gives the long-term thinking needed to achieve our goals.

It is important that companies think strategically about children's rights. The starting point should be the UN Global Compact's ten principles, which provide the guidance for companies to achieve long-term sustainability in their organizations.

The Children's Rights and Business Principles complement the UN Global Compact principles as a means to analyse how companies can promote children's rights in the areas most relevant for the company. In our partnership with Clas Ohlson, a primary area of focus has been improving children's rights in their supply chain, particularly the conditions for migrant workers and their families.

But I think equally important is the role Clas Ohlson can play in communicating their commitment to children's rights to their consumers and engage them in the issues.



Elisabeth Dahlin
Director General,
Save the Children



Our aim is to provide more products that help our customers live a sustainable lifestyle

clas
ohlson

Thida
clas ohlson

30-3663
Printer Paper
500 x A4



clas
ohlson
500 x A4

2500 A4

clas
ohlson

The sustainability factor

Sustainability is increasingly important to every aspect of our business and our long-term success as a growing international company.

A global market brings complexities, including greater competition, more legislation, and heightened expectations on the private sector's role in tackling environmental and social issues. Yet this land-scape also offers opportunities in terms of product innovation, expanded markets, and new forms of engagement and partnership with consumers and others.

Sustainability presents a differentiating factor that enables Clas Ohlson to capture opportunities and better handle the challenges. That is why sustainability

is integrated into each of the six strategic focus areas rather than working through a stand-alone strategy. This approach gives ownership to sustainability issues to every part of the organization.

All functions within the company are engaged in the process of defining our most relevant social and environmental aspects, how we should address them as well as defining goals and indicators to measure progress.

In realizing our overall business goals, sustainability will continue to play a decisive role.

Our mission

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

Our vision

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

Our financial objectives

- Annual sales growth in comparable stores of at least 2 per cent
- Establishment of 10–15 new stores during the 2014/15 financial year
- An operating margin of at least 10 per cent



Sustainability is integrated into each of the six strategic focus areas, rather than working through a stand-alone strategy

The strategic agenda

Sustainability is embedded in each of the six strategic focus areas that will guide Clas Ohlson's direction over the next several years. We set our compass in a direction intended to help us reach our goals.

Our customer offer

We will be the natural choice for practical problem solutions by continuously optimising our product range based on the needs of our customers and reviewing and optimising our category and product mix. We will also develop our service concept and our spare-parts operation and strengthen our range of products for a sustainable lifestyle.

Products, from design and manufacture to end of life, will increasingly be part of the solution, rather than part of the problem. Where possible, products should positively address environmental and health concerns—such as products for a sustainable lifestyle, saving energy and securing those products are free from potentially hazardous substances.



Our compass is set to

establish sustainability criteria in each of our product categories, gain greater insight into materials use, better track environmental product performance and ensure we have the organizational competency to meet these goals.



We need to ensure our store personnel have the required training to be sustainability ambassadors to communicate our way of thinking and our product offering

Our strategic focus areas

The Clas Ohlson Annual Report details each of the strategic focus areas included in our strategy. See p. 12 of the Annual Report.





Customer interaction

We will increase customer loyalty and attract new customers by strengthening our excellent customer service and developing our sales channels to become even more accessible and inspiring. We will also strengthen our brand in new markets and communicate our sustainability agenda more clearly.

Today's global market offers more opportunities for consumers than ever before, thanks to the digital age. This not only intensifies competition but changes the customer experience, with signs of growing awareness about how purchasing decisions impact lifestyles and societal challenges. It presents an opportunity to engage with consumers on sustainability.

Our compass is set to

ensure our store personnel have the required training to be sustainability ambassadors, to develop our service and spare parts offering in support of a “no waste” mindset, and to communicate our way of thinking and our product offering, aligned with ethical business practices.

Our expansion

We will continue to expand in existing markets by optimising store locations and formats, and establish Clas Ohlson in more countries, where Germany is next in line. We will also develop our franchise model and grow in the Gulf region, and strengthen our offering to companies.

As we look to grow our business, develop both existing and new markets and reach ever more customers worldwide, our aim is to build a bigger presence in line with our sustainability objectives—that is, decoupling growth from CO₂ emissions, minimizing other environmental impacts and seizing opportunities to reduce costs while conserving resources.



Our compass is set to

ensure robust risk assessments of new markets and take actions that reduces negative environmental impacts, such as electricity consumption in stores, which also lead to costs saved.



Our supply network

We will optimise our supply chain by working more integrated with our prioritised suppliers and developing new purchasing markets. We will also develop our distribution network, improve lead times and service levels and reduce CO₂ in our transports.

Ensuring that suppliers meet high environmental and social standards is our overriding objective. Sourcing the majority of our products in Asia and increased focus on transport efficiency and costs bring both opportunities and challenges.

Our compass is set to

retain social and environmental impacts as key qualifiers for existing and new suppliers and form strategic partnerships to reach our goal of reduced CO₂ emissions and improved conditions among supplier workers and their families and improve data quality on transportation.



Our ways of working

We will enhance efficiency and simplify our ways of working by reviewing and developing our processes and optimising our organizational structure. We will also implement our new business system, strengthen our culture and our values, and ensure compliance with our Code of Conduct and Ethics Code.

Cost and operational efficiency and speed to market are challenged in a global, resource-constrained market that puts pressure on supplier access. In our commitment to protect, respect and remedy human rights along the supply chain and to be perceived as a leading sustainable brand, integration of sustainability across the organization is key.

Our compass is set to

align our governance system with an expanding organization, build on best practice, set relevant sustainability goals, and improve data collection and reporting, as well as engage employees in the sustainability agenda.

Our people

We will ensure a high performance and customer-oriented organisation by strengthening leadership and competency development and involving our employees. We will review our reward systems and actively focus on diversity issues and promoting the health and wellbeing of our employees.

At a time of company growth and change, developing a high-performing organization primed to meet those challenges puts emphasis on sustainable leadership, well managed talent, the right capabilities linked to meaningful reward, and a healthy, effective and engaged workplace for the modern family.

