



FSN Capital

Environmental, Social and Governance report 2016

Building Resilient Companies

ABOUT FSN CAPITAL AND THE FSN FUNDS

Established in 2000, FSN Capital Partners («FSN Capital») is a Nordic private equity advisor. We advise the FSN Capital Funds («FSN Funds»), which currently consist of four different active Funds with a total committed capital of €3 billion. The Funds focus on making control investments in companies operating in the Nordic region with enterprise values between €50 million and €300 million.

The FSN Funds, with the support of FSN Capital, offer their portfolio companies a clear value proposition: The potential to transform into more competitive, international and resilient entities during FSN Fund's period of ownership. The FSN Funds are supported by a broad range of leading Nordic and international institutions that share our long-term perspective. The investors provide long-term capital that allows time to implement the transformation initiatives and create sustainable, lasting and value-added change within the portfolio companies. We are committed to taking a responsible approach when interacting with the portfolio companies, advisors, investors, local communities and the environment. FSN Capital seeks to act with the highest level of integrity when advising the FSN Funds.

At the core of how we operate is the FSN Capital Ethos; **«We are decent people making a decent return in a decent way».**

	FSN FUNDS		
	2014	2015	2016
Number of Portfolio companies	15	16	15
Total Revenue of Portfolio companies	11 Billion NOK	13 Billion NOK	14 Billion NOK
FTE	6 Thousand	6 Thousand	7 Thousand
Percentage of women versus men	31 %	42 %	42 %
<i>Among our client beneficiaries are:</i>			
Students	50 Thousand	50 Thousand	100 Thousand
Pensioners	10 Million	10 Million	11 Million



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Letter from our Founder

At FSN we compete on three arenas: we compete for capital from our investors, we compete for talent and we compete for companies to acquire. The most powerful weapon we possess to win our battles is trust. If you build a foundation of trust, people will instinctively feel it and they will want to invest with you, they will want to work with you and they will trust you to be a good owner and take responsibility for their companies.

Trustworthiness in Private Equity is earned through generating solid returns in a responsible manner.

Do you know what is the greatest worries for the average American? Number three is terrorism, number two is death and number one is RETIREMENT. The average American cannot afford to retire and that makes them scared. The situation

is very similar in most European countries. Our ultimate clients, the pension fund, Endowment and SWF beneficiaries are facing a severe funding problem in a low interest rate environment.

In this context it is pleasing to see that the FSN portfolio generated net 26% return in 2016, beating a strong Nordic Small Cap index by 800 basis points. As such we delivered on the promise to contribute to securing and growing our ultimate client's savings. Our team finds this both purposeful and inspiring.

We have also experienced over the last decade that both LPs and their beneficiaries are increasingly scrutinizing how returns are generated. In particular, asset owners are demanding higher standards from asset managers in terms of socially responsible and sustainable business practices. As we have tried to articulate and demonstrate in the ESG re-

«Trustworthiness in Private Equity is earned through generating solid returns in a responsible manner.»

port for previous years, integrating Environmental, Social and Governance issues into our investment process and our active ownership approach have served the portfolio companies and LPs well. As such we were very proud to be recognized for our work by being awarded the Corporate Citizenship Award at the 2017 Private Equity Awards in London in April. The award recognizes our commitment to best practice in Environmental, Social and Corporate governance.

We strive to raise the bar on our ESG practice from year to year. Sometimes we have setbacks, as is evident also in 2016. Our portfolio companies have operations in 70 countries around the world, and with that come complex supply chains and control issues. In FSN Capital we are allowed to make mistakes, but we are not allowed not to learn from those mistakes. We have in 2017 conducted an ESG risk assessment of all our portfolio compa-

nies to identify potential exposure. Each portfolio company is addressing this exposure with appropriate mitigants. We will report on this work in our 2017 ESG report.

As such our work in this field of our practice continues unabated.

We hope you appreciate reading this year's ESG report and we welcome any feedback you may have.

*Frode Strand-Nielsen
Managing Partner
FSN Capital Partners*



Letter from our Chairman

WHY PUBLISH AN ESG REPORT?

Why should we or other investment advisors or asset managers bother to publish ESG reports? Some years from now I hope the answer will be that we don't need to. Some years from now we all should take for granted that the Environmental, Social and Governance factors are included in everybody's framework for prudent risk management and value creation.

Since we are an investor with a long-term investment horizon, a holistic approach to risk management is fundamental to our ability to create and safeguard value. What may be a cost-reducing shortcut by, for example, not cleaning up pollution may become a significant liability in the longer term. Lack of integrity and respect in dealing with employees may harm future recruitment and customer perception. A governance setup without checks and balances and high quality oversight may lead to waste of capital and resources as well as unrewarded risk taking.

FSN Funds manage and mitigate risk through active ownership of the portfolio companies. From the initial onboarding through the entire advisory period, we work extensively to ensure that we have a strong alignment with management and the Board of Directors on a core set of values. Among these values, the most important is complete integrity across all business operations and dealings with stakeholders. Lack of honesty in relationships with customers, employees or regulators may impact the bottom line negatively in the future.

Even in the early phase of considering companies for investment, FSN Funds use formalized risk management procedures that include the extra financial ESG dimensions. FSN Funds will not invest if we have doubts about the integrity of the leadership or core values of the company. As a rule of thumb, FSN Funds do not make investments in firms where we are not in control of the key factors shaping expected risk and return. As we have

learned over the years, active initiatives to mitigate risk, improve employee satisfaction and reduce waste are paying off in improved financial results.

We have not made this ESG report to please the investors, although we know they are increasingly aware of the link between ESG, risk management and long-term performance. We publish it to keep ourselves accountable, as we acknowledge that we need to work continuously to get the holistic risk management approach into the DNA of everybody employed at the portfolio companies and at FSN Capital. Being transparent on how we are performing keeps the pressure up.

I hope this report signals that we are making good progress in the way we report and how we perform. Some years from now, when we are sure we live up to our ambitions, and when the business environment around us seem to acknowledge the link between ESG factors and corporate risk and performance, there will hopefully be no need for a dedicated ESG report...

Knut N. Kjør
Chairman
FSN Capital Partners



1.

Our policy and commitment to responsible investment and active ownership

RESPONDING TO OUR STAKEHOLDERS' EXPECTATIONS

FSN Capital impacts, and is impacted by, the investors. Our ultimate key stakeholders include our clients and their beneficiaries, the FSN Funds' portfolio companies and their employees, customers and local communities, our own employees and regulators in the countries where we operate.

We believe that in order to be successful we also have to be attentive to what these stakeholders expect from us. The FSN Funds engage with clients through annual meetings and quarterly reports and continuously engage with them in direct dialogue. We work closely with portfolio companies who can voice their concerns on a continuous basis, as well as in more formal review meetings. Employees voice potential concerns through em-


ployee surveys, individual conversations and the Whistleblower Policy. We also engage with regulators on issues of particular concern. Responding to our ultimate key stakeholders' need for information is important input for our ESG report.

Stakeholder engagement on responsible investment

Our stakeholder engagement includes dialogue with investors, portfolio company management, our employees and other experts. We have conducted stakeholder engagement interviews specifically focused on responsible investment and reporting. This is an important input to our ESG report. Our understanding of the key takeaways from the stakeholder engagement are:



EXAMPLES OF ESG ISSUES

ENVIRONMENT		SOCIAL		GOVERNANCE	
	Climate change		Labour rights		Anti-corruption
	Pollution to air, water and soil		Working conditions		Transparency
	Water use		Health and safety		Shareholder rights
	Biodiversity		Community impact		Board composition and independence
	Resource efficiency		Job creation		
			Tax contribution		

- » **The FSN Funds' investors** expect ESG to be naturally integrated in investment decisions and management as part of taking a holistic approach to risk management and transformations. Matters related to ESG should be reported directly to investors as part of quarterly reporting, if and when it is material to the investment. ESG should not become an isolated and partly relevant topic, but integrated and included when relevant to the investment.
- » **Portfolio companies** are positive towards a focus on key ESG issues and emphasise the importance of focusing on sector and company-specific concerns. Many highlight the benefits of FSN's longer term perspective which allows for the necessary investments to ensure sustainability. Some would also like to learn from experiences across the FSN Funds' portfolio companies.
- » **FSN Capital employees** believe that incorporating ESG issues in the investment analysis and in the active ownership approach drives returns as well as mitigates risks.

