

sustainability report 2015/16



from here
to
sustainability

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OUR VISION

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

About Clas Ohlson

Clas Ohlson is an international retail company that is expanding through new offerings, new stores and by establishing operations in new markets.

Clas Ohlson offers products and services to solve everyday practical problems in six countries via more than 200 stores and online shopping. We have a wide range of affordable products in five product areas: Hardware, Electrical, Multimedia, Home and Leisure. The company is listed on the Nasdaq Stockholm, has sales of more than 7.6 billion SEK and more than 4,700 employees.

Clas Ohlson offers 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.

Clas Ohlson was founded in 1918 as a mail order business based in Insjön, Dalarna, Sweden. We have nearly one hundred years of retail tradition and we like doing good business. Salesmanship is the core of the Clas Ohlson spirit and rests on four cornerstones: drive, warmth, innovation and commitment.

6
markets

4,700
employees

76
million visitors

7.6
billion SEK
in sales

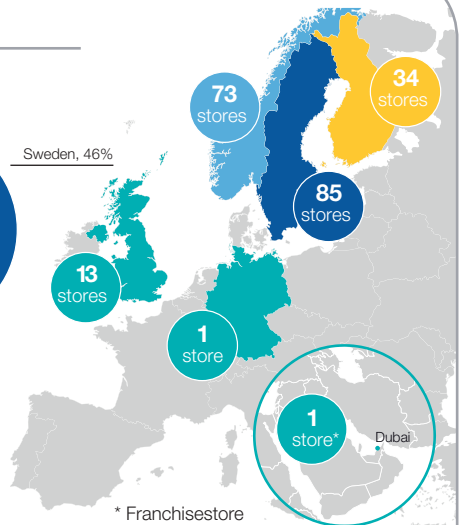


Sales by market

Outside Nordic countries, 5%

Finland, 10%

Norway, 39%



[Read more about Clas Ohlson in our Annual Report](#)

* Franchisestore

From Here to Sustainability

Clas Ohlson has taken a structured approach to sustainability for almost ten years. For the past two years, we have focused on more emphatically integrating sustainability in our operations and strategies, so that we have the best basis for achieving our long-term ambition.

2015/16

An integrated approach

We have made good progress in integrating social and environmental issues into our strategy and our processes.

We have continued to systematically develop our range of products for a more sustainable lifestyle.

We have clear targets and key indicators, and we constantly monitor how we manage the impact of our operations.

We strive to be an effective company that is an attractive employer for the dedicated employees who will help us to shape the future.

2020

A sustainable customer offering

We promote products and services for a more sustainable lifestyle and help our customers practically to reduce their environmental impact.

Our sustainable customer offering plays an increasingly tangible role and helps us to realise our vision.

Long-term ambition

Resource-efficient value chain

We reuse, recycle and invent products and services and develop our ways of working. All with the ambition of contributing to a more resource-efficient value chain.

Our priorities

Our eight prioritised areas constitute the platform for how we strategically tackle sustainability issues. These areas are divided into three categories based on strategic relevance.

CRITICAL IN REALISING OUR VISION

Products for a more sustainable lifestyle

Clas Ohlson's ambition is to have the right product offering in order to achieve our financial targets and strengthen our brands. Our range of products for a more sustainable lifestyle plays a key role in this. More than 10 per cent of our sales stems from products that distinguish themselves as our most sustainable. Because many products have the greatest environmental impact when they are used, we have an important role to play in enhancing awareness about environmental performance and presenting alternatives, and thereby enabling our customers to make well-informed choices.

Read more on page 15

Resource-efficient business models

Our society is shifting slowly from a traditional linear approach to manufacturing, use and waste toward a more circular economy. We intend to contribute by creating more resource-efficient business models. Spare parts sales extend our products' service life. Collecting ink cartridges, for example, helps customers to recycle. We will continue to develop services that solve everyday problems for our customers with the lowest possible impact on the environment.

Read more on page 17

SOUND BASIS FOR LONG-TERM PROFITABILITY

Being an attractive employer

Today, Clas Ohlson has about 4,700 employees in seven countries. We must be an employer that can retain and develop its employees while simultaneously attracting new talent if we are to continue to be successful. Increased competition for employees means that it is even more important to be a company that shares the values of its employees. We find leverage in being a sustainable and ethical company. Leadership, skills development and focus on health and well-being equips us for the future and cultivates an organisation prepared to shoulder new challenges.

Read more on page 18

Energy efficiency

As we continue to grow as a company, it is essential that our CO₂ emissions do not increase at the same rate. Consequently, our long-term ambition is to decouple our CO₂ emissions and growth. Clas Ohlson transports more than 550 million tonne kilometres of goods. More than 70 per cent of the CO₂ emissions that we can address are linked to the transportation of goods. This makes it imperative that we enhance transportation efficiency even more. But our work does not end there. We also reduce energy use in our daily operations – in our stores, our distribution centre and our offices.

Read more on page 20

The three categories are described in more detail on page 11.

ONE STEP AHEAD OF OUR STAKEHOLDERS' EXPECTATIONS

Materials and chemicals in products

Clas Ohlson has more than 15,000 products in five different product categories. Every year, we replace about 15 per cent of the company's product range. We see more consumer engagement, more stringent legislative requirements and raised insight into the impact of hazardous chemicals on our health and the environment. Through setting clear supplier requirements, good control and increased transparency, we ensure that we are always one step ahead and can retain our customers' confidence.

Read more on page 22

Human rights, children's rights and working/labour conditions

Clas Ohlson buys products from 600 suppliers in Europe and 700 manufacturers in Asia – mainly in China, where the risk of violations from our Code of Conduct are relatively high. Therefore, we place great emphasis on making sure that our partners meet our requirements concerning human rights, working/labour conditions and the environment. To achieve lasting change, we invest in training and guidance for our suppliers.

Read more on page 23

Business ethics

Clas Ohlson has zero tolerance for corruption and bribery. Good business ethics demands a strong foundation in the form of governance, clear values and well-informed employees. We endeavour to ensure that all understand their roles and that the company expects that everyone conducts themselves in line with our Code of Business Ethics, regardless of where in the world we do business. In doing so, we can reduce ethical risks and establish credibility for our way of doing business. The greatest risk of bribery and corruption exists in the sourcing process.

Read more on page 25

Our role in society

By acting as a positive force in the communities in which we operate, we improve the confidence that our employees, customers, and other local stakeholders have in us. By viewing the impact that we have from the perspective of future generations, we acquire the long-term thinking we need in our work. Subsequently, we focus on children's rights. Our social engagement stretches from Insjön in Dalarna to the local communities in the countries where our products are manufactured.

Read more on page 26

Sights set on value creation

In an interview from earlier this spring, Clas Ohlson's CEO Klas Balkow and Head of Sustainability Åsa Portnoff Sundström explained what *From Here to Sustainability* means for the company and in relationships with consumers and other stakeholders.



What role does Clas Ohlson and retail play in the transition to a more sustainable society?

KB: This is a huge question and, from my perspective, one I would describe as retail being the place where production and consumption meet. In combination with a large customer group and loyal consumers this gives us a unique position to influence our entire value chain. Clas Ohlson contributes mostly to sustainability through our products and services – both in how they are manufactured and the functions and features they provide.