Our compass is set to

create a strong employee brand to draw high-potential employees, shape a future-ready organization, and involve our people in the sustainability agenda through training and information sharing.



Focusing on our key impacts

We are in the process of analysing our impacts and gathering insights from stakeholders. This helps us define our sustainability agenda and guides our actions in the areas of greatest impact to our business.

During 2014 Clas Ohlson introduced a new process to assess our material impacts. Our aim is to better understand drivers that can potentially impact our business and identify the most relevant issues we need to act on to address them. This process supports our business strategy by gaining insight into stakeholders' future expectations.

Defining materiality

For Clas Ohlson, material sustainability issues are those issues that have the potential to influence our ability to create long-term value. They include topics relating to society, labor and human rights, environment and macro-economic impacts.

A universe of issues

During 2014, Clas Ohlson began a process of identifying the issues and societal drivers that have the greatest impact on our operations, customers and markets. As a next step, these issues will be weighted by internal experts with knowledge of stakeholder priorities and we will conduct in-depth interviews with external stakeholders that can provide valuable input into the process.

Our approach to materiality even includes an analysis of relevant issues in the context of the value chain (see p. 15). During 2014/15 we will continue to develop this analysis and establish it as a recurring process. This will enable us to map how these issues evolve from year to year.



The game changers

In 2014, we identified a number of global trends that have the potential to prompt a significant shift in direction for all sectors of society, not least for business. These include Circular Economy, Chemicals, Food and Water Shortages, Energy Crises and Urbanization. Aligned with Clas Ohlson's sharp focus on the customer, and the most important global trends identified, we are in the process of identifying our most relevant sustainability issues. These issues are further described in our value chain.

Circular economy: In future, we expect that consumers will move away from a high degree of consumerism towards "re-use" and less consumption. Product design for recyclability, reducing waste and material use and elimination of hazardous substances will all take greater precedence in such a shift.

” I like working for a company that fits my own values



Through collaboration, greater impact

Working with others is key to address challenges and improve how we positively influence sustainability along our value chain.

A company cannot operate in a vacuum and remain competitive, successful and have a meaningful impact on society. The relationships between product developers, manufacturers, suppliers, retailers, distributors, and customers are all closely interconnected. Customer loyalty is an example. Trust in our offer can only be earned by meeting their expectations for high standards in our supply chain.

Today, A holistic view of the value chain encapsulates a systems approach to how we bring products to market as well as their use and disposal. This enables us to better understand the processes and responsibilities for each part of the value chain, and thereby reduce negative impacts, identify opportunities for improvement and create more value.

Direct and indirect impacts

Within our value chain we have both direct and indirect impacts. Although we have direct impact over operations, our impact over product development and manufacturing is a combination of both direct and indirect. Importantly, The greatest impact is beyond our direct sphere of influence, such as manufacturing, transportation, consumer use of our products and at end-of-life. In the case of indirect impacts, we can influence, but not control, the design, production and use of products.

As a small player when it comes to purchasing both products and transport, we face a challenge in executing our ambitions to deliver positive change along the value chain. That is why strategic partnerships, in which we work with others, are important for our sustainability work and part of our business model.

Examples of how we work in partnership along the value chain are:

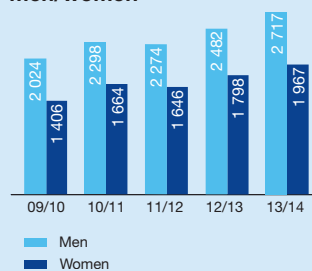
- Develop innovative products together with our strategic manufacturing partners
- Engaging in industry initiatives to support more fuel-efficient transport alternatives
- Working with the national authorities on phasing out potentially hazardous chemicals
- Participating in product take-back and recycling systems in each of our markets.

Creating resilience

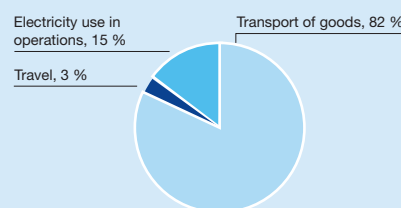
Through a value chain approach we are better able to manage risk, engage consumers, develop a more competitive long-term supplier base and build accountability, credibility and trust. It makes us more resilient, efficient and agile in taking on future challenges.

The infographic on the following page illustrates key issues, challenges and how our actions are creating value for us as well as for the people affected by our business.