If this report does not respond sufficiently to your information needs, we would very much like to hear your feedback on how to improve our ESG reporting.

THE FSN CAPITAL ETHOS

FSN Capital operates with a clear and strict ethos that is encapsulated in the sentence: «**We are decent people making a decent return in a decent way**».

At FSN Capital, our ethos is expected to be at the core of how we approach decision-making every day. The Partners of the firm deliberately promote a culture that encourages this ethos.

By **decent people** we mean people of character and integrity. In recruiting new team members, we go to great lengths to understand, in addition to their leadership and investment talent, the values and the moral fabric of the candidates. New team members can only be successfully on-boarded and integrated, if there is a strong cultural fit with the FSN Capital team in terms of our ethos and values.

Decent return we define as an internal rate of return which substantially outperforms what our investors could achieve by investing in the Nordic small/midcap listed shares index.

Generating this return in a **decent way** we achieve by implementing the FSN Capital Code of Conduct in all the portfolio companies, and by constantly encouraging our individual team

«One of my first tasks as the CEO of VIA Travel was to sign FSN Capital's Code of Conduct. This sent a strong signal of the importance FSN Capital places on the ethos and values.»

ESPEN ASHEIM, FORMER CEO VIA TRAVEL GROUP AND EXECUTIVE ADVISOR

members to challenge decisions and behaviour through asking the question: «Is this in line with our ethos and values?»

Our Code of Conduct (Appendix I) is developed based on UN Global Compact and the OECD guidelines for Corporate Governance. The code provides our team members and the portfolio companies with clear instructions on how we should operate and behave to secure compliance within the areas of human rights, labour rights, corruption, environment and active ownership. Whenever we start to work with a new portfolio company or management team, we initiate a process to implement the Code of Conduct which starts with the board and management group, but eventually involves the whole organisation. Through this process, we firmly establish what FSN Funds deem to be desirable behaviour and what is unacceptable behaviour. The Code of Conduct is always accompanied by a Whistle-blower Policy (Appendix II).

The Ethos is further reinforced through the FSN Capital Values:

1. The firm's assets are our people, the FSN Funds' investor franchise and our reputation. If any of these is ever diminished, our reputation is the most difficult to restore.
2. Integrity and honesty are at the heart of who we are. We maintain high ethical standards in everything we do and we take pride in living by these standards, both in our work for our firm and in our personal lives.
3. Success is measured by the return to the investors. The return to investors is our first priority, followed by the interests of the firm, and then ourselves.
4. We strive to deliver trend shift through transforming portfolio companies into better and more sustainable companies.
5. In order to be the best firm, we seek to recruit, develop, empower and reward the best people. We believe in meritocracy.
6. Teamwork and collaboration are the core of our modus operandi. We are a one-team firm and believe that the team has greater impact than the sum of the impact of the individuals.
7. We nurture a winning culture with a strong competitive and entrepreneurial team spirit and with individuals characterised by drive, creativity, commitment and dedication, working towards common goals.

*«Make sure you underline your ESG message
— you are quite unique»*

CIO US PENSION PLAN

8. We take great pride in the professionalism, quality and timeliness of our work. We have an uncompromising determination to achieve excellence in everything we undertake and believe in individual accountability and responsibility.
9. We always face up to the brutal facts and tell the truth as we see it, with direct communication, within our firm, in our portfolio companies and to our investors. We pride ourselves on our ability to avoid “group thinking” and promote and process intellectual dissent. We always treat each other, portfolio company organisations and other stakeholders with respect.
10. We thrive on positive dissatisfaction and always search for and seize the opportunity to grow and improve our investments, our firm, each other and ourselves.
11. We are determined to secure the longevity of our firm.

ETHICAL STANDARDS

We have clear ethical standards and exclusion criteria that always apply, regardless of their impact on potential returns. These standards are part of securing our integrity and responsibility in the way we operate. The FSN Funds shall not invest in companies that:

- » Have contributed to systematic denial of basic human rights
- » Demonstrate a pattern of non-compliance with environmental regulations
- » Have an unacceptably high greenhouse gas footprint and fail to take economically sensible steps to reduce these emissions
- » Show a pattern of engaging in child labour or forced labour
- » Produce weapons that, through their normal use, may violate fundamental humanitarian principles (e.g. anti-personnel land mines, production of cluster munitions, production of nuclear arms)
- » Are directly related to the following industries: Adult entertainment, tobacco, gambling and alcohol.

INTEGRATION OF ESG PRINCIPLES INTO THE INVESTMENT PROCESS

FSN Capital has been a signatory of the UN PRI (United Nations Principles for Responsible Investment) since 2012. Compliance with their six principles is a natural part of an investment strategy to safeguard and enhance the returns of the FSN Funds’ portfolio investments.



THE UN PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

- **1**
We will incorporate ESG issues into investment analysis and decision-making processes.
- **2**
We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **3**
We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **4**
We will promote acceptance and implementation of the Principles within the investment industry.
- **5**
We will work together to enhance our effectiveness in implementing the Principles.
- **6**
We will each report on our activities and progress.

ESG RISKS INCLUDED IN FSN CAPITAL'S RISK FRAMEWORK

FSN CAPITAL RISK CATEGORIES

MACRO



Cyclicality
FX
Commodity

OPERATIONAL



Management risk
Integration risk
Internal / External

ENVIRONMENTAL



Toxic emissions
Harmful industrial waste
Deforestation

INDUSTRIAL



Political
Competitiveness
Substitution

FINANCIAL



Liquidity
Leverage
Covenants

SOCIAL



Labour conditions
Forced / Child labour
Harm to health and safety

COMMERCIAL



Operating leverage
Concentration
Visibility

EXIT



Multiple sustainability
Marketability
Dependency on trend
shift

GOVERNANCE



Bribery / Fraud
Political interference
Criminal convictions
Regulatory relations

WEATHER



ACTIVE OWNERSHIP



Majority shareholder
Ultimate control

2.

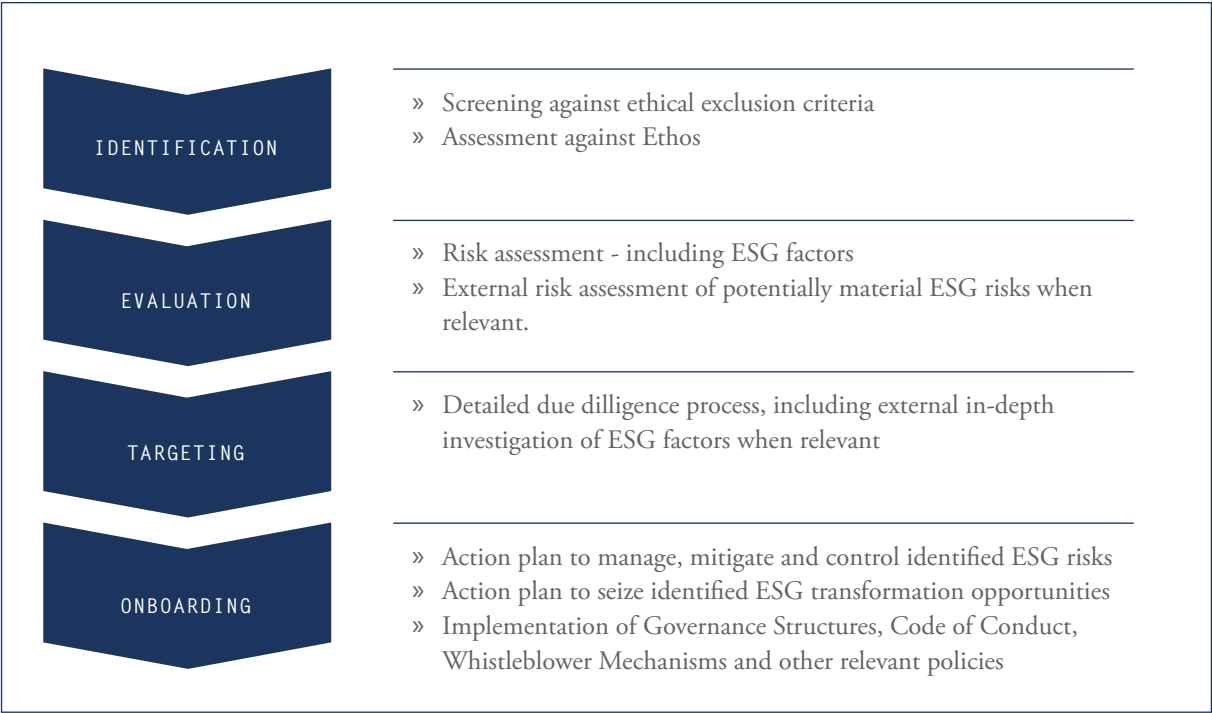
Pre-investment: A Long-term perspective

INTEGRATION IN THE PRE-INVESTMENT PROCESSES

Integrating ESG assessments pre-investment is part of our efforts to take a broad and long-term view when assessing investment risks and opportunities. The table below outlines how we integrate ESG at each assessment stage pre-investment. We include ESG factors in our formal investment papers prepared by the deal team as part of the investment process. We also engage external experts to conduct ESG-specific due