ÅPS: And, we can change customer attitudes and behaviour through the products we sell and the knowledge we convey.

If we flip the question, what role does sustainability play for Clas Ohlson as a company and to your strategy?

KB: It is our conviction that sustainability is a prerequisite for a long-term profitable business.

Consequently, sustainability is a key element in realising our vision: to develop Clas Ohlson into a leading international modern hardware retailer, with high profitability that adds value for all stakeholders.

ÅPS: Value creation is also a critical component in our business model. Increasingly more people are interested in Clas Ohlson and have high expectations regarding our offering, how we work and our role in society. We create value by fulfilling these expectations.

Information about From Here to Sustainability is readily available in your stores. Can you explain?

ÅPS: From an outside perspective, it is our platform for communicating our sustainability agenda and how we improve the customer offering in order to help our customers maintain a more sustainable lifestyle.

KB: It is more than that. *From Here to Sustainability* also details the journey we as a company are making. It provides clear direction for how we should persuade our value chain to become more resource-efficient and

for how we should develop and improve in the long term. We clarify what we do, why we do it and in what way it helps to create value. Our eight prioritised sustainability areas help us to navigate our journey.

Can you see today that your sustainability agenda has had positive financial impact?

KB: The longer perspective is most important, but we can already see results. We see more sales of sustainable lifestyle-supporting products, such as LED lightings. One of our new resource-efficient business concepts includes the successful launch of deposits on cartridges, an initiative that we rolled out in Sweden, Norway, Finland and the UK. On top of this, spare parts sales continue to climb.

ÅPS: Timing is everything. We know where we are headed and we have set up clear targets along the way. While we must strategically launch new



From Here to Sustainability provides clear direction for how we should persuade our value chain to become more resource-efficient and for how we should develop and improve in the long term.



concepts and drive demand, we must do so when the market is ready.

What is the difference between what consumers want today and what they want in the future?

KB: Consumers of today want a broad range of products at affordable prices, but not at any cost. Without a doubt, consumers expect the products to be manufactured with respect for people and the environment. Looking to the future, consumers will expect products and services to offer even better environmental performance. The ramification of this is that more resource-efficient solutions will become more important parameters in purchasing decisions. This opens up business opportunities for us. I feel that we are moving in the right direction with solar power lighting and sales of spare parts, for example, but we can more and plan to do much more.

It is also a matter of making tough demands on suppliers, certainly?

KB: Absolutely. It is crucial for our industry. Compliance with high labour and environmental standards during the manufacture of our products is paramount, as is our ability to monitor this through regular audits. Last year, we carried out 370 supplier audits and we see that 98 per cent comply with our requirements, with no major deviations. Of course, we also want to develop our collaboration with Save the Children to help Chinese migrant

workers and their families. This is a good example of how we try to learn from other organisations that have expertise in areas that are not our core business.

ÅPS: Another example of how we work strategically with suppliers is our endeavour to gradually transition overland freight to rail. Our target is 50 per cent by 2020. We've gone from 41 to 44 per cent this year and we were recognised for our efforts with PostNord's environmental award for the second time. The way we transport goods has a big CO₂ impact, making it essential that we identify sustainable transportation solutions.

Klas, you mentioned that sustainability affects how Clas Ohlson evolves as a company. How much progress have you made in integrating these issues?

KB: The eight prioritised sustainability areas are integrated in our strategy. Our sustainability agenda is not something we do on the side, but an integral component when we plan our business. It requires commitment from management and emphasis that every function is responsible for advocating and developing these areas. I feel we are making progress all the time. Our sustainability forum, made up of me as CEO, function managers and other relevant representatives, define our strategic orientation, targets and key indicators. We also monitor the work that is done. We apply the ten principles of the UN Global Compact concerning human rights, working conditions, the environment and anti-corruption.

ÅPS: As you can tell, we are at the start of a long

journey. But integration and management's sincere commitment are two of our greatest strengths.

What challenges do you see?

KB: All changes take time and we see a challenge in continuing to develop our organisation, processes and systems. In addition, our store employees must have the right expertise about the products and their impacts in order to serve as good sustainability ambassadors when they meet our customers. For this reason, more employees need to take part in the sustainability training program we introduced last year.

In conclusion, what is the next step in your sustainability work?

ÅPS: To gain more in-depth knowledge within a few priority areas before defining how we measure and follow up our work – particularly in resource-efficient business models, materials and chemicals, and business ethics. Eventually, we also want to better understand how sales channel choices – online shopping or store shopping – affect CO₂ emissions. Based on this knowledge, we can advise our customers to opt for the sales channel that has the best environmental profile. We will also identify new strategic partnerships to strengthen our position and potential for developing our product range and more resource-efficient business models.

Our value chain

To effectively manage our negative and positive impact, we must understand 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.










CRITICAL IN REALISING OUR VISION

SOUND BASIS FOR LONG-TERM PROFITABILITY

ONE STEP AHEAD OF OUR STAKEHOLDERS' EXPECTATIONS

The three categories are described in more detail on page 11.

	 Product development	 Manufacturing	 Transportation	 Operations	 Sales	 Product use	 End-of-life products
AREA	Together with strategic partners for our own brands	Close to 70 per cent of our products manufactured in Asia	Transportation of more than 550 million tonne kilometres of goods	Some 4,700 employees in seven countries	205 stores in six countries and online shopping in four markets	Products often have the greatest environmental impact when being used	Participate in collection and recycling schemes
ISSUES	<ul style="list-style-type: none"> • Water and energy efficiency • Replace material with more sustainable alternatives • Packaging • Recyclability • Functionality • Product lifetime 	<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 and freight consolidation 	<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 that have favourable environmental performance • Information about products for a more sustainable lifestyle • Energy efficiency in stores 	<ul style="list-style-type: none"> • Product lifetime • Environmental impact during the product life • 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 • Relevant and unique products 	<ul style="list-style-type: none"> • Improved standards for suppliers, their workers and families and local communities • Increased confidence in the Clas Ohlson brand 	<ul style="list-style-type: none"> • Reduced CO₂ emissions • More cost-efficient transportation solutions 	<ul style="list-style-type: none"> • A high-performing organisation • Attract and retain skilled employees • Increased employee commitment 	<ul style="list-style-type: none"> • Loyal customers • Dedicated employees • Attractive, unique and relevant product offering • Reduced energy costs • More information about environmental impact 	<ul style="list-style-type: none"> • Extend product usage • High confidence in the products • Less waste and more resource efficiency • Less chemicals to the environment • Reduced energy consumption and CO₂ emissions • Cost savings 	<ul style="list-style-type: none"> • Less waste and more material recycling • Less chemicals to the environment
ABILITY TO INFLUENCE	MEDIUM	MEDIUM	MEDIUM	HIGH	HIGH	LOW	LOW

How we prioritise

Clas Ohlson works according to a well-defined process for analysing, prioritising and validating our most important sustainability issues.

We continue to develop our processes in order to identify the most relevant sustainability issues, which provides us with greater insight into the development of these issues and their importance to our business.