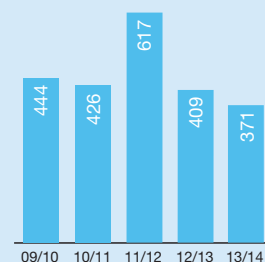
Total number of employees men/women



CO₂ emissions from Clas Ohlson operations

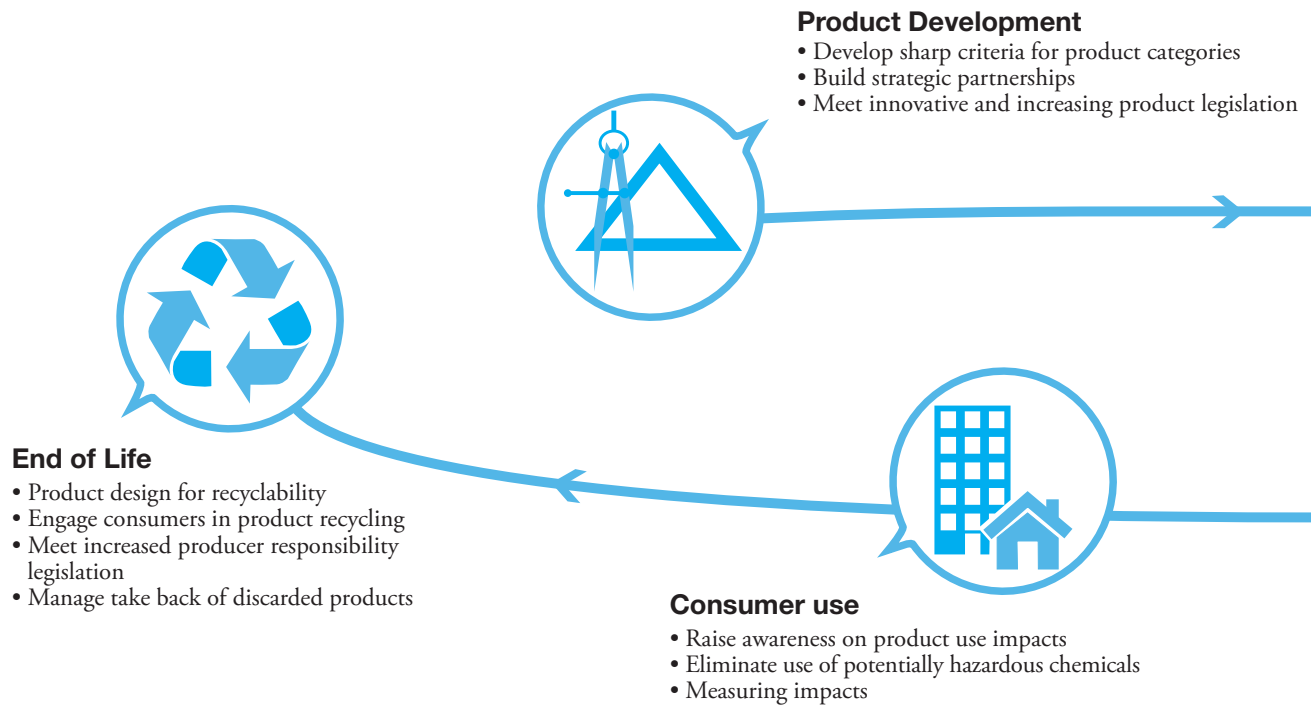


Number of Code of Conduct audits

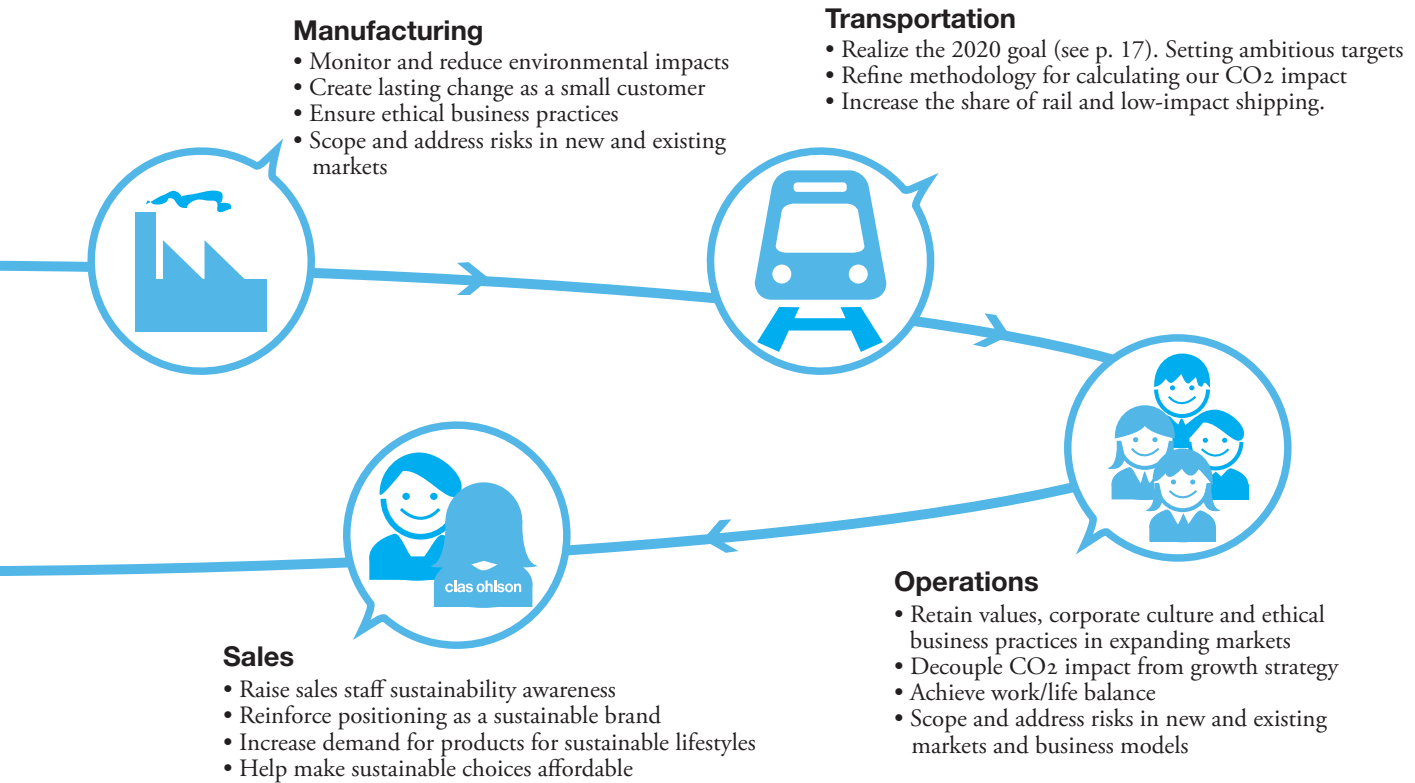


Our value chain

Taking a value chain approach provides an understanding of where impacts occur and how the greatest value can be created for us and our stakeholders. This holistic view makes it easier to identify opportunities, minimize negative impacts and understand responsibilities.