diligence. We transfer the findings we make pre-investment to targeted plans in the onboarding phase.

Examples from the due diligence processes related to the Roplan and PM Retail investments, as well as the abortion of Project X, illustrate how we work to assess ESG prior to investment decisions.



Profitt og samfunnsansvar

Man kan ikke diskutere profitt og samfunnsansvar, uten å faktisk ha med i ligningen hva som skjer med profitten.

Ivir har det vært mye debatt i avisspaltene om profitt og samfunnsansvar. Undertonen i debatten er at det er et motsetningsforhold mellom det å tjene penger og å ta samfunnsansvar - eller i hvert fall at man kan komme til et punkt hvor det å tjene mer penger går på bekostning av samfunnsansvar og bærekraft.

Jeg mener denne misoppfatningen bygger på et for snevert perspektiv langs to akser.

Først en begrepsklarering.

Det er liten uenighet om at fokusering på kortiktig «profittmaksimering» er uheldig i utøvelsen av eierstyring og ledelse. Derfor blir det uansett å benytte dette svært teoretiske begrepet i denne debatten.

Samtidig er det et begrep som ikke har vært brakt inn i debatten, som jeg mener er viktig. Ethvert ansvarlig styre og selskapsledelse har et svært bevisst forhold til risikoen forbundet med sin selskapsstyring.

Spezzmålet blir da heller: Skal samfunnsansvar trumfe

Innlegg Frøde Strand-Nielsen



Arkitektforfatter Strand-Nielsen er investor i FSN Capital.

langiktig risikojustert avkastning?

Det er faktisk overvridende sammenfall mellom en eierskapsutøvelse i tråd med å ta samfunnsansvar og langiktig risikojustert avkastning. Er man ute etter langiktig avkastning, er det ikke noen motsetning her. Undere har ikke tatt en posisjon som samfunnsbevisst selskap kun for å være praktiske. Undere lever av sine konsumentsaker, og i dagens verden appellerer samfunnsansvar til konsumenter. Kjølt sagt: Undere selger mer sate når

mærket er forbundet med samfunnsansvar enn ellers.

Likledes kan risikoen ved ikke å opptre ansvarlig være brutal. Se bare på Volkswagen etter dieselskandalene, Arthur Andersen etter Enron, BP etter «Deepwater Horizon» - for å nevne noen eksempler. Arild Aspehønd og Nilsdal K. Lørdal påpeker også denne sammenhengen i et innlegg i DN i mai.

Dette er den første misoppfatningen i debatten - jeg mener at aktører som opptre i tråd med de langsigte økonomiske interessene til selskaper også vil handle i tråd med godt samfunnsansvar.

Så til den andre misoppfatningen, som er et resultat av at man ikke slutter sikelen ved å identifisere hvem avkastningen tilfaller.

De færreste investorer har gulklukke og peilvaffel. De største investorene i verden representerer meg og deg. I vår del av verden er halvparten av bernes verdi eid av pensjonskasser, livsselskaper eller statlige fond. Dette er meder som er spurt opp av værdige arbeidere og borgere for å sikre en trygg og behagelig pensjonstilværelse.

I dag har disse institusjonene som gruppe store utfordringer i å oppfylle sine forpliktelser. Dette skyldes både demografisk utvikling og de lave rentene vi har hatt siden finanskrisen. Konsekvensen er at dersom man ikke lykkes med å heve avkastningen fremover, må pensjonsbetalingene økes, utbetalinger økes og pensjonsalderen heves.

Spezzmålet om samfunnsnyttien skal trumfe avkastning er således ikke primært et juridisk problem, slik man kan få inntrykk av i siste måneders debatt.

Jeg mener dette i høyeste grad er et samfunnsøkonomisk anliggende og en velledningsfor- sler. Styrer og ledere som utøver en ansvarlig selskapsstyring med henblikk på å maksimere langiktig avkastning, bidrar i høyeste grad til samfunnsnyttien gjennom å sikre arbeidere og borgernes velferd.

Når beslutninger og andre tar til orde for at man bør investere litt på lønnsomhetsakene for å sikre større samfunnsnytte, er det nok på sin plass at man først setter seg ned med australske sykkelere, europeiske skole- beidere og norske kommunean-

stette og folkene at de må utsette sin pensjonsalder noen år, til fordel for større samfunnsnytte, slik nyttebegrepet er definert av Stjøfjell.

Arbeidere og pensjonister over hele verden er derfor svært opptatt av at de som er satt til å forvalte deres pensjonsmidler maksimerer den langsigte avkastningen, men det går også en helge av berisning gjennom institusjonene som forvalter pensjonsmidlene. De ønsker ikke lenger kun høy avkastning, men også at denne avkastningen er generert på en ansvarelig måte uten å gå på kompromiss med avkastningskravet. Nordiske institusjoner som KLP, Storebrand, NIFM og AP-fonden er ledetjenere blant verdens forvaltningsinstitusjoner.

Vi må fortsette å utvikle eierstyringsprinsipper som fremmer bærekraft og ansvarlig forvaltning, men ikke styre og forvaltere, særlig i Norden, er nok kommet litt lenger enn noen av debattene synes å henfalle.

Frøde Strand-Nielsen, investor, FSN Capital.

FSN Capital and the Managing Partner play an active role in the current Corporate Social Responsibility debate. In addition to participating in and contributing to conferences, he published the article below in Norway's largest business newspaper, "Dagens Næringsliv", on June 6th, 2016:

«PROFITS AND CORPORATE SOCIAL RESPONSIBILITY»

One cannot discuss profits and corporate social responsibility without taking into account what actually happens with the profits

This Spring there have been several debates in the Norwegian media regarding the relationship between profits and corporate social responsibility (CSR). The undertone of the debate is that there is a contradiction between making money and

being socially responsible – or at least that there is a point where increasing profits would only be possible at the expense of CSR and sustainability.

I believe that this misconception is a result of thinking too narrowly along two axes. Firstly, a core concept must be clarified. There is little disagreement that focusing on the short-term “profit maximisation” is unfortunate in relation to corporate governance. Therefore, using this highly theoretical concept is to oversimplify the debate. Further, an important concept, which in my view is significant, has been neglected from this debate. Responsible boards and managers are well-aware of the risks associated with their corporate governance.

Thus, the question is: should CSR prevail over long-term risk-adjusted returns? In fact, there is a high correlation between CSR and long-term risk-adjusted returns. In other words, there is no

contradiction between the two if you are looking for long-term returns. Unilever has not positioned itself as a socially responsible company simply to be noble. Unilever is dependent on its consumer brands, and CSR is more important to consumers than ever before. In simpler terms: Unilever sells more soap when the brand is associated with CSR, compared to when it is not.

Similarly, the consequences of behaving irresponsibly can be severe. Just look at Volkswagen after the diesel emission violations, Arthur Anderson post-Enron, and BP after “Deepwater Horizon”, just to mention a few. Addressing the first misconception in this debate – I believe that those who act according to the long-term economic interests of their companies will also act in accordance with the principles of CSR.