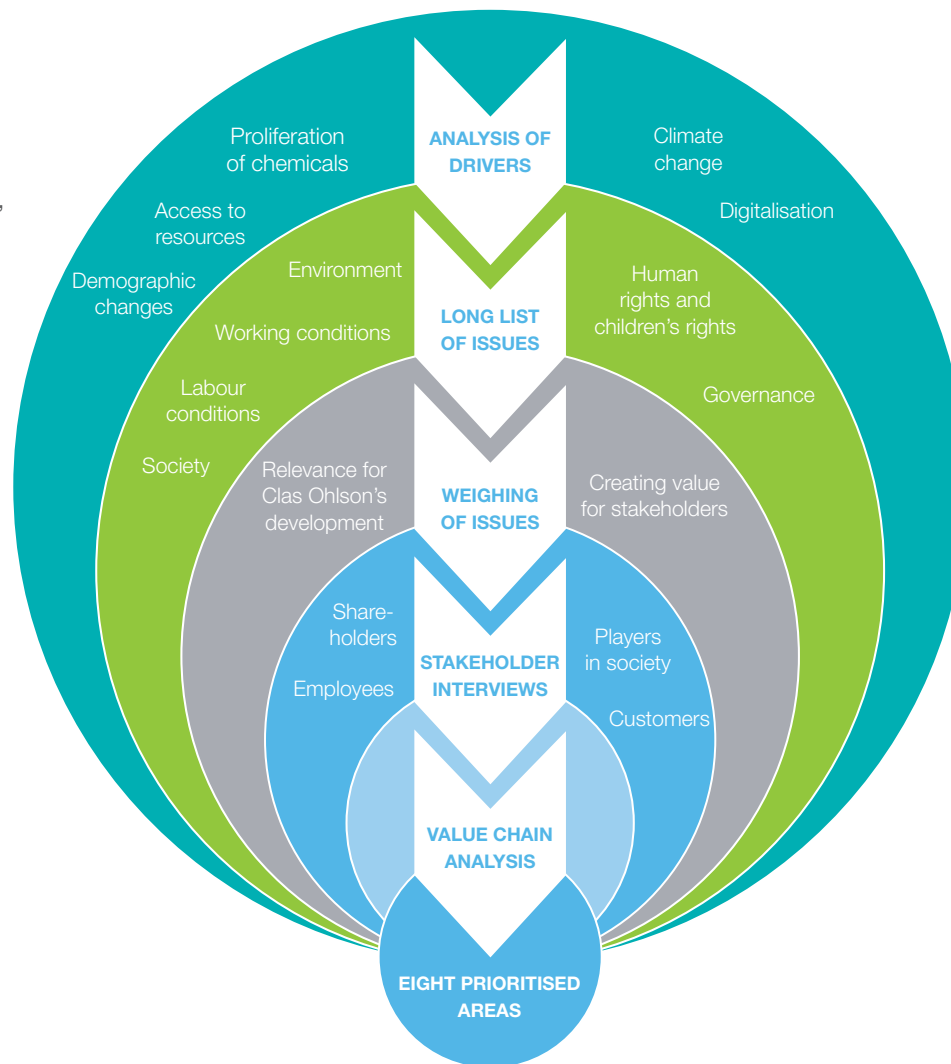
A five-stage process

The materiality process – the five stages are described in the diagram – provides year-by-year comparison of how the significance of these issues changes. We gain understanding of how we create value for our stakeholders by involving internal and external representatives. This also helps us better analyse the impact of sustainability issues on how we manage risk and pursue business opportunities.

We have identified five global drivers as the basis of this analysis that are of particular importance to our industry and market and we must therefore relate to. We have drawn up a list of sustainability issues that could potentially be relevant to Clas Ohlson in its efforts to meet these drivers. The issues were then weighted based on an overall assessment of key stakeholders priorities and their role in developing the business within the strategy period. Our eight prioritised areas comprise the most material issues and are the result of the analysis.

Supported by the Board

The outcome of the analysis is supported by senior management and the Board and is integrated into the strategy. This year, focus was directed to enhancing understanding of the priorities of key stakeholders. In-depth interviews with key stakeholders provided greater insight into the contribution of the sustainability work to the development of Clas Ohlson (page 10).



Changes to analysis

Compared with prior years, we now see clearer commitment to climate issues from countries, intergovernmental organisations and legislators, as well as regarding chemicals and use of resources. The sharing economy has taken hold in the Nordic countries, offering new opportunities and altering the conditions for retail companies. With the launch of the UN's 17 Sustainable

Development Goals (SDGs), the business sector has accepted calls to play a more important role in solving challenges faced by society. Human rights also feature on the agenda. We see clearer expectations of companies to understand and be transparent about working conditions and human rights further down the supply chain, for example, new guidelines and legislation on conflict minerals.

What drives change?

An analysis of global drivers and their long-term impact on our industry, market and society helps us to manage future risks and prepare us for new business opportunities.

Clas Ohlson performs continuous analyses of the factors that affect our market and customer needs, which enhances our ability to rapidly react to changes. The trends that currently affect us the most are described in the 2015/16 Annual Report (page 12).

In order to ensure the long-term aspect of our sustainability efforts and to provide a basis for our materiality analysis, we also study global drivers that help us to understand how changes in society will affect us over the next 15 years.

Climate change

Both the Paris Agreement of 2015 and the UN's 17 Sustainable Development Goals are global agreements that put climate change at the top of the agenda for nations and society. The consequences for our industry are higher costs for the transportation of goods using fossil-fuel intense modes of transport, such as air freight and trucks. Since household energy accounts for about 20 per cent of total CO₂ emissions in the EU, consumers will increasingly demand products and services that help them to reduce their costs and negative environmental impact.

Digitalisation

We are now beginning to see how digitalisation will impact and change society at large. Continuous access to information and a global market makes consumers more aware and engaged. Digitalisation makes it possible to interact with customers through their customer journey and guide them in making conscious and sustainable choices. It also facilitates the development of more resource-efficient services. Stiffer competition and expectations on adjustments, transparency and flexibility will continue to change the customer offerings in retail, our relationships with customers and how we are expected to assume responsibility across our value chain.

Access to resources

The consumer society consumes vast quantities of resources in the form of water, energy, materials and food. According to the WWF, we will need two Earths to sustain our lifestyles by as early as 2030. Rising demand for resources will affect both costs and availability, which results in a focus on improved resource efficiency, innovation and lower environmental impact throughout the value chain.

Proliferation of chemicals

The consumer society is also driving up the use and proliferation of hazardous chemicals from consumer products. We can expect even tougher laws as we gain greater knowledge of how these chemicals affect humans and the environment and with a greater interest among and higher transparency requirements from both legislators and consumers. To meet such requirements, we have to manage information about hazardous chemicals in products, while striving to replace these with more sustainable alternatives.

Demographic changes

Today's population of the Nordic countries is expected to rise by 10 per cent by 2030. Growth will primarily be concentrated to the cities (Nordregio research). We see growing diversity among people with different cultural backgrounds and a larger elderly population. These demographic changes could present challenges in terms of customising the product range to more consumer groups. Another challenge is to secure access to skilled people in an increasingly competitive labour market.