	Product Development	Manufacturing	Transportation
Area	Innovate products for private brands developed with strategic partners	600 suppliers and 700 manufacturers, with 65% of products sourced in Asia	A large amount of products were transported during the financial year 2013/14
Issues	<ul style="list-style-type: none"> • Energy consumption • Material and chemicals use • Products for sustainable lifestyles 	<ul style="list-style-type: none"> • Code of Conduct and quality requirements • Human rights due diligence of new and existing markets • Community engagement • Ethical business practices 	<ul style="list-style-type: none"> • Reducing CO₂ and energy consumption • Improving transport efficiency
Value creation	<ul style="list-style-type: none"> • Reduced product impacts at use and end-of-life • Brand differentiation 	<ul style="list-style-type: none"> • Contributing to raising standards for suppliers, their workers and families and local communities • Increased trust among consumers for the Clas Ohlson's brand 	<ul style="list-style-type: none"> • In curbing CO₂ emissions from transport, address a key challenge for Clas Ohlson and society • Achieved cost- and environmentally efficient transportation



Operations	Sales	Consumer use	End of Life
4,700 employees in five countries	Sales via 186 stores, web shop, catalogue and telephone sales channels	For many electrical products, greatest impact occurs during use phase	Participate in product take-back and recycling systems
<ul style="list-style-type: none"> • Ethical business practices. • Health and well-being • Competence development • Young people in our workforce • Diversity 	<ul style="list-style-type: none"> • Sales of efficient products and energysaving devices • Reduce environmental footprint of stores 	<ul style="list-style-type: none"> • Extending product life cycle • Environmental impact over life cycle • Eliminating hazardous substances • Product safety • Develop sustainable service and spare parts offering 	<ul style="list-style-type: none"> • Reducing waste and material use • Eliminating potentially hazardous substances
<ul style="list-style-type: none"> • A high performing organisation • Attract the right people • Greater flexibility and employee engagement 	<ul style="list-style-type: none"> • Differentiated product offering, tailored to future customer needs • Increased sales • Reduced energy costs • Engaged employees and customer loyalty • Improved transparency on environmental footprint 	<ul style="list-style-type: none"> • Customer loyalty • Reduced waste and resource efficiency • Reduced energy consumption 	<ul style="list-style-type: none"> • Contributing to the circular economy • Less waste and increased material recycling

A sustainable offering

We must work closely with our suppliers to achieve our goal of providing a broad product range that creates value us, our customers and society.



Our goal is to put the right product offering on our shelves in a way that maximizes our financial and brand goals and reflects our sustainability commitment. We meet rising customer demands by focusing on both cost efficiency and environmental impacts. We measure the impact of our purchasing and distribution decisions from a sustainability perspective as well. In order to achieve these objectives, Clas Ohlson partners with strategic suppliers.

Building a sustainable offering

Consumers today expect unlimited choice, with their ability to access the global market via a range of sales channels. This is promising for innovation, but also makes for a more competitive landscape and puts greater emphasis on the customer getting value for money. Products that reduce environmental impact or help achieve a more sustainable lifestyle are increasingly important to modern consumers. For us, sustainable innovation can

differentiate Clas Ohlson in the market and help us make a positive difference.

Currently, for instance energy-saving products like LED lamps and solar cell products, electric bikes as well as FSC-labelled paper and wood products are available in stores. In each of our sub categories, we are identifying others in order to expand this range. The criteria for the sustainable offering will be decided based on where the impact occurs and our potential to address.

Working closely with suppliers

In addition, we will continue to build long-term relationships within our supply chain to continuously improve social and environmental conditions (see p. 20). If a supplier does not meet our requirements from a Code of Conduct perspective, we don't place orders until they can demonstrate that they are willing to improve.

Smarter transport

We have a long-term strategic aim to transport more of our goods by rail rather than road, and by sea rather than air, to reduce CO₂ emissions.

Our overall environmental objective is to reduce the relative carbon dioxide emissions for freight and business travel by 30 per cent by 2020, compared with 2007. In 2013/14, there was a slight relative increase in carbon emissions essentially due to realignment of baseline data provided by our transport suppliers. Today 3 billion tonne km of goods are transported by Clas Ohlson, 2.9 billion tonne km by sea freight. Sea transport accounts for 79 per cent of the total CO₂ emissions from our goods transportation. Using a large portion of sea transport, compared to airfreight and road, keeps the total amount of CO₂ emissions at a minimum. The goods transported by sea from Asia for transport to the terminal in Insjön was previously transported by road but is today sent by rail. As of 2014, goods from seven European countries were consolidated in Malmö for transportation by railway to Eskilstuna, and by truck to Insjön.

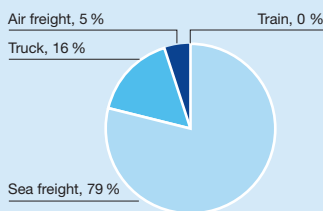
In 2014 a new transport agreement was signed to use more rail transport in Norway. Goods will be transported by truck from the distribution center in Insjön to Oslo

and there by rail to six hubs for final truck distribution to local stores. This solution has the potential to reduce carbon emissions from land transportation by 30 per cent in Norway which corresponds to 6 per cent of the total CO₂ emissions generated by transportation of goods. PostNord Logistics in Norway awarded Clas Ohlson the annual environmental prize for the rail initiative.

Tackling challenges

As a result of the business expansion it has become more difficult to find transport companies offering rail at a competitive price. In 2013/14 we had to switch from rail to truck transport between Insjön and Gothenburg for products distributed to the UK market, resulting in an increase in CO₂ transport emissions. Together with other businesses, we aim to work to influence more energy efficient alternatives in the shipping industry. We are also improving data collection to enable a more in-depth picture of environmental impacts in the supply network.

Total transport CO₂ emissions by type



We aim to reduce our relative CO₂ emissions by 30 per cent by 2020, compared with 2007. In 2013/14, there was a slight relative increase essentially due to realignment of baseline data provided by our transport suppliers.

Transport and travel for Clas Ohlson operations (Tonnes CO₂) [EN29]

	2013	2012	2011	2010
Transport	18,560	17,234	15,349	16,289
Travel	623	683	794	51

Over and above data alignment, in 2013/14 we switched from rail to truck transport between Insjön and Gothenburg for products distributed in the UK, which also resulted in an increase in our overall CO₂ transport emissions.

Our supply chain

We require our suppliers to uphold high environmental and social standards. In China, where our supply chain is primarily based, we take a community-based approach to improve conditions for workers and their families.

We put intense focus on securing high environmental and social standards in our supply chain, which consists of about 600 manufacturers and 700 suppliers in some 30 countries. Together with other companies we have developed a platform for influencing and supporting suppliers to improve working conditions and respect human rights.