Now, let us turn our minds to the second misconception, which is a result of not understanding who the recipients of the returns are: Very few investors wear gold watches and have private jets. The world’s largest investors represent you and me. In our part of the world, pension funds, life insurance companies, and state funds hold half the value of the stock markets. Their funds originate from ordinary workers and citizens’ savings, to ensure them a safe and comfortable retirement.

Today, these institutions face major challenges in fulfilling their obligations. This is a result of both demographic development and low interest rates post the financial crisis. As a consequence, premiums will have to be raised, pension benefits weakened, and retirement ages increased, unless the funds can increase returns. Thus, the question whether social benefits should prevail over returns is not primarily a legal problem, as can be perceived from the debates of the past months.

I strongly believe that this is a socioeconomic concern and a welfare challenge. Boards and managements that exert responsible corporate governance with the objective of maximising long-term returns, contribute to society in the highest degree possible by securing workers’ and citizens’ welfare.

When Beate Sjøfjell, Norwegian professor and sustainability devotee, among others, advocates that one should renounce some of the profitability requirements to ensure greater social benefits, it is appropriate that she first sits down with Australian nurses, European steel workers, and Norwegian municipal employees and explains that they will have to postpone their retirement by some years, in favour of greater social benefits.

Workers and retirees worldwide are extremely concerned that those who manage their savings maximise long-term returns. However, there is also a wave of awareness among the institutions that manage the pension funds; their requirements are no longer just high returns, but also that this return is generated in a responsible manner. Nordic institutions such as KLP, Storebrand, NBIM, and AP-fonden are the leaders in this transition among the world’s asset management institutions.

We must continue to develop corporate governance principles that promote sustainability and responsible investment. Both boards and managers of such institutions, especially in Scandinavia, have come further in this process than some of the debaters suggest.



EXAMPLE

IDENTIFYING AND HANDLING ESG RISKS PRE-INVESTMENT - PROJECT X

IDENTIFICATION

During Q2-Q4 2016, we analysed a potential majority investment in a company («Company X»), headquartered in Scandinavia but with material operations in Europe and the Middle East. Our hypothesis was that Company X offered an attractive investment opportunity for FSN Fund IV, as although the company was the market leader in many of its specific niche markets, it still had significant transformational opportunities through acceleration of growth and optimisation of the cost structure.

Although the due diligence was confirmatory with regards to, for example, the commercial and financial work streams, we experienced negative due diligence findings with regards to ESG. Through the due diligence, we found out that there had been governance issues and multiple severe irregularities in one of the company's business units. In addition, we discovered that the business unit's current managing director had been involved in the related issues, and had even been convicted of fraud.

EVALUATION

Based on the negative ESG due diligence findings, we decided to carve-out the historically troubled business unit from the offer for the company (as no significant irregularities had been found in the other business units). Eventually, this implied that the FSN offer was not deemed to be competitive enough by the sellers of the company. That said, given the outcome of the ESG due diligence, we are still confident that it was the right decision to revise FSN's bid.



EXAMPLE

IDENTIFYING ENVIRONMENTAL RISK PRE-INVESTMENT - ROPLAN

IDENTIFICATION

During the due diligence of Roplan, a manufacturing company, the Investment Team became aware that the industrial solvent «Tri» (trichloroethene) could possibly have been used historically on a company production site.

Careful further environmental due diligence by an independent environmental consultant on production facilities, contact with authorities and previous facility operators, showed there was no Tri on the company sites affecting the environment.

EVALUATION

As the environmental due diligence recognised the high overall environmental routines and knowledge with respect to handling of environmental waste of Roplan, FSN Funds decided to make the investment.



EXAMPLE

IDENTIFYING AND HANDLING ESG RISKS - PM RETAIL

IDENTIFICATION

PM is a retail company sourcing in China, hence FSN was aware of Corporate Social Responsibility (CSR) challenges at PM's suppliers at the time the potential investment was evaluated. FSN Capital questioned management of PM about their suppliers regarding sourcing, policies, and standards.

EVALUATION

As the answers from PM's management were not satisfactory, we decided to take further action. An inquiry was carried out by external consultants to assess the suppli-

er base in China, however this would take time. Therefore we advised introduction of an escrow deposit in the contract. After the transaction, we would start a comprehensive CSR assessment programme. If the assessment discovered any serious breaches, we could use the escrow to remediate.

TARGETING

Soon after the transaction was closed, we started a comprehensive assessment of the supply chain. All suppliers were mapped and a thorough audit on all the CSR parameters was undertaken.



We wanted external advice, hence three companies specialising in CSR were evaluated. FSN and PM management decided to work with the local organisation called ETI (Ethical Trading Initiative). As a Norwegian NGO with experience in implementing CSR in Norwegian retail companies, they had the advantage of having training in Norway which would help to build the competency within the organisation.

ONBOARDING

ETI used a stepwise methodology to assess the suppliers. A start was made by sending out a questionnaire to all suppliers with questions regarding several aspects related to CSR (child labour, use of chemicals, safety standards in the work place, minimum wages, etc.). All the suppliers were contacted personally and explained why they were receiving this questionnaire.

Besides the supplier assessment, the product department of PM was educated about CSR to create awareness of CSR working with suppliers. This was crucial to make CSR an ongoing process within the organisation and not a onetime assessment exercise.

To be more aware of the CSR challenges in Asia, a FSN Capital deal team member joined the product manager of PM on a supplier visit to China. Eight supplier factories were visited in China in Hangzhou, Ningbo and Guangzhou. Not only PM suppliers were visited but also factories with bad working conditions so FSN Capital could see what the differences were between the various suppliers. During the visits, factories were inspected and CSR programmes were explained to the supplier managers, and they were invited to a CSR seminar in Beijing.

Upon completion of the assessment, the board of PM concluded that a few suppliers needed further improvements, but there were no serious breaches of CSR. The Board of FSN Capital Funds recommended that the funds in escrow could be released.

In 2012, PM released their first annual CSR report which is available on their website. The report covers areas like workshops, code of conduct, incentive schemes and purchasing procedures. This is an ongoing improvement process and the progress will be reported annually.

3.

Active ownership – partnering to create long-term value

ESG EXPECTATIONS AND SUPPORT

ESG challenges vary to a great degree between jurisdictions and companies depending on materiality and stakeholder expectations. We therefore emphasise the importance of each company finding its own way through understanding its own environmental and social impacts, stakeholder expectations and related risks and value drivers.

To this effect, we strongly encourage portfolio companies to identify their most “material” sustainability risks and value drivers; ESG aspects that may significantly impact the company’s long-term ability to create value. These aspects should form the focus of performance management and reporting on ESG. A possible approach to identifying these aspects is to assess the business from two key perspectives; Stakeholder expectations (outside-in), and the long-term sustainability of the business model (inside-out). The stakeholder perspective involves understanding the existing and emerging ESG-related expectations of those that are impacted by the business. This can

include emerging regulations, changing customer preferences or possible campaigns from pressure groups. The long-term sustainability perspective involves understanding the relevance of ESG factors to the company’s ability to create value over time. This involves developing a holistic understanding of ESG impacts and dependencies throughout the value chain, from raw materials through to customer end-use and disposal. The insights gained from these two perspectives should provide an overview of the possible universe of ESG aspects, and also form a basis for prioritising those aspects that are the most material.

When material aspects are identified, we encourage our portfolio companies to take steps to develop related performance management systems, as illustrated below. As shown, this involves defining Key (Sustainability) Performance Indicators (KPIs), expressing related targets, implementing efforts and reporting on progress. Key targets can be, for example, a reduction in emissions to air

OUR APPROACH TO IDENTIFYING AND MANAGING MATERIAL SUSTAINABILITY ASPECTS



«FSN Capital expects us to have well-functioning governance structures and stresses the importance of attracting and retaining employees with the right values.»

JARL UGGLA, CEO VINDORA

and energy use, a reduction in waste, improving education, or a lower accident rate. We believe that it is crucial that monitoring and reporting do not place an unnecessary burden, but that they add value by concentrating on the aspects that have been identified as material. External reporting should also be concise and focused, and be communicated through the appropriate channels, reaching the stakeholders to whom the identified aspects matter most. This can be, for example, reports to the general public or direct reports to investors or employees.