A 360° analysis

We gain a better understanding of what is essential to the long-term, positive development of the company based on an overall assessment of key stakeholders priorities and the impact of sustainability issues on our possibilities to create value.

Compiling information and knowledge from our most important stakeholders and understanding their view of the future helps us to meet expectations and provide insight into how we can create value for them. We also analyse sustainability issues based on how important they are to the development of our business.

Defining priorities

We identify the expectations of our key stakeholders – shareholders, customers, employees and players in society – and integrate their views into our analysis of the most important issues. We conduct employee surveys to obtain employee opinions on how to be a better employer. We carry out annual customer satisfaction surveys that include questions about how well we meet expectations regarding sustainable customer offerings. We also hold in-depth interviews with representatives of strategic partners, investors and Board representatives to understand their view of future developments.

Stakeholders' view of Clas Ohlson

One of the issues highlighted in the interviews conducted during the financial year was the importance of a greater focus on innovation in general and long-term profitability. It was emphasised that sustainability efforts play a key role in this respect and, accordingly, this will be of greater importance in investment decisions. The significance of managing future risks in the supply chain, monitoring suppliers' climate and water

impact and enhanced transparency and control of chemicals in products were also highlighted. Save the Children stated that Clas Ohlson's responsibility extended beyond the employees of suppliers and also meant improved social conditions for employees' families.

The 2015 customers satisfaction survey revealed that our customers were aware that Clas Ohlson actively works on environmental issues. The product category that has the most relevant offering of products for a more sustainable lifestyle is Electrical.

The most recent employee survey from 2014 also shows a good work climate and good leadership. More than 85 per cent of our employees are proud of working for Clas Ohlson, and the majority would recommend us to others as an employer.



We must start where we can make the greatest impact based on human rights. For Clas Ohlson, this is the supply chain and migrant workers and the situation of their children.

Elisabeth Dahlin,
Secretary General of Save the Children Sweden



We want to see a climate strategy, quantifiable targets and work being in line with business. That will make it long term. The highest priority is a sustainable supply chain.

Anna Nilsson, Head of Sustainability,
Swedbank Robur



Eight areas in three categories

The assessment of our stakeholders analysis and the effect of these issues on Clas Ohlson's ability to create value resulted in eight prioritised areas, divided into three categories, based on strategic relevance (page 4):

- **Critical in realising our vision:** By being an industry leader with a sustainable offering as well as by reaching out to as many as possible with our message, we can position ourselves and help our customers to live with a higher level of awareness.
- **Sound basis for long-term profitability:** By offsetting our negative impact from transportation and our own operations on the environment, by managing and controlling chemicals in products and by attracting and retaining the right composition of employees, we have the right conditions to continue to positively develop the company.
- **One step ahead of our stakeholders' 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.

Based on the results of the materiality analysis, we have defined relevant targets, key indicators and activities for the eight prioritised areas and integrated them into the operations and the strategy.

Our targets

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

The value we create for our stakeholders

CUSTOMERS

- High availability of a broad, affordable and attractive range
- Safe in the knowledge that what they buy has the lowest possible impact on people and the environment

EMPLOYEES

- A reliable and long-term employer who offers a stimulating, developing and safe work environment

SUPPLIERS

- Long-term and beneficial business relationships
- Guidance on responsible business

SHAREHOLDERS

- A long-term, secure investment that yields solid returns

SOCIETY

- Contribution to economic development
- Job opportunities
- Contribution to higher resource efficiency and lower environmental impact

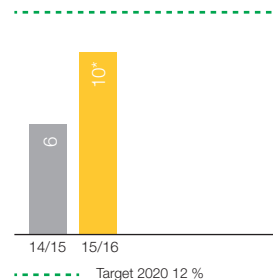
CRITICAL IN REALISING OUR VISION

Products for a more sustainable lifestyle

We have defined five criteria for products for a more sustainable lifestyle (page 15) to positively set apart and clarify the products that have a significantly enhanced environmental performance than comparable products. To achieve our target, we will continue to stimulate consumer demand, while we identify and create partnerships for developing products for a more sustainable lifestyle.

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

Sales of products for a more sustainable lifestyle, %



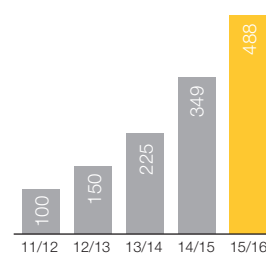
* The increase was partly due to the adjustment of the starting level.

Resource-efficient business models

We are working to identify and evaluate new business opportunities that contribute to a higher degree of resource efficiency. We already have growing sales of spare parts and our repair service is available in all of our markets. Within the framework of *From Here to Sustainability*, we will engage consumers in reusing and extending the lives of products, while we also clearly state the significant environmental impact of the products.

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

Sales index for spare parts (base year 11/12=100)



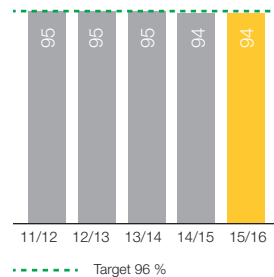
SOUND BASIS FOR LONG-TERM PROFITABILITY

Being an attractive employer

Health and well-being are indicators of how we as an organisation live up to our core values. We are developing current employees through training. Enhancing suitability know-how is a focus area at all levels of the organisation, as is attracting new, talent employees with new skill sets. 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, %

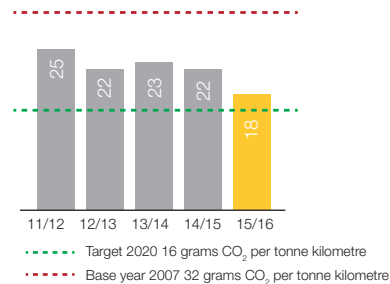


Energy efficiency

More efficient transport solutions contribute the most to our CO₂ emission reductions. Most of our products – 93 per cent – are now transported by sea or rail, both of which have favourable CO₂ profiles. Our challenge lies in continuing to manage the remaining 7 per cent, primarily by transferring transport from truck to rail and by continuing to use air freight as little as possible. We also work with reducing energy use in our daily operations – our stores, our distribution centre and our offices.

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

Relative CO₂ emissions from transportation, grams CO₂ per tonne kilometre



Materials and chemicals in products

We already impose higher requirements than those set by legislation for products used by children or that come into contact with skin or food. We are continuing to improve our processes to manage, control and remain transparent with this information, which will also provide us with better conditions for identifying and prioritising chemicals that can be phased out.

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



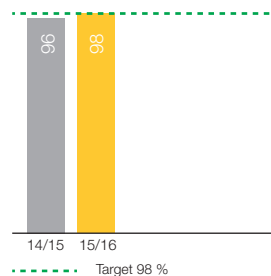
ONE STEP AHEAD OF OUR STAKEHOLDERS' EXPECTATIONS

Human rights, children's rights and working/labour conditions

For Clas Ohlson working conditions, freedom of association, health and safety and child labour particularly in the supply chain are the most important areas to work with. Almost 70 per cent of our products are manufactured in countries where there is an increased risk of deviations from our Code of Conduct, meaning that it is important to continuously check and monitor that our suppliers respect human rights and labour conditions, and address environmental issues. Alongside conducting audits, we work on creating a lasting, positive change among our suppliers by offering and conducting trainings together with other companies and organisations.