About 65 per cent of our products are manufactured in Asia, mainly in China, where the risk of breaches of our Code of Conduct is higher. The Clas Ohlson audit team in China consists of eight people responsible for verifying, assessing and monitoring compliance with the Code of Conduct, as well as training and providing information to our partners in Asia.

Our Purchasing and audit teams review suppliers before contracts are signed to ensure that requirements are met, and if not, that suppliers are prepared to address areas of non-compliance.

Measuring impact

Our active manufacturers undergo recurring audits (both announced and window audits), which are revised at least every second year. The objective is to conduct at least

Towards excellence

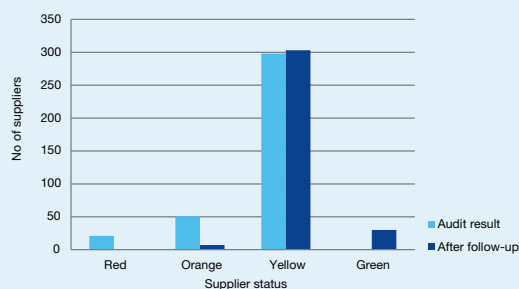
Clas Ohlson has piloted the "Excellent project" with 11 suppliers in China to help improve their CSR performance from "medium" to "excellent." Each supplier had undergone Clas Ohlson audits and were positive to making long-term improvements in performance. Suppliers are supported by Clas Ohlson in action plans addressing management and organization, health and safety, and environment.



One of the suppliers achieved the "excellent" status, seven showed improvements and one is no longer a

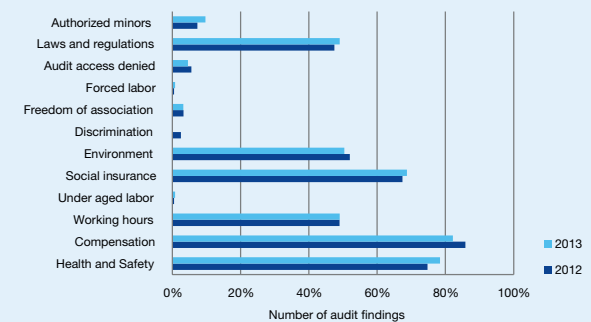
supplier. With the focus on long-term thinking, the project is helping to build a continuous dialogue with suppliers to better understand the challenges they face. Following an evaluation of the project, it will be modified and transferred into a larger supplier program.

Code of Conduct audit findings



The percentage of audits with recorded non-compliances per category. During 2013/14, 371 audits were conducted. A total of 409 audits were conducted the year previous.

Supplier status improvement



Follow-ups identified measureable improvements in areas such as health and safety and environment. In total, 28 suppliers became inactive or were terminated

400 audits annually. During the financial year, we performed 104 initial audits and 267 follow up audits. The Clas Ohlson team in China conducted 336 audits while external firms audited another 35 suppliers in countries such as Vietnam and Taiwan. The suppliers considered to pose the highest risk from a social and environmental perspective are prioritized for audits. We work with suppliers to make improvements, supported by strategic partnerships (see sidebar). Co-operations with suppliers are terminated only as a last resort. Last year, six contracts were terminated.

In 2013/14, we sharpened our focus on measuring impact, to better understand how the audit process leads to concrete, positive changes. Follow-ups identified measurable improvements in areas such as health and safety and environment.

Towards positive change

Our goal is to work with suppliers to address issues such as excessive overtime, manipulated time sheets, unsafe working conditions, inadequate personal protective equipment, or lack of labor representation. Such issues are frequently encountered by many companies doing business in Asia. When we find such problems, we seek to contribute to meaningful improvements.

Handling of child labor cases

Cases of child labor are rarely found in our audits, but when incidents are found we work together with the factory, the young person, parents and with CCR CSR (Centre for Children's Rights and Corporate Social Responsibility) to find the best solution in the interest of the child.

In 2013/14, our audit team identified three cases of child labor, all 15 years old. In these cases, we received advice and support from external experts to define and follow up on action plans. Some of the remediation plans included lost-income compensation and support for living costs, travel home, and obtaining an ID card. Clas Ohlson also follows up on working conditions under the individual's new employment once he/she is eligible for work at age 16.

In one case Clas Ohlson decided to terminate the business as the supplier was unwilling to meet our requirements.

Training of purchasers, suppliers and agents

Our Purchasing Department receives regular corporate and supply chain responsibility training. Eleven manufacturers were trained by our audit team in Code of Conduct requirements during 2013/14. Training courses are also arranged for agents in China; they participate in audits to raise their knowledge and become involved in the way we work.

Sharper focus on risk assessment

To better assess high-risk suppliers, risk assessment tools will be refined to include the supply base outside Asia

and critical suppliers further down the supply chain. A good understanding of local market conditions, including social and environmental risks in the supply chain, is critical to successfully enter a new market.

Creating momentum for change

Long-term supply chain improvements in China require greater local capacity to assist factory management. Clas Ohlson has therefore joined Disney, H&M, HP and ICA in a stakeholder engagement model to support the training of local service providers in Guangdong province. The aim is to respond to the needs of migrant workers and to minimize potential risks to factory operations.

The CAPS (Capacity Building of Service Providers and Supply Chain in Guangdong) project was launched in 2014, supported by the organisation CCR CSR in China. Over two years, at least ten service providers will be trained to directly assist factories in young worker engagement, management training, parental guidance and child labor remediation.

Each company selects ten of their supply chain factories to take part in year-long on-site training. For Clas Ohlson, these are suppliers that have a strong commitment and are willing to make long-term improvements. The project will involve 230 days of direct training services for the factories and reach an estimated 11,500 workers and managers.

Also in 2014, together with CCR CSR, Clas Ohlson initiated a three-year project to support two community centres in two Industrial zones in China. Working closely with factories and local schools, it is expected that at least 300 migrant children and 1,000 migrant workers will be reached with education, recreation, health and social integration services.



Greatest asset is our people

A high-performing organization is a precondition to succeed in our growth strategy. That means strengthening our approach to leadership, talent management, health and well-being and securing the right competencies.