The FSN Funds are always represented on the Board of Directors of the portfolio companies. The Board of Directors is expected to include material ESG issues when defining strategies and policies. Each company's CEO and management team are responsible for executing strategy and running the daily operations of the company according to the policies established by the board.

Environment: Environmental risks and opportunities vary to a great degree between sectors and contexts. Therefore, we do not consider it efficient to have specific expectations and requirements related to environmental risks that span across the portfolio. However, when relevant, portfolio companies are expected to develop a tailored environmental policy that sets clear principles for managing material environmental risks and opportunities. In particular, we emphasise energy and resource efficiency and sustainable management of raw material inputs. Examples of variances in approaches include Aura Light's focus on energy-efficient products as a key opportunity. *See examples of this in part 4 of this report.*

Social: Challenges and opportunities related to social impact also differ between companies and should also be treated differently, depending on the context. The FSN Funds do, however, promote sound labour and human rights practices in the portfolio companies, including:

- » Reinforcing management practices and working environments that promote employee satisfaction and loyalty.
- » Considering employee working conditions such as minimum wages, working hours, health and safety of the work force.
- » Supporting the elimination of child labour, including the possible use of child labour by the suppliers to underlying portfolio companies.
- » Promoting employees' right to collective bargaining.
- » Avoiding discrimination based on age, race, gender, religion, sexual orientation or disability.
- » Complying with international conventions on human rights.

Governance: The relevance and benefits of governance will often be similar across sectors. We have therefore developed a standard for governance that is implemented in all portfolio companies. An essential part of the FSN Funds' value creation model is the governance and management structure that is put in place for each portfolio company. These standards include guidance on anti-corruption and remuneration. Specifically, all companies are expected to develop and implement:

- » Articles of Association
- » Code of Conduct (Appendix I)
- » Whistleblower Policy (Appendix II)
- » Internal Control Processes
- » Review and Reporting of the Board of Directors on ESG topics

MONITORING ESG PERFORMANCE IN THE PORTFOLIO

A key success factor to ensure continuous improvement and internal and external accountability is to monitor results and act when performance is not in line with targets. We aim to monitor performance on selected indicators with relevance

across the portfolio or for an individual company. Portfolio-wide indicators now relate to universally relevant issues such as absenteeism. In addition, many companies have individual ESG indicators specific to their operations. We do, however, aim to develop this further in collaboration with portfolio companies.

The overview in part 4, the status of ESG efforts in our portfolio companies, aims to provide some insight into key ESG challenges, responses and results.

A NEW ANALYSIS OF KEY ESG-RISKS IN THE PORTFOLIO

We have initiated an updated compliance review of existing Portfolio Companies to be completed by the Norwegian law firm Selmer during H1 2017. The new review will ensure a standardized approach in the Portfolio and capture any changes in best practice since acquisition of the relevant Portfolio Company. Existing compliance programs will be benchmarked to best practice procedures in the appropriate sector. The key ESG risk analysis will be conducted methodically by mapping general risk inherent in relevant i) jurisdictions, ii) business / industry, iii) customers and sales process, iv) suppliers, supply chain and partners, v) environmental issues and vi) general risks such as data privacy and internal fraud.



FSN Capital

Environmental, Social and Governance report 2015
Building Resilient Companies

WHAT WE SAID (2015)

- » Implement Employee Satisfaction (Net promoter score) and Customer Satisfaction (Net promoter score) in the portfolio companies that have not reported on this
- » Encourage more focus on supply chain audits, energy efficiency and industrial pollution
- » Recognize and award the portfolio companies on ESG practices
- » Take a proactive role in communicating our ESG effort to the society at large

DELIVERING ON OUR COMMITMENTS

The table below shows the development objectives we had for the last year and what we did to deliver on these, as well as the new objectives for the coming year. For a more detailed description of the effort please refer to the respective chapter in this report.

WHAT WE DID (2016)

- » Increased number of Portfolio Companies that have implemented Employee Satisfaction and Customer Satisfaction, although some still remain
- » Focus on supply chain audits and management has increased among FSNC employees, Portfolio Company Boards and management.
- » An ESG award has been introduced based on ESG efforts, progress and impact.
- » PwC held anti-corruption training of FSNC employees
- » All FSNC employees now keep gift and entertainment log which is reported to compliance officer
- » Participated in several ESG seminars and conferences where FSNC has played an active role
- » Initiated new ESG risk assessment of Portfolio Companies

- » Conduct an updated review of key ESG risks, existing compliance program and best practice for all existing Portfolio Companies
- » Standardize risk based ESG DD, always including anti-corruption DD and IDD of key management
- » Develop additional FSN Capital Standard ESG KPIs aligned with financial reporting
- » Follow up to ensure that all Portfolio Companies implement Employee Satisfaction and Customer Satisfaction
- » Increase FSN Capital's internal ESG competence by utilizing existing ESG connections and facilitating best practice sharing and workshops
- » Continue to take a proactive role in communicating our ESG effort to society at large
- » Improve diversity in FSN Capital, Management and Portfolio Company Boards

INTRODUCTION OF FSN CAPITAL'S ANNUAL ESG AWARD

In 2016 FSN Capital decided to launch an ESG award, awarding the best performing company in the portfolio with respect to ESG based on the following criteria:

- » Awareness and ESG efforts in daily operations
- » Value creation to society at large
- » Clarity in ESG policies
- » Focus on continuous improvement and progress
- » Tone from the top (i.e. management and board engagement)
- » Portfolio companies' holistic approach to sustainability
- » Adherence to FSN Capital's values

WINNER OF FSN CAPITAL'S 2016 ESG AWARD

Netcompany was awarded the first FSN Capital ESG award in 2016.

Netcompany's ESG efforts focus on people, community and the environment, and are present in daily operations. All employees are urged to

continuously assess the environmental impact of their professional activities and, as far as possible, choose environmentally friendly solutions. Society at large benefits from Netcompany's focus on creating efficiencies and reducing waste.

The ESG effort from Netcompany's employees, top management and board of directors is oriented towards efforts with a substantial long-term impact instead of ad hoc initiatives without a clear road to impact. Netcompany continuously reassesses and improves its ESG commitment as it increases the number of employees and enters new markets and as the ESG orientation of the employees develops alongside current events. Netcompany's ESG policies are clearly defined and re-iterated each year, as is reaffirmation of the UN's Global Compact. The values of Netcompany and FSNC are aligned and ensured through the commonly agreed-upon code of conduct approved by the board of directors and shared with all employees.

For more information on how Netcompany works with ESG, see page 35.

FSN CAPITAL WON THE CORPORATE CITIZENSHIP AWARD AT THE PRIVATE EQUITY AWARDS 2017

The Corporate Citizenship Award recognises a firm's commitment to best practice in environmental, social and corporate governance. It is the investor community that votes for the best PE Firm, and we are very pleased that our emphasis on integrating ESG factors into the investment process and governance approach is duly recognised through this award.



«FSN Capital sets clear expectations from the start with the acquired company, and their approach is fully aligned with what I want to achieve as a Chairman»

OLAV VOLLDAL, CHAIRMAN FIBO

FSN CAPITAL ACTIVELY PARTICIPATES IN RFKENNEDY COMPASS

RFKennedy Compass holds annual conferences designed to help decision makers at large of public and corporate pension funds, endowments, foundations, sovereign wealth funds, and family offices fulfill their fiduciary duties and meet the challenges of investing today. Each conference gathers about 150 institutional investors and asset managers who collectively oversee more than \$7 trillion in collective assets to discuss the evolving role of long-term asset ownership and ways to deliver superior risk-adjusted returns while considering human and labor rights, corporate governance, and the environment as crucial elements of investment management.



FSN Capital has been invited to The RFK Compass conference the last two years, due to our ESG focus. During the conference we engage in the discussions and share our views and learnings from our own ESG journey.



RESPONSIBILITY WORKS

In December 2016, FSN Capital had the pleasure of speaking at Responsibility Works, a conference aiming at increasing knowledge and best practice sharing with respect to sustainable development. Other speakers included Sir Richard Branson, Crown Prince Haakon Magnus of Norway and Johann Olav Koss (Founder of «Right to Play»).