Target: 98 per cent of suppliers compliant with our requirements, with no major deviations.

Percentage of suppliers compliant with requirements, without major deviations, %



Business ethics

Clas Ohlson has a strong company culture and our core values form the basis of being a responsible and trustworthy company. Our Code of Conduct and our Code of Business Ethics define the requirements that both employees and partners are expected to live-up to. The greatest risk of bribery and corruption is in the sourcing process and we have developed a training course in practical guidance regarding business ethics to highlight and inform employees about our requirements and expectations about these issues.

Target: All employees in relevant functions undergo a course in practical guidance regarding business ethics.



Our role in society

A priority area is working to strengthen children's rights. We support the UN's Children's Rights and Business Principles, which were developed by the UN Global Compact, Save the Children and UNICEF. For many years, Clas Ohlson has pursued preventive efforts on issues related to child labour and children's rights to their parents in China. We have also worked to inform and involve children in our home markets in activities on important environmental issues.

The area must be analysed in more detail in order to define key indicators.



Management approach and progress

Sustainability issues must be prioritised at management level and integrated in relevant processes in order to apply an integrated work approach.

Clas Ohlson has a sustainability forum that defines strategy, sets targets, plans and follows up our environmental and social responsibility and community involvement work. The composition of the group represents all relevant parts of our operations, including the CEO. The Board is regularly updated on the progress of work in this area.

Focus on risk management

We are continuing to develop our tools for identifying and managing risks. Among our operational risks, we have identified a number of areas in the field of environmental and social responsibility that could affect our brand, delivery precision and product quality. Clas Ohlson continuously updates the Group's risk situation by conducting a documented process in which risks are

identified, measured, monitored and reported. Internal audits, third-party audits and trainings contribute to manage risks that may impact us or our suppliers.

The process of identifying and managing our risks is described in more detail in the Clas Ohlson's Annual Report. In 2016/17, we will continue work on more clearly integrating sustainability related risks in the existing risk process.

Integrated business processes

Sustainability aspects are a natural part of the implementation of our new business system, and processes and management approach are in place for the prioritised areas. We are also working to ensure compliance with our Code of Conduct and Code of Business Ethics.

To ensure that our sustainability work is making a difference, we must follow up and report on our targets. Over the past year, Clas Ohlson made progress in all eight prioritised areas. We have worked to clarify our priorities and to identify relevant targets and key indicators. We now need to define targets and key indicators for resource-efficient business models and materials and chemicals in products, and key indicators for our role in society. We made the most progress during the financial year in products for a sustainable lifestyle, human rights, and energy efficiency.

Our progress, the next steps and how we are working on each of the eight areas are presented on the following pages.

Products for a more sustainable lifestyle

The percentage of products that fulfil our criteria is increasing and we have made solid progress on achieving our target.

At Clas Ohlson, we aim to promote products that generate optimal financial results, strengthen our brands and support our *From Here to Sustainability* journey. The key to achieving a balance between these aims is to expand our range of products for a more sustainable lifestyle. Based on surveys we have carried out, we know that this is something demanded by our customers, and we are convinced that environmental performance will be an increasingly vital parameter in purchasing decisions in the future.

Five criteria for a more sustainable lifestyle

Our definition of products for a more sustainable lifestyle is products that meet at least one of the following criteria:

- Reduce energy or water consumption in the home
- Support recycling or are made from recycled materials

- Help reuse or reduce waste
- Have an improved environmental performance, such as eco-labelled products.
- The use of materials is optimised or potentially hazardous chemicals are replaced.

Our target is for products for a more sustainable lifestyle to increase from 6 per cent in the 2014/15 financial year to 12 per cent of total sales by 2020. We achieved 10 per cent during the financial year. The increase was partly due to the adjustment of the starting level, but we can also see a large number of new products that contributed to the positive development. We must now challenge ourselves to continue to pursue an ambitious change process and to further develop this category of products.



By introducing targets and key indicators for such things as eco-labels and choices of materials, we have a clearer focus on lower environmental impact in the entire purchasing organisation. We need to continuously drive the development of our more sustainable range in order to bring about a change among our customers.

Eva Berg, Head of Assortment





In the spring of 2016, we ran a big campaign on solar power lighting operated by renewable energy. The trend is moving toward solar power lighting that is similar to traditional electric light sources.

New opportunities and requirements

One of the steps we took towards a more sustainable offering during the year was to define priority product areas, with a particularly focus on the categories of Home and Electrical.

While a clearer positioning offers opportunities, it also imposes new demands on Clas Ohlson as a company and on our suppliers. We must be even better at identifying and developing new product areas that strengthen our customer offering, and thus we need to build up strategic partnerships that strengthen our long-term position.

Another challenge in increasing our share of such products is to distribute information to customers about the sustainable choices that they can make when

buying and using products. This is essential since products with superior environmental performance are currently often more expensive, which means that we must clearly inform customers about the value of the product in order to justify the price difference

Green speech bubbles highlight choices

Part of *From Here to Sustainability* is for us to attract, highlight and guide customers in choosing products with good environmental performance. We launched a new communications concept in September 2015 whereby we group together information and communication about sustainability under a single symbol – the green speech bubble. The concept was launched in all sales channels and we will continue our work in further improving the visibility of sustainable solutions for both customers and employees in the years ahead.

How we manage our work

We have criteria and a clear process for assessing products for a more sustainable lifestyle. The product manager prepares the basis and nominates products. A committee comprising the Head of Assortment, Head of Sustainability, and chemical expert assess whether the product meets at least one of the five criteria described on page 15 and can thus be classified as a product for a more sustainable lifestyle. All of the products in our range were assessed during the financial year and slightly more than 450 were approved.

We define targets and key indicators, such as energy efficiency, chemical content and choice of materials, for the product areas that are to continue to drive the development of our more sustainable range.

Resource-efficient business models



We increased sales of spare parts and are continuously seeking new ways to solve customers' everyday problems, with resource efficiency as the guiding principle. The main focus today is to extend product lives.

We offer customers spare parts and repairs in our own workshops to extend the life of products. By making our broad range of 10,000 spare parts more visible in our online store, we have increased our sales by more than 40 per cent each year in the past four years. This is good for our business and for our customers, and also means that we together are using fewer resources and producing less waste.

Given the positive trend in online sales of spare parts and our expansion into additional sales channels, we believe that demand will be even greater in the future. The next step in the development of our spare-parts business is to offer our most frequently used spare parts in our stores.

Reuse of ink cartridges

We accept empty ink and toner cartridges for printers to simplify reuse and reduce the risk of these cartridges being mixed with household waste. We accepted more than 330,000 cartridges during the financial year. Customers in Sweden, Norway, Finland and the UK can return end-of-life products. Members of the Club Clas loyalty program and our Clas Office business to business customers also receive compensation for returns. We send used ink cartridges to our supplier, where they are refilled and delivered back to us. We then sell them under our own brand at a favourable price.

To better meet the expectations of our future customers and position ourselves as a sustainable company, we will continue to develop our existing and new concepts, and more resource-efficient business models.