A high-performing organisation that attracts, retains and develops the people we need is crucial to meet our strategic and grow the company internationally.

That's why we need to develop new capabilities and further strengthen our performance. At the same time, we all must stay true to our core values and company decisions must be anchored in the corporate culture and "Clas Ohlson spirit" that define who we are as a company.

An important part of this journey is securing sustainable leadership—a capable, customer oriented and lean organisation that also recognises the importance of work-life balance and the humanity in leadership. This reflects our ambition to be the workplace for the modern family. And in every aspect of this vision for people management, sustainability and trusted relationships play a critical role.

In 2014 we introduced our leadership cornerstones to complement our values. Core to the thinking around these concepts is sustainability. Namely, that our leaders don't compromise between satisfying customer needs, delivering value for other stakeholders and doing good business. For us, leadership is also about building capabilities for the future and being open and honest about

things that matter. We aim to cultivate an organisation that listens, learns and is ready to take on new challenges.

Diversity at center

Diversity is incorporated into our leadership approach, as this fosters innovation and better prepares us to meet the needs of our expanding markets. One of our goals is that neither gender will account for less than 40 per cent of each professional category, combined with the prioritisation of gender equality when recruiting. In 2013, we attained 38 per cent women among top management.

Listening to employees

We are further developing our employee brand as we look to gain the competencies we need for the future, and to position ourselves as a preferred employer. This work will tap into our corporate values and sustainability commitment. We are convinced that a growing number of people, especially younger generations, are attracted to companies whose values align with their own. In order to better understand how well we are meeting our people's expectations, our employee engagement survey is being revised in 2014/15 to measure employee engagement.



For us, leadership is about building capabilities for the future and being open and honest about things that matter. We aim to cultivate an organisation that listens, learns and is ready to take on new challenges.



Securing our skills base

To meet our future challenges and translate our business strategies into an efficient organisation, we are developing internal competencies and providing opportunities to grow within the company. One example of this comes from Finland, where about 40 per cent of our store staff received vocational training in retail operations, to enhance their work skills and understanding of our industry.

A healthy workplace

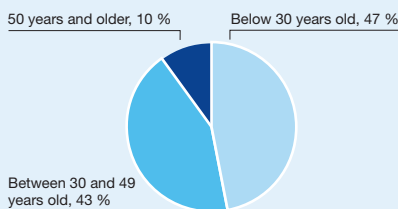
A healthy workplace is critical to long-term performance and hence our ability to build a sustainable organization.

We therefore aim to further reduce long- and short-term sickness absence through preventive actions as well as improvement of our rehabilitation process. We have a goal in place to reduce sickness absence to 4 per cent by 2016. We are currently at 5 per cent (see table on p. 32).

The right incentives

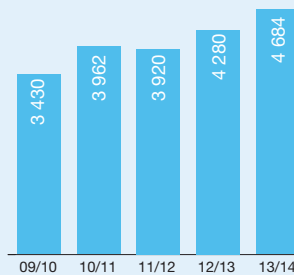
Reward systems supporting the overall business strategy, values and leadership cornerstones will contribute in realisation of the business strategy. We are currently reviewing our short- and long-term incentives to support this goal.

Age distribution



Typical to the retail industry, Clas Ohlson is a young organisation, with almost half of its employees under the age of 30.

Total number of employees



Clas Ohlson's number of employees has increased 37 per cent over five years.

Reducing environmental impact

We're addressing the most relevant environmental issues, such as transportation, chemicals, energy, waste and packaging, both in our operations and throughout our value chain with the aim of continuous improvement.

In our environmental approach, we consider a number of external factors and drivers including addressing climate change through reduced energy consumption and energy efficiency, a more demanding regulatory environment, and rising concern over chemicals use.

Energy a top concern

We look for opportunities to reduce energy consumption in our operations. In offices and warehouses we are saving energy by turning off lights and lowering temperature. In some stores we have established more energy-efficient lighting (see sidebar).

Focus on chemicals

All products must meet applicable chemical legislation as well as Clas Ohlson requirements. We are phasing out substances on the REACH (Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals)

Candidate List. For textiles and leather products Clas Ohlson sets requirements beyond legislation to minimize the presence of other hazardous substances. During 2013, comprehensive demands on chemicals in toys took effect. Clas Ohlson actively participates in the Swedish chemical authority's industry dialogue on toys, in which companies and authorities work together to phase out chemicals based on the precautionary principle.

Compliance with the latest revisions of the Restriction of Hazardous Substances (RoHS) legislation is a fundamental requirement for electrical and electronic equipment. The RoHS Directive restricts six hazardous substances in consumer products: lead, mercury, cadmium, hexavalent chromium, PBB flame retardants, and PBDE flame retardants. In addition, Clas Ohlson applies more stringent requirements than the legally permitted levels for materials that come into contact with skin, in products used by children or that come in contact with food.

Brighter, smarter lighting

We have lowered electricity consumption at our stores due to a greater internal focus on light management, effective cooperation with suppliers and a higher proportion of energy-efficient light sources and fittings.

Electricity and energy use varies widely in stores. Electricity consumption in our Nordic stores has decreased by 5 per cent to 129 kWh /m² in 2013, compared to previous year. Stores in the UK are not included as electricity consumption also includes cooling and heating, a barrier for making comparisons.

Clas Ohlson has begun a program to shift to more energy efficient LED lighting in stores. In 2013, an energy-saving project was carried out in seven Swedish stores. The overall energy consumption was reduced by 27 per cent.





All products must meet applicable chemical legislation as well as Clas Ohlson requirements.

Energy consumption for Clas Ohlson operations (GWh)

	2013	2012	2011	2010
Direct energy [EN3]	3,21	3,37	3,35	3,51
Indirect energy [EN4]	43,67	42,25	40,12	37,64

CO₂ emissions from energy use in Clas Ohlson operations (Tonnes CO₂) [EN16]

	2013	2012	2011	2010
Energy generation	11	15	11	186
Electricity	3 562	3 648	3 453	2 760

In line with our store expansion, we have had a marginal increase in indirect energy use and CO₂ emissions over the last four years. Indirect energy includes electricity and direct energy includes district heating.