FSN Capital was represented by Frode Strand-Nielsen. Frode discussed whether there was a contradiction between making money and being socially responsible and gave examples of «positive capitalism». He highlighted Private Equity's role in providing higher returns than alternative investments to pension funds, and how sustainable business practices had higher returns and lower risks. Further, he noted that driving the positive capitalism agenda and CSR was in his view about leadership and tone from the top in terms of setting expectations, defining and reinforcing robust values and a responsible culture.

«Responsible investments have for a long time been key tenets of FSN Capital, and ESG is clearly embedded in FSN Capital's investment strategy and portfolio management. The firm has impressive internal resources dedicated to ESG and has taken a solid position to capitalize on their ESG initiatives.»

THOMAS STEEN BRANDI, COMPLIANCE EXPERT AND PARTNER (LAWYER) AT SELMER



EXAMPLE

TAKING ACTION TO MANAGE CORRUPTION RISK IN SKAMOL'S RUSSIAN OPERATIONS

Corruption is a major governance risk in many emerging markets, and Russia is one of these. To strengthen Skamol's approach to corruption risk in Russia, the board has, together with management, taken the following steps:

1. Clear communication to local management and employees that any form of corruption is unacceptable
2. Established control procedures and policies to avoid corruption including implementing the Code of Conduct and Whistleblower Policy
3. Regular follow-up of control procedures by internal audits to ensure they are followed in the best possible way.
4. Ensured that recruited local management understands appropriate business practices from a Nordic perspective.
5. Keeping corruption consistently on the agenda as part of CSR and other reporting.
6. Take the required actions if any kind of corruption is suspected.



4.

Status – ESG developments in portfolio companies

The objective of this section is to provide an overview of ESG challenges and opportunities for the selected portfolio companies, as well as to describe how the companies and FSN Capital responded to these challenges and opportunities.



As one of the fastest growing Nordic IT service providers, Netcompany develops, maintains and operates critical IT solutions that help public and private customers grow and improve their operations in an increasingly digitised world. Netcompany reached 1000 FTEs in Q4 of 2016 and is thus the first newly started Danish company to do so in 10 years.

ESG challenges and opportunities: Netcompany integrates ESG in its daily operations and is especially focused on employee welfare, gender equality, environment issues and counteracting corruption.

Netcompany depends on the ability to attract and develop the best IT employees in the industry, which is why a strong focus on employee satisfaction is a real source of competitive advantage. To attract the best talent in the industry, Netcompany strives to be an inclusive workplace across genders and cultural backgrounds, where the individual employee has the opportunity to grow professionally and personally. A key part of creating a healthy workplace environment at Netcompany entails facilitating a good work/life balance and the ability to pursue a healthy lifestyle. For this reason, Netcompany offers a canteen scheme, fruit scheme and memberships in several sports clubs.

Communicating to the local universities and communities that Netcompany is a responsible and rewarding employer is furthermore a key focus and opportunity for Netcompany, which is why the company on an ongoing basis offers guest lectures at universities and hosts various competitions, including the annual Danish IT programming competition and the Danish Ministry of Finance's «Code in the Holiday» project, in which students spend the summer learning about open-source software, and runs networks for IT students in Danish, Swedish, Polish and Norwegian universities.

Reflecting the values and culture of the employees, Netcompany is also committed to minimising the impact on the environment. Through the Netcompany Environmental Policy document, the company sets out actionable guidance on reducing waste in the workplace through, for instance, the use of paper recycling.

	2016
Revenue (mDKK)	1,061
Employees (FTE)	1,183
Revenue per employee (mDKK)	0.90
Percentage women versus men	12 %
Absenteeism	3.6 %
Employee satisfaction NPS	52 %
Customer satisfaction NPS	19 %

A large part of Netcompany's revenues are furthermore generated through serving public clients and large multinational enterprises. In an effort to safeguard against corruption and bribery, Netcompany has implemented transparent internal controls ensuring that all transactions, costs and invoices are monitored and approved by two independent parties. Netcompany hereby ensures that all transactions are dealt with transparently when working with any clients, and employees are equipped with clear guidance and organizational support when doing business.

As a corporate citizen, Netcompany furthermore engages in various additional efforts to promote social welfare including advocating and facilitating IT education of young people and supporting Danish social impact organisations such as «The Nest» (combating human trafficking) and «The Men's Home» (a shelter for homeless men), to which Netcompany offers surplus food and kitchen inventory. Netcompany has furthermore been a dedicated signatory to the United Nations Global Compact since 2013 and has undertaken to adhere to the UNGC's ten principles.

ESG response during advisory period: Ensuring employee satisfaction is one of the most critical objectives within Netcompany, which is why it is tracked on an ongoing basis. The overall eNPS score in 2016 was +51.8 vs. an industry benchmark score in Denmark of +20.

However, Netcompany is still focused on improving the working environment. One focus area in 2016 was to combat male overrepresentation in the firm and the industry, which is why Netcompany through various events and initiatives tried to attract more women to the company. This benefitted the group in 2016 as the female employee base reached 12%, which is higher than the distribution in the recruitment target group.

Netcompany furthermore aimed to maximize cultural diversity and by 2016 welcomed employees from more than 10 different nationalities.

Within environmental efforts, Netcompany in 2016 set up special bins for sorting paper and documents for recycling, which has also contributed to building a more environmentally conscious culture. The company is committed to further strengthening climate awareness beyond the workplace, and going forward will identify further focus areas such as e-tendering.

Throughout 2016, Netcompany furthermore engaged in various one-time initiatives such as the ongoing development of the Frontex Digital Workplace solution that helps the EU agency to coordinate collaboration between member states to handle the refugee crisis in Europe and hot-spots around the world and to ensure that human rights are respected by the EU member states when handling immigration and asylum applications.





Bygghemma Group is the leading Nordic online home improvement retailer. The Group was acquired by FSN Fund IV and V in 2016.

High level description of business: Bygghemma Group is the leading Nordic online home improvement retailer, operating in two separate segments: Do-It-Yourself (DIY) and Home Furnishing. The group operates several webstores across all the Nordic countries with an extensive product offering, real time price management and a primarily direct fulfilment model.

ESG challenges and opportunities: As a retailer of DIY and Home Furnishing products, Bygghemma faces a key ESG challenge in the sourcing of products, traceability, and ensuring that suppliers are compliant with Bygghemma's ESG policy and standards.

As a major user of logistic services in the Nordic countries, we also have a significant opportunity to minimize the environmental impact through optimizing and coordinating our logistics, which in turn also represents a material cost-saving opportunity.

ESG response during advisory period:

Bygghemma typically sources products from intermediaries and not directly from manufacturing companies. These intermediaries are assessed, and they in turn also conduct regular sub-supplier audits and site visits to ensure compliance with Bygghemma's ESG policy.

	2016
Revenue (mSEK)	2,602
Employees (FTE)	346
Revenue per Employee (mSEK)	7.52
Percentage women versus men	50 %
Absenteeism	5.1 %*
Employee satisfaction NPS	12 %*
Customer satisfaction NPS	41 %*

**) KPIs on absenteeism, employee NPS and customer NPS are only covering parts of the Bygghemma Group (being rolled out to all Group companies in 2017).*

A new process for assessing new suppliers have been implemented, with a detailed check list and a Supplier Self-Assessment. This forms the basis for an internal analysis of the provided documentation and follow up discussion with the suppliers, before a decision is made regarding a potential agreement.

In connection with the acquisition of Bygghemma, an updated Code of Conduct and Whistle-blower Policy has been implemented at Bygghemma and all its subsidiaries. This has been made available to all employees through the intranet site, accompanied by information sessions provided by line managers.

Bygghemma is introducing tracking of employee NPS and evaluation of the physical and psychosocial working environment, and monthly tracking of sick leave for all Group companies. The first employee NPS survey was conducted in August

2017. The low employee NPS score is primarily driven by a high share of employees in customer support departments with a high churn rate and stress level. The company has taken concrete steps to actively improve the working environment through initiatives such as: management reviews, more staff to reduce overtime, increased personnel budget for after-work activities, office interior to reduce noise level, and improved laptops.