How we manage our work

We prioritise and evaluate project initiatives based on investment requirements, complexity, risk, use of resources in relation to potential return and payback period. Once priorities have been set, the projects are included in our general project planning. We will focus more on developing this areas over the next financial year.

Being an attractive employer

Our employees rate us highly. They believe that we offer a stimulating workplace and they are proud to work for us. The challenge is now to continue to strengthen as an employer, reduce sickness absence and increase diversity.

Competition for labour is intensifying and to remain successful we must develop our current employees and attract new skills and new employees to the company.

Motivated employees

We are convinced that a growing number of people, particularly young people, feel it is important that the company they work for shares their personal values. Our goal is to be the workplace where employees are treated well and responsibly and to offer safe working conditions.

We conduct regular employee surveys in order to better understand and measure how well we are meeting our employees' expectations. A full 89 per cent of Clas Ohlson's employees participated in the most recent survey from 2014, which suggests that our employees are committed to improving their workplace.

We use a Net Promoter Score (NPS) to measure how attractive Clas Ohlson is as an employer and how motivated our employees are. In total, just over 85 per cent of the employees who responded stated that they are proud of working for Clas Ohlson, and the majority would recommend us to others as an employer. As part of improvement activities, we have strengthened the link between employees' individual targets and

the company's targets. We have also started leadership development activities at various levels in the company.

The next employee survey is scheduled to be carried out in the autumn of 2016.

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 goal is for employee attendance in the Group to exceed 96 per cent on an annual basis. Employee attendance for 2015/16 was 94 per cent.

A pilot project was conducted during the financial year to investigate the possibility of reducing short-term absence by immediately facilitating contact between the individual and healthcare professionals, and by improving follow-ups and feedback. The project encompasses a number of stores in Sweden, with both employees and managers considering it to be positive. The project contributed to lower short-term absence figures.

Greater focus on diversity

Diversity creates innovation and helps us to anticipate the needs and challenges of our growing markets. We

endeavour to increase diversity through recruitment and focused skills development. During the forthcoming financial year, we will focus on becoming even better at setting relevant targets, defining key indicators and our direction.

In the financial year, 33 per cent of senior management were women, the same figure as in the preceding financial year. We have an equality target stating that neither men nor women should account for less than 40 per cent of any individual professional category.

An organisation with many young employees

We have a relatively low average age among our employees with 47 per cent under the age of 30. Together with the Swedish Public Employment Service, we have been working since 2013 to help young people who are excluded from the labour market to gain important practical work experience. In 2015/16, within the framework of this program, we hired 103 trainees in our Swedish stores, approximately 30 per cent of whom were offered jobs at the end of their trainee period. We are now working to expand the program to include training in other areas in order to provide the participants with additional skills and experience.



How we manage our work

We have common policies and processes that govern how we work with HR issues, such as recruitment, introductions, skills developments and remuneration.

Work is also managed through our HR Forum where we prioritise, coordinate, follow up and evaluate our activities.

For the past three years we have been working with recruitment training in Finland. The aim of the programme is to recruit young people aged between 18 and 30 with upper-secondary school qualifications or lower, and threatened by unemployment. Participants complete a five-month placement in stores combined with theoretical courses which leads to a basic professional diploma in retail. We were able to offer employment to about half of the program participants.

How we develop our employees

During the year, we focused on developing our leaders and strengthening our internal supply of expertise through our work with succession planning and related

development plans, leadership development program and skills development for all employees.

Through our induction program, we also ensure that all new employees receive a broad understanding of Clas Ohlson's history and core values to carry with them when dealing with customers. Learning about our sustainability work is a natural element of the program. A sustainability course has been included since the summer of 2015, and a total of 810 employees have completed the training.

Employee field trip to China

We arranged a field trip to China in April 2016. Employees with different experiences from different

countries and functions, together with a representative from Save the Children, gained insight into Clas Ohlson's sustainability work in the supply chain. They followed our audit team when they inspected working/labour conditions at the factories from which we purchase products. They saw how we check product quality and visited a Save the Children centre for migrant worker families that Clas Ohlson supports. The six employees shared their experiences from their journey in different ways when they returned home. Increasing the level of knowledge among employees about how we work with various sustainability issues is central to becoming even better at meeting customer expectations and in engaging, attracting and retaining skilled employees.

“ I would say that we really have put environmental aspects higher on the agenda with our work on transportation over the past few years. When we negotiate transportation agreements, we mainly look at quality, cost and environmental issues.”

Peter Bergestål, Transport Manager ”



Energy efficiency

In maintaining our high level of ambition, we are now further reducing the impact from transportation on the environment, while at the same time we are optimising energy consumption in our own operations by changing to more energy efficient lighting in our stores.

More than 70 per cent of the CO₂ emissions that we can address to a greater extent are linked to the transportation of goods. Accordingly, we are focusing intensely on further improving our transportation efficiency. Long-distance transportation takes place by sea and rail rather than by road and air as far as possible, which helps us control our CO₂ emissions.

New European transportation agreements have generated positive results and during the year we reduced our total CO₂ emissions from transportation despite the company having expanded and transported higher volumes of goods. The number of tonne kilometres of goods that were transported fell by 7 per cent compared with the year earlier period, while sales have increased.

Higher fill rate leads to lower CO₂

We reduced our relative CO₂ emissions to 18 grams per tonne kilometre of goods during the financial year, down 4 percentage points year on year, which was the result of increased shipment consolidation, improved fill rates on outbound pallets and the better environmental performance of our sea transport. The fill rate per pallet increased by 3.8 per cent compared with the preceding year. The number of pallets leaving the distribution centre fell by 1.4 per cent.

Higher percentage of rail transportation

During the year, we changed to using rail rather than road to transport goods from Europe through Sweden

to our distribution centre in Insjön. Products are reloaded at a terminal in Landskrona and are then transported by road to Helsingborg for onward transport by rail to Borlänge. The goods are reloaded in Borlänge to trucks for the final 40 km of their journey to Insjön.

We also use rail transportation between Borlänge and Oslo for the distribution of goods to the Norwegian store network, which means that about 80 per cent of transportation from Insjön to Oslo takes place via rail. We won PostNord's environmental award for the second time in three years for this transportation solution. The goods are subsequently distributed to six hubs by rail transport from Oslo.

These changes have contributed to a total increase in overland freight by rail from 41 per cent in the preceding year to 44 per cent in 2015/16. Our target is 50 per cent by 2020.

Change to more energy efficient LED

During the year, we continued to focus on the change to LED lighting in our stores within the framework of

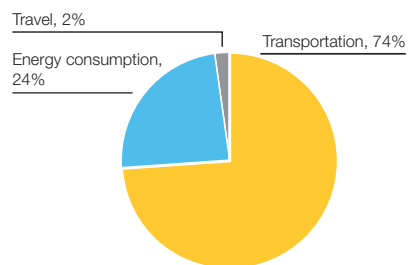
our ongoing energy efficiency program. Average electricity consumption in store that have converted to LED has declined 38 per cent and energy intensity per m² has halved from 30 W/m² to 15 W/m². We will intensify our work on changing our stores to LED next year.