The Clas Ohlson franchise store in Dubai has LED lighting installed in the full store area

During the year our chemical management processes have been improved. This includes clarification of requirements as well as specification of test methods. We have also further developed and provided more information on compliance requirements for suppliers on our website.

Reducing waste and packaging

The distribution center in Insjön, the hub that distributes large amounts of products every year, has long had in place efficient systems for waste separation and recycling. Within the area of packaging, our objectives are to reduce the amount of packaging material as well as use materials with less environmental impact.

Packaging sent to mail order and Internet customers contains about 70 per cent recovered fiber. This is an

increase from 63 per cent from the previous year. We are using bio-based adhesives and have phased out most PVC from packaging, allowing for improved recycling.

We also address plastic waste through sales of re-usable carrier bags.

Producer responsibility

Both the EU Battery Directive (calling for collection and recycling of batteries as well as bans on marketing of some batteries containing hazardous substances) and the EU WEEE (Waste Electrical and Electronic Equipment) Directive apply in all countries where we operated in 2013/14. Clas Ohlson complies with national legislation and fulfills its producer responsibility obligations through memberships of national collection and recycling systems in each country, (see Extending product life, p. 28).

Reaching out to consumers

For many products, the greatest environmental impact occurs during use. To reach our sustainability objectives, influencing consumers' purchasing decisions and how they use their products are essential.

Clas Ohlson has a powerful platform on which to engage with consumers on sustainability issues. With today's digital technology, consumers are more connected than ever before—expanding the platform for consumer engagement. Consumers are showing increased interest in sustainable products and services. They are also demanding more transparency about the conditions under which products are manufactured and transported, among other impacts. These consumers are growing in number and we see a positive trend, particularly in sales of cleaning and energy-saving products. But price is often still the most decisive factor at point of sale. With growing recognition that value and sustainability go hand in hand, we expect that to change.

Our approach to consumer engagement on sustainability is:

- 1 Develop our product range with new, smart solutions that help our customers minimise their environmental impact.
- 2 Expand our aftermarket service offering repairs and spare parts to extend product life and reduce environmental impacts.
- 3 Build trust for the Clas Ohlson brand through transparency on how our products are manufactured.

Employees on front line

Our in-store employees are on the front line of this effort. Their role is to inform and guide customers on quality according to need, spare parts, repairs, tips for more sustainable consumption and other issues. In the coming year, we will strengthen employee training on engaging consumers on sustainable purchasing decisions, tailored to local markets for increased impact.



Spotlight on sustainable offering

In the coming year Clas Ohlson will launch a sustainability communications plan aimed at customers through various sales and communication channels. We have been successful in marketing campaigns and in store communication promoting phase-out of conventional light bulbs and conversion to LED lighting.

Strengthening our approach

In our ambition to be a leading sustainable brand within our sector, engaging with our customers in their choice of products and how they use them plays a key role. Embedded in this approach is our commitment to the Children's Rights and Business Principles. We take into account the ways in which our products impact children—from design to manufacturing to sales and marketing to use and disposal. We recognise that this is important both to consumers, and vital to our sustainability commitment.

We are developing a marketing policy to ensure high standards of ethical practices in marketing among our stores and products. Over the long term, we expect that these efforts will strengthen our ability to influence sustainability decision-making among consumers.



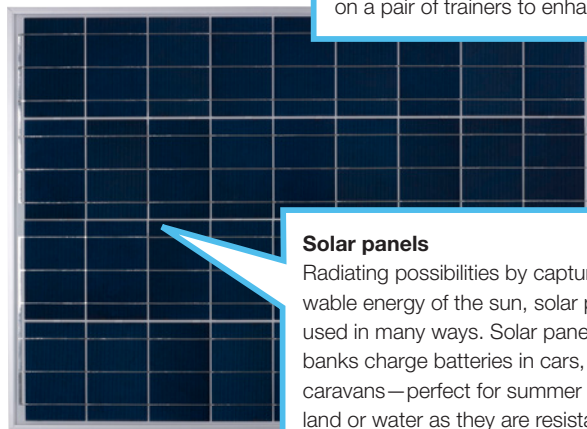
Warm compost

Transform your garden and kitchen waste to valuable soil with the warm compost Mully. A stable, insulated construction with a bottom plate, it can be mounted without tools and one side removed to empty the compost.



LED lighting

Illuminating the future of lighting, LED lamps save up to 80 per cent on electricity use. LED lighting is more efficient, versatile and longer lasting than other light sources. In our products, they are used for every-thing from garden lights, floodlights with motion sensors, table lamps, flash lights, bicycle lights and even on a pair of trainers to enhance safety.



Solar panels

Radiating possibilities by capturing the renewable energy of the sun, solar panels can be used in many ways. Solar panels and power banks charge batteries in cars, boats, and caravans—perfect for summer activities on land or water as they are resistant to splashing and water jets. A non-mains dependent solar wall floodlight with a motion detector is great for the shed or garage.

The battery hunt

Children—the sustainable consumers of the future—were behind the success of the Battery Hunt competition, in which 30,000 fourth-grade students from around Sweden collected 268 tons of batteries. In 2013, a similar battery campaign was held in Norway among schoolchildren.

The competition was sponsored by the organization Håll Sverige Rent (Keep Sweden Clean), VARTA Consumer Batteries and Clas Ohlson during the spring. With only 65 per cent of batteries collected for recycling today in Sweden, this was an opportunity to make an environmental impact while engaging children in an important environmental issue.

The aim of the competition was not only to collect batteries for recycling but also to provide the students with new knowledge about recycling, to inspire their future actions. EU legislation requires producers and retailers of batteries to collect used batteries for recycling.

Campaign results made clear that there is a big opportunity to engage customers, local communities, and children in a goal that benefits all of us.



Extending product life

Clas Ohlson's growing workshop and spare parts business contributes to the "waste nothing" approach of the circular economy.

With the growing number of consumers worldwide, a point where resources become finite is becoming a business reality. Product lifecycles are also getting shorter, with product innovation on the rise, and new models replacing old ones. Consumers want to keep up with home improvements and a growing number want to do this more sustainably.