Bygghemma has also started measuring customer NPS on a monthly basis and tracking their views on our pricing, assortment and service level. This tracking will be rolled out to all subsidiaries during 2017. Improving the customer experience at Bygghemma is a key strategic priority for the Group.

Since 2014, Bygghemma has been a silver partner of «Barncancerfonden» (Children's Cancer Funds).





Velcora Group is a leading international manufacturer of customized mechanical seals for a wide range of Industries. Velcora Group was acquired by FSN Fund IV in 2015

High level description of business: Velcora Group is a leading international manufacturer of customized mechanical seals for a wide range of industries, and consists of Roplan and Steridose. Velcora Group was acquired by FSN Fund IV in June 2015.

ESG challenges and opportunities: Roplan is a global manufacturer of customized mechanical seal solutions for OEMs. As a company focused on sealing solutions, one of the challenges for Roplan's customers is reducing the risk of pollution from potentially hazardous media leakage from e.g. pumps and compressors. Many seals require a liquid barrier to be circulated around the seal in order to operate correctly. The liquid barrier becomes a waste by-product of the pumping process. Therefore, minimizing the volume of the liquid barrier required is key to minimize waste of potentially hazardous media for Roplan's custom-

ers and end users. In addition, ensuring that only high-quality seals are delivered to Roplan's customers is key to avoid environmental spills/waste.

Steridose is a global manufacturer of aseptic processing equipment for the biopharmaceutical industry. In many biopharmaceutical applications, different strains of viruses are used (such as E-coli) where it becomes critical to ensure containment of such microorganisms during the production process. This is critical in order to ensure employee safety and protection of the environment. It is equally important to ensure isolation of the biologic medicines manufactured in order to guarantee product integrity and patient safety.

ESG response during advisory period: Roplan's business model is focused around understanding the customer's needs and partnering with them to design, develop and deliver the optimal sealing

	2015	2016
Revenue (mSEK)	294	296
Employees (FTE)	137	135
Revenue per Employee (mSEK)	2.23	2.19
Percentage women versus men	24 %	24 %
Absenteeism	2.6 %	2.6 %
Accidents	2	3
Employee satisfaction NPS	8 %	29 %
Customer satisfaction NPS	54 %	61 %
Work related injuries	7	4



solution, not only providing a secure solution, but also extended life. Roplan works with their customers to optimize both the volume and type of barrier media required for the sealing solutions. Environmental due diligence (July 2015) by an independent environmental consultant on production facilities in Timrå and Tumba recognized the high overall environmental routines and knowledge with respect to handling of environmental waste. Production facilities in Europe and US are all ISO 14001 certified.

Steridose's magnetically driven agitator ensures containment and isolation of biopharmaceutical products, by using a seal-less design that is driven by a magnetic coupling.

The Velcora Holding Group has production facilities in Sweden, UK, US and China. To ensure strong and consistent management across all geographical regions, the management in Sweden conduct site visits each year and share best practice throughout the organization. In addition, all employees annually fill out an employee satisfac-

tion survey. Issues raised in the employee satisfaction survey are discussed and later addressed by management.

To address accidents and work-related injuries, it is crucial that these are reported in order for relevant mitigating actions to be taken. During 2016, Velcora increased awareness in the organization, and reminded employees to report all accidents and injuries to increase the data quality. Relevant countermeasures have been put in place to address all the reported accidents and work-related injuries (e.g. through change of routines, and informing all employees of incidents).

Since FSN Capital started advising the Velcora Holding Group, the Board of Directors initiated the formulation of a Velcora Holding Code of Conduct. The Code of Conduct is centred on values and desired behaviour, which among others addresses the above mentioned ESG challenges. All employees of the Velcora Holding Group are made aware of the Code of Conduct including the Whistleblower policy.



Fibo is the Nordic market leader within the wet room wall panel segment. Fibo was acquired by FSN Fund IV in 2015.

ESG challenges and opportunities: Fibo is the Nordic market leader within the wet room wall panel segment. The production facility is in Lyngdal in the southern part of Norway.

Fibo has a global supply chain with its main raw material suppliers in Europe, Asia and Latin America. It has therefore been important to ensure that the supply chain is managed in an ethical and sustainable way, and for this reason, Fibo joined the United Nations Global Compact programme in 2011.

By joining the Global Compact programme, Fibo got appropriate tools to evaluate and select suppliers as well as tools to train suppliers in these important issues. Fibo has also had the PEFC certification (Programme for the Endorsement of Forest Certification - i.e. sustainable forest management) since 2012 to ensure that the product portfolio is sustainable.

Continuous internal focus on improving working conditions, employee satisfaction and good co-operation with the workers union are key factors to maintain a consistent focus on ESG. Furthermore, Fibo has received multiple lean manufacturing awards.

The waste footprint is limited through the usage of a bio-boiler where all production waste (dust, packaging material) is burnt for heat. The bio-boiler supplies the plant with the necessary heating capacity and no other heating source is used.

To make sure that the company has a correct management system to improve the organization, quality, environmental impact and customer satisfaction, Fibo is also ISO 9001 certified.

	2014 *)	2015	2016
Revenue (mNOK)	493	552	593
Employees (FTE)	124	124	131
Revenue per Employee (mNOK)	3.98	4.45	4.53
Percentage women versus men	23 %	23 %	21 %
Absenteeism	3.0 %	3.0 %	2.6 %
Employee satisfaction NPS			13 %
Customer satisfaction NPS		37 %	47 %
Work related injuries	1	1	3
Energy use (kWh/sqm of panel produced)	2.4	2.4	2.3

*) 2014 is proforma as the group was established in May 2015



ESG response during advisory period: In connection to FSN Capital's acquisition of Fibo, a Code of Conduct and Whistle-blower policy was implemented. In addition to being discussed with all existing employees as well as the Unions, the code and policy is signed by all new employees and is part of the agenda for staff meetings on a yearly basis.

The project to transform the current factory that was started in December 2015 made significant progress during 2016 and is to be completed by the end of Q2 2017. Other than enabling growth, the new factory is expected to reduce the energy consumption significantly, improve production flow and reduce lead times. The need for forklift and manual handling of panels will be reduced to a minimum, which further reduces risk of injuries.

During 2016, Fibo had three injuries in the factory leading to absence. The accidents were investigated and led to corrective measures to improve the concerned production cells to reduce the risk of similar accidents happening in the future.

To prevent accidents and incidents, HSE is the first topic in the daily Visual Management meeting (meeting at the start of each shift to run through KPIs and plan for the day). Every deviation will be handled through a written deviation report, which demands an action before it is closed.

In early 2016, Fibo received an ESG-award for its long history of employing people with a broken employment history and thereby lifting people from unemployment, from the Norwegian Employers Association NHO.

FIBO AWARDED ESG PRIZE FOR LIFTING PEOPLE OUT OF UNEMPLOYMENT

In early 2016, Fibo was recognised with the «Ringer i vannet» diploma for its efforts to take responsibility against labour market exclusion by enabling workers with gaps in their resumes to get out of unemployment. The factory in Lyngdal has already employed several people in this category, and for that they were recognised with an award from the Confederation of Norwegian Enterprises (NHO).

In 2015, the company was awarded the «Lean company of the year» for its progress in streamlining and standardising work processes and methods. By being able to combine excellent manufacturing processes, coupled with employment of people with gaps in their resumes, Fibo is regarded as a role model for other NHO-companies.

«To get so many things to work simultaneously shows an incredibly strong culture in the company.»

SIRI MATHISEN, REGIONAL DIRECTOR AT NHO

«Ringer i vannet» is a project launched by the Confederation of Norwegian Enterprises (NHO), aiming to help people that are stuck outside the labour market to get full-time employment. The project offers education and training for workers in order to match competences with recruiting needs of the 749 participating NHO-member companies. Annually, 1,200 unemployed workers find employment through this project.

«We are an important local employer and have a responsibility to the local community to help people who fall behind to get an opportunity to get back on track.»

TORFINN KNUTSEN, MD FIBO LYNGDAL





Fitness World is the market leader in the Danish fitness market. Fitness World was acquired by FSN Fund IV in 2015.

ESG challenges and opportunities: Fitness World is the largest operator of fitness clubs in Denmark and with an expanding presence in Poland. Providing close to half a million Danes with an opportunity to live an active life every day is a significant social responsibility and opportunity, with health benefits like better life quality, lower sickness ratio and less obesity. A key environmental challenge and opportunity relates to Fitness World’s water and electricity consumption. Beyond being an objective, limiting the environmental impact through optimizing ventilation, lighting, and shower facilities, provide Fitness World with a material cost savings opportunity.

ESG response during advisory period: Initiatives to reduce the environmental footprint are continuously implemented and monitored. These include fitting of energy efficient LED lights and CO2 demand driven ventilation in clubs. In addition, as the clubs are renovated, water-saving showers and toilets are installed. These measures ensure not only environmentally friendly clubs, but also that the clubs are operated in the most cost-efficient manner, allowing Fitness World to offer a qualitative fitness proposition at an affordable price.

	2015	2016
Revenue (mDKK)	1,051	1,102
Employees (FTE)	898	867
Revenue per Employee (mDKK)	1.17	1.27
Percentage women versus men	62 %	62 %
Absenteeism	1.9 %	2.4 %
Employee satisfaction NPS	11 %	14 %
Customer satisfaction NPS	3 %	3 %
Member base end of year	451,226	462,000
Visit to FW clubs (millions)	24	25
Avg. days of service obligation	8	5



Since FSN Fund IV acquired in 2015, Fitness World has implemented a framework for measuring employee satisfaction. This is an important tool helping management in its effort to ensure a positive work environment. Furthermore, high employee motivation and satisfaction are critical for achieving the desired member experience and limiting unwanted employee churn.

As the largest operator of fitness clubs in Denmark, Fitness World must act in a responsible way

within society. This is reflected through Fitness World's *raison d'être* *Health for all* and translates into a broad geographical club coverage, hosting more than 250,000 individual classes a year, and offering it all at a competitive price. As a large company active in the health area, Fitness World supports several Danish charities on the local level with special event classes and through large-scale national campaigns.



EET Europarts is the leading niche distributor of technology and digital products in Europe. EET was acquired by FSN Fund IV in 2015.

ESG challenges and opportunities: As a distributor of technology and digital products, the main ESG challenges for EET relate to the sourcing of products, traceability, and ensuring that suppliers are in compliance with EET Group's CSR standards. A substantial part of EET Group's business relates to spare parts for various electronic devices such as computers, servers, mobile handsets etc. which contribute to extending the lifespan of the devices themselves and, hence, contribute to a more sustainable and environmentally friendly approach to the rapid proliferation of technology hardware.

ESG response during advisory period: During FSN's investment period, which commenced in April 2015, EET has implemented its Ethical Guidelines, which are based on FSN Capital's Code of Conduct. The Ethical Guidelines have been circulated to all employees with a request of a confirmation that they have been read and understood. All new employees will be made familiar with EET Group's Ethical Guidelines by the same procedure.

	2015	2016
Revenue (mDKK)	2.352	2.242
Employees (FTE)	531	482
Revenue per Employee (mDKK)	4.43	4.65
Percentage women versus men		28 %
Absenteeism		
Employee satisfaction NPS		
Customer satisfaction		
Number of suppliers covered by latest CSR audit	299	332
Suppliers accounting for % of total sourcing volume covered in latest CSR audit	93 %	94 %



As part of its efforts within ESG, EET in February 2016 published its first CSR audit report which covers EET Group's strategy and actions in the area of CSR / ESG, including all its subsidiaries located in 26 different countries. The report is shared with customers, suppliers and other stakeholders to emphasise EET Group's commitment to advancing positive beliefs of good business ethics, corporate sustainability, environmental sustainability and a mutually beneficial relationship between EET Group and its stakeholders. The extent of the report is based on SA and ISO standards, and it adopts the principles of the UN Global Compact (The Ten Principles). The latest version of the report can be found at: uk.eet-group.com/info/CSR-Report

During 2016 EET initiated a major customer survey, which provided detailed insights on customer satisfaction across countries and segments. In addition, initiatives are being implemented that are moving towards a continuous measuring of CSAT NPS in real time.

EET Group is committed to a comprehensive rollout of supply chain CSR, and independent supplier audits will be carried out together with re-audits for suppliers where deviations in relation to EET Group's Ethical Guidelines have been observed. Assessment of compliance by suppliers is conducted by on-site factory audits – by EET Group or relevant authorities/bodies, interviews - self-assessment audits/questionnaires, and short facility assessments.

EET Group's current CSR audit report covers all suppliers exceeding 0.5% of total purchase volume. In total 332 suppliers are reported by self-assessment procedures. All EET Group's suppliers are expected to comply with EET Group's Ethical Guidelines which contain guidelines related to environmental policies and human rights – e.g. the prohibition of child labour. It is the aim to have suppliers share EET Group's values by raising their awareness of the importance of CSR.

If an audit reveals that a supplier is less than compliant, EET Group urges the supplier to take the recommended corrective actions without delay. Where required improvements are non-critical, the purchase activities between EET Group and the supplier will continue without sanctions during the improvement period. In case of critical concerns, EET Group will stop all purchase activities until corrective measures are implemented and approved.

In addition, EET Group is working to improve traceability in the value chain, and has since September 2012 kept a full traceability log for any product on order to a customer and the first-tier supplier from where the company has obtained the traded product. EET Group is working determinedly to reallocate more responsibility to its first-tier suppliers in order to promote and implement socially and environmentally sound practices further up the value chain. As an example, EET Group has concentrated the purchasing of a significant portion of its private label packaging materials at a single supplier, with the goal of ensuring high quality and closer cooperation on business standards.

EET Group aims at reducing its environmental impact throughout the entire value chain, and does so by efforts such as using more environmentally friendly product materials and shipping

methods, as well as working towards reducing its operational electric energy consumption.

Among major achievements is the installation in 2015 of a large capacity automated warehouse robot at the main warehouse in Ballerup, Denmark, with a very low level of power consumption (less than the roof lighting hanging above, which is no longer essential).

At the main warehouse, EET Group is collaborating with the Danish Energy Agency, and has upgraded to advanced district heating on the premises. Waste is recycled in accordance with packaging, electronic, combustible and food waste standards.

EET Group operates in accordance with the latest EU directives related to disposal of electronic waste (WEEE) and restricting hazardous substances in devices (RoHS 2).

«In assisting FSN, we clearly see that commitment towards identifying and managing anti-corruption and ESG issues constitutes a constant priority in its business; through strong ethical focus on employee integrity, in investment decisions and in their expectations of ethical behavior in all portfolio companies.»

PÅL LØNSETH, PARTNER FORENSIC SERVICES, PWC NORWAY

ESG challenges and opportunities: As a retailer of accessories for consumer electronics, the main ESG challenges for Kjell & Company relate to supply chain, predominantly the sourcing of products from China, along with the working conditions and treatment of employees. As the company focuses specifically on accessories for consumer electronics that extend the life of the devices themselves, the company also contributes to a more sustainable and environmental approach to electronics by reducing the «throw-away mentality».

ESG response during advisory period: During the FSN Capital advisory period that started in 2014, Kjell & Company has continued to focus on developing and institutionalizing the ESG processes inherent to the company and continued to improve the review and auditing of suppliers.

Ensuring proper application of ESG policies in the supply chain is a key focus area for Kjell & Company. The company has a number of employees permanently located in China to get better control over the sourcing of products from

	2013	2014	2015	2016
Revenue (mSEK)	931	1,040	1,170	1,360
Employees (FTE)		589	595	699
Revenue per Employee (mSEK)		1.76	1.97	1.95
Percentage women versus men		11 %	12 %	13 %
Absenteeism		3.5 %	3.7 %	3.7 %
Employee Satisfaction NPS			49 %	49 %
Customer Satisfaction NPS			18 %	18 %
No of suppliers			1,068	1,185
Supplier visits (for risk analysis)			66 % ¹⁾	84 % ¹⁾
Supplier certification check			24 % ²⁾	52 % ²⁾
Suppliers paid on time			98 %	99 %

1) Suppliers in China (157 out of 236 active suppliers)

2) 73 out of 308 suppliers have either ISO9001 or ISO14000 or BSCI



local suppliers and to ensure efficient monitoring and