How we manage our work

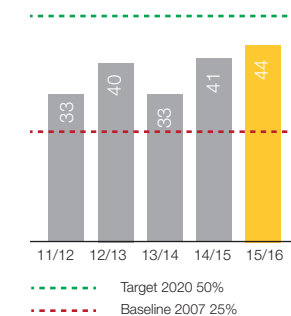
Transportation is procured centrally. As part of the decision-making process, we assess the environmental work of suppliers and require them to sign off on compliance with the requirements of our Code of Conduct and commit to providing annual CO₂ data and key indicators as a basis for our calculations.

Clas Ohlson's Design Manual specifies the choice of certain materials and requires that only LED lighting is installed when new stores are established. The Design Manual will be revised and updated during the forthcoming financial year.

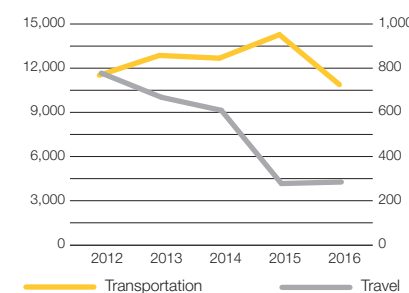
CO₂ emissions from operations, %



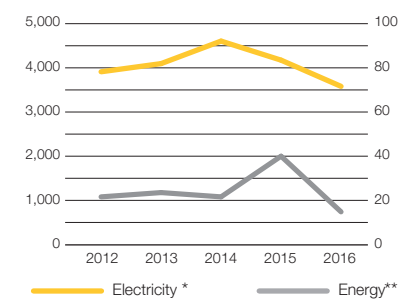
Percentage of total overland freight carried by rail, %



CO₂ emissions from transportation and travel, tonnes CO₂



CO₂ emissions from electricity consumption and energy production, tonnes CO₂



* IEA conversion factors for electricity production were used in the calculations. Data was shifted three years.

** A conversion factor of 670 g CO₂ per kWh was used for oil.

Materials and chemicals in products



We are preparing to tackle new challenges from our stakeholders by focusing on improving processes and clarifying requirements.

Clas Ohlson's work with chemicals in products largely involves ensuring that we meet legislative requirements and have access to correct information. Through setting clear requirements and close 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.

Renewable and certified candle ingredients

We developed our range of indoor candles during the year. We now have a complete offering manufactured from renewable materials in the form of stearin and vegetable wax and that do not contain palm oil. However, palm oil is required for certain types of outdoor use. Our target is that all palm oil used is RSPO certified (Roundtable on Sustainable Palm Oil) as from June 2015. This target was achieved, as was the target of making all palm oil traceable by July 2016.

Conflict minerals – an area under watch

Clas Ohlson is monitoring the progress of European legislation regarding what is known as conflict minerals and is preparing for expected new laws and regulations. Our requirements regarding conflict minerals have been included in our Code of Conduct since 2014. Our ambition is to perform a risk assessment during the forthcoming year and identify the product areas and the suppliers that we will initially focus on, in accordance with the OECD's Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-affected and High-risk Areas.

Packaging materials

We updated the packaging requirements that we impose on our suppliers during the year. These requirements include the choice of materials and design, where we strive to avoid unnecessary packaging materials, particularly for products that we sell in high volumes. We focused on our travel range, for example, during the financial year.

How we manage our work

We are continuing to strengthen our processes and systems for managing information about chemicals in products. Clas Ohlson's chemicals requirements define both general and product-specific demands and are updated every year. A risk assessment is performed for each new product and the results define the test requirements.



Human rights, children's rights and working/labour conditions

We believe that we can best contribute to bringing about lasting change by taking a clear standpoint and checking compliance with the requirements we impose on our suppliers, taking a preventive approach to training and developing strategic partnerships.

A key element of being a responsible company is to monitor compliance with our requirements on human rights, working/labour conditions, environmental impact and children's rights across our entire value chain, particularly in our sourcing process.

We have our own audit team on site in China that carries out inspections and follows up compliance with the requirements of our Code of Conduct. All new suppliers have been assessed according to working/labour conditions criteria and we carry out complete audits even before the first order is placed.

We carried out 370 both announced and unannounced audits in 2015/16. Of these, 109 were audits of new suppliers and 261 were follow-up audits. Over the past 24-month period, 99 per cent of our suppliers were audited against the Code of Conduct requirements.

Increased focus on our European suppliers

During the financial year, we also performed a detailed analysis of our European partners, and their suppliers, to enhance our knowledge and assessment of conditions at these factories. We updated processes for

gathering information to gain clearer data for performing risk assessments. All new suppliers are subject to assessment before we enter into a partnership so as to ensure that they comply with our expectations and core values.

Well-defined targets and key indicators

We defined targets and key indicators for our supplier program during the financial year. According to the audits we performed, more than 98 per cent (96) of supplies comply with our Code of Conduct without any major deviations. Accordingly, we achieved our target already in the first year. This positive outcome was the result of improved processes that enable clearer follow-ups of audit findings

Positive response from follow-ups

The most common deviations involve health and safety. To bring about lasting positive changes in this area, we take a preventive approach to training activities for both factory workers and managers of our suppliers. The QuizRR training tool was introduced last year. Following a trial period, QuizRR was rolled out at 20 factories in China in the last financial year and we are

now planning to use QuizRR on a larger scale. QuizRR is based short training films in the areas of health and safety, fire safety, labour rights and how to promote an enhanced workplace dialogue. More than 400 factory workers and almost 150 senior executives were trained this year.

A partnership with the company 3M was also initiated during the financial year that held training courses in personal protection equipment for two of our suppliers. A total of 400 factory workers were trained, with a positive reception from our suppliers. We will continue to develop this partnership during the forthcoming year.

Excellent results from Excellent

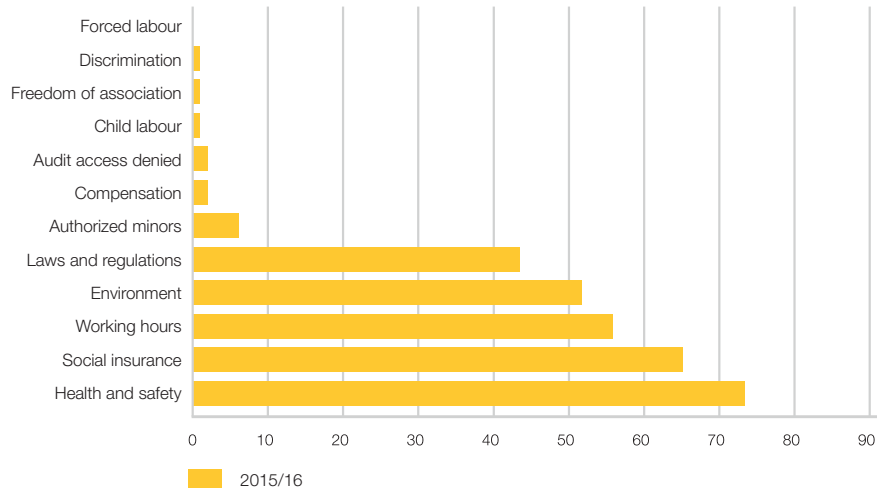
Eight out of 12 factories have completed the first phase of our Excellent program – the program for developing management system, health and safety and environme-

ntal activities of strategically important suppliers. The next phase is to focus on further raising the level and deepening partnerships through training and exchanging experiences.