Increased consumption and constrained resources are global trends that will only grow in importance. This has an impact on our business, and we have a role to play in addressing the challenge. At the same time, acting on the agenda will create more value for customers and society.

In a circular economy, the focus is on "waste nothing" thinking and reuse. A linear approach of manufacturing,

use and waste is replaced by a circular one. One way in which Clas Ohlson supports this approach is through our aftermarket service which extends product life and demonstrates our "wear but not waste" concept.

While it addresses only part of a complex and challenging issue, repairing a product rather than throwing it away supports more sustainable consumption. It is an example of an approach that is good for our business and boosts for innovation and sustainability.

Less waste, more wear

Extending the life of a product means that less resources are used and less waste is generated. Clas Ohlson's product range includes 9,500 spare parts. After making





our spare part inventory available with photos and text description online, sales of spare parts increased by over 50 per cent in one year.

Customers can also search for spare parts for products no longer included in the product range – a feature appreciated by consumers, especially with more expensive machinery and tools. Clas Ohlson also sells some parts to products not purchased at Clas Ohlson stores.

Our customer service employees possess in-depth knowledge of products, and can provide advices about spare parts. Service technicians in workshops carry out the repairs at at reasonable prices.

Buy the quality you need

Another benefit is that our store personnel can help customers match quality to their specific needs to con-

tribute to smarter and more sustainable purchasing decisions. A simpler, low-cost product can function well for many years when used less often and for simpler tasks. However, a professional who uses a product for demanding tasks every day may require a more advanced product that can withstand sustained use. This has been Clas Ohlson’s philosophy since the company was founded in 1918.

Raising customer awareness

Clas Ohlson is working to further promote its spare parts and workshop services so more customers take advantage of them and extend the use of the products they have purchased.

The communities around us

Clas Ohlson has a long tradition of giving back to the community, which extends beyond our roots in a village in Sweden to having a voice in broader societal needs. An important commitment centres on advancing the rights of children.

Our corporate roots are important to us. We support a series of initiatives in Dalarna, including sporting activities and cultural events.

Our community involvement stretches from Insjön to engaging in local communities alongside our suppliers and other partners to contribute to better conditions for migrant workers' and families (see p. 20) and to strengthen children's rights.

In September 2013, Clas Ohlson won the Nordic Brand Academy's award for Sweden's most respected company, moving up from fifth place the previous year. The award measures public perceptions of 50 Swedish companies, including level of trust and respect. The recognition affirms that our customers support the direction in which we are headed and that strengthens our continued efforts.



The small village of Insjön in Dalarna County, Sweden, population 2,150, is the heart of Clas Ohlson—not surprisingly, since it is where in 1918 founder Clas Ohlson started a mail-order business at age 22 and where the first Clas Ohlson store opened. Today that store in Insjön, flanked by the tiny original store and a museum, is visited by over 600,000 people every year, making it one of the biggest tourist attractions in Dalarna.

Advancing the rights of children

We believe that promoting the rights of children is one of the most important contributions we can make to society. We are uniquely placed to influence this agenda, not only within our supply chain but also in our engagement with consumers.

We support the UN Children's Rights and Business Principles, developed jointly by the UN Global Compact, Save the Children and UNICEF. These set out business actions to respect and support children's rights in terms of the business's own activities and to its relationships, linked to its operations, products or services - in the workplace, the marketplace and the community.

For many years, Clas Ohlson has worked proactively on issues surrounding child labour, product safety and responsible marketing and other issues related to activities that have an impact on children. The Children's Rights Principles provide a valuable tool to work more systematically and broadly on these issues throughout our operations.

An internal workshop on implementation of the Children's Rights was held in 2013 with Clas Ohlson's senior management team and more activities involving all employees will follow. The Principles are also reflected in our new business strategy.

In regards to our strategic focus areas "Our ways of working" emphasize the importance of respecting the rights of the child. "Our people" reflects our ambition to create working environments attractive to young workers, parents and caregivers; in "Our supply network" we focus on activities directed to helping eliminate child labor in the supply chain. In "Our customer offer", we work to ensure that our products and services are safe for children. "Customer interaction" has the focus on ensuring communication and marketing respects children's rights. We also support Save the Children through in-store collection campaigns and seek opportunities to engage in local activities and national initiatives aimed at protecting and respecting the rights of the child.



Objectives and progress

Number of employees	Sweden	Norway	Finland	UK	China	Total
Stores	1 443	1 335	388	285	0	3 452
Warehouses	426	0	0	0	0	426
White collar	525	122	71	35	55	807
Total	2 394	1 457	458	320	55	4 684
- woman %	42	38	47	50	66	42
- permanent %	83	85	92	96	4	84
- full time %	58	43	41	27	99	50

Staff turn over, %	Sweden	Norway	Finland	UK	China	Total
- Age < 30	5,1	19,1	16,3	20,9	0,0	12,1
- Age 30-50	3,5	4,6	4,6	3,0	0,0	3,9
- Age > 50	0,7	1,0	0,5	1,3	0,0	0,8
- Woman	9,7	26,2	18,2	23,3	0,0	17,0
- Men	8,9	23,6	25,5	27,9	0,0	16,9

Sick leave, %	Sweden	Norway	Finland	UK	China	Total
- Woman	6,3	9,5	5,0	2,0	3,5	6,5
- Men	4,0	4,7	3,0	1,5	0,0	3,7
- Total	4,9	6,5	3,9	1,7	2,3	5,0

Internal training - Hours per employee	Sweden	Norway	Finland	UK	China	Total
- Store employees, excl managers	4,9	7,2	8,5	3,2	0,0	6,0
- Store managers	16,3	22,4	36,1	16,8	0,0	21,8
- Warehouse employees, excl managers	1,6	N.A.	N.A.	N.A.	N.A.	1,6
- Managers, others	11,1	7,6	16,7	0,0	0,0	10,3
- Woman	5,4	8,9	10,7	3,2	3,3	6,7
- Men	4,7	7,5	11,3	3,7	9,7	6,2

GRI index

The GRI index is available on about.clasohlson.com

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