Future focus

The next step is to continue our work on including suppliers from new purchasing markets and EU suppliers in the existing supplier program. We are also investigating the potential of establishing closer partnerships with other companies regarding supplier issues. Furthermore, we will continue to focus on training and proactive development activities together with strategic suppliers as a supplement to the audits and the follow-up activities that form the basis of our supplier program.

Deviations from the Code of Conduct when audited, %



How we manage our work

Clas Ohlson's Code of Conduct, adopted by the Board, defines the requirements that we impose on our suppliers with regard to human rights, labour standards, health and safety and the environment. The processes are firmly established to monitor compliance and to follow up on deviations from the 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. We do not enter into partnerships if we discover major deviations. Each supplier is assessed against the requirements of the Code of Conduct at least every two years.



We are placing more focus on this issue through our training program with practical guidance in business ethics.

Tina Englyst,
General Counsel



Business ethics

Continued training in business ethics, particularly for relevant functions, helps us to manage business ethics risks.

Our Code of Conduct and our Code of Business Ethics describe Clas Ohlson's commitment to, and expectations on employees and business partners for high ethical standards. For us, an ethical approach means sound business decisions without consideration for personal, related 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.

We are clear that violation of the Code of Business Ethics could, in addition to the termination of the partnership, lead to consequences under labour law and criminal law.

Regular training

Our most significant risks for corruption exist in the sourcing process and when entering into larger contracts. Therefore, we conduct regular training for all

employees who work with sourcing and high-value contracts and for our agents in Asia. Managing ethical risks is particularly important as we expand into new purchasing markets.

We are placing more focus on this issue through our training program with practical guidance in business ethics. More than 100 employees in relevant functions and in all countries were trained during the financial year. The courses are held in small groups in the relevant language. Interactive discussion examples 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.

No violations of the Code of Business Ethics were reported during the year.

How we manage our work

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. The General Counsel is responsible for the Code of Business Ethics.

Any suspected deviations from the Code of Business Ethics can be reported by e-mail, to the nearest manager or the company's General Counsel. Any such report can be made anonymously.



Our role in society

A core commitment for us is to continue our work to strengthen children's rights in the countries where our products are manufactured. We also involve children in our home markets in important environmental issues.

Throughout 2015/16 we continued to develop our long-standing collaboration with Save the Children. Our focus in this area is to support migrant workers in China and their families.

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 fami-

lies. To date, Clas Ohlsson has helped 1,380 children and workers to get support in the form of education, meaningful after-work and after-school activities, access to health care and help integrating into the community.

Involve our customers

Fund raisers for Save the Children's Chinese migrant workers project were carried out this year as part of Clas Ohlsson's Christmas campaign in our stores. Proceeds from certain products were donated directly

to Save the Children and resulted in a total of SEK 2.3 million in donations.

Clas Ohlsson also contributes to Save the Children's disaster relief fund. This fund is the buffer that enables Save the Children to be on site immediately in disaster-stricken areas. During the year, the fund's resources have largely been used for the refugee situation caused by the war in Syria.

The Battery Hunt

The Battery Hunt is an information campaign and competition that started in 2013. The purpose is to make children aware of the importance of recycling batteries for the sake of both the environment and our own health.

The Battery Hunt originated in Norway as a collaboration with battery manufacturer VARTA and Miljöagentene, also known as the children's environmental organisation. It was first organised in Sweden in 2014 together with Håll Sverige Rent (the Keep Sweden Tidy Foundation) and VARTA.

Enthusiasm about the Battery Hunt has exceeded all expectations, and the 2016 competition was no exception. Schoolchildren in Sweden and Norway collected over 276 tonnes of batteries for recycling. In total, 130,000 Swedish and Norwegian fourth-graders have taken part in the competition that involves the pupils gathering as much used batteries for recycling as possible.

From Clas Ohlson's perspective, we contribute to a positive change in terms of recycling and education. Our commitment is particularly evident in the comments made by the participants when they completed the post-competition survey. Some 68 per cent commented that they appreciated the "very friendly" atmosphere in Clas Ohlson's Swedish stores, with a score of 5.5 on a scale of 1 to 6.



In addition to the actual competition, the Battery Hunt includes a kit of teaching materials that are distributed to schools for free. The material is for children from pre-school to sixth grade. There is also an extremely popular mobile game that combines adventure with questions about recycling batteries, which has been downloaded more than 100,000 times.

Giving back to the local community has always been important to Clas Ohlson. We preserve this tradition through the Battery Hunt.



The Battery Hunt is a fantastic opportunity to communicate with a large group of pupils about important recycling issues. Its hands-on approach is one of the reasons for its success. The pupils feel important and involved in the change efforts. If we ask these children in 30 years, this will remain with them as an enjoyable memory, and that if anything will contribute to real change.

Lisa Adelsköld, Operations Manager at Håll Sverige Rent



About this report

Our sustainability agenda is becoming increasingly integrated in Clas Ohlson's strategy and ways of working. This report presents a summary of our efforts during the 2015/16 financial year.

Clas Ohlson strives to report our sustainability work in a relevant and transparent way. We therefore apply the Global Reporting Initiative's (GRI) framework to guide us. Clas Ohlson's sustainability report contains standard disclosure from GRI's latest G4 guidelines. The report describes our prioritised sustainability areas as well as the relevant targets and key indicators linked to these areas. A GRI Index is available at about.clasohlson.com.

With the exception of energy consumption, all data has been collected during the May 2015 to April 2016 financial year. No significant changes to the organisation have been made since the publication of the most recent report in August 2015.

As our Communication on Progress, this report explains 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 subject to external review.



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

Sweden

Clas Ohlson AB
SE-793 85 Insjön
Tel: +46 247 444 00
www.clasohlson.se

Norway

Clas Ohlson AS
Torggata 2-6
N-0105 Oslo
Tel: +47 23 21 40 05
www.clasohlson.no

Finland

Clas Ohlson Oy
Magistratsporten 4 A
FIN-00240 Helsinki
Tel: +358 201 112 222
www.clasohlson.fi

UK

Clas Ohlson Ltd
10-13 Market Place
Kingston upon Thames
Surrey KT1 1JP
Tel: +44 845 671 8215
www.clasohlson.co.uk

Germany

Clas Ohlson GmbH
Jungfernstieg 38
DE-203 54 Hamburg
Tel: +49 40 2999 78111
www.clasohlson.de

Dubai

Clas Ohlson
Level 1, Mirdif City Centre
Dubai, United Arab Emirates
Tel: +971 4 285 8596
www.clasohlson.ae

China

Clas Ohlson (Shanghai) Co, Ltd
Room 1102-1103, No. 666
Gubei Road, Kirin Plaza,
Changning Distict, Shanghai
Tel: +86 21 3387 0055

Clas Ohlson AB, 793 85 Insjön
Telefon +46 247 444 00, e-mail sustainability@clasohlson.com
Registered office: Insjön
Corporate Identity Number: 556035-8672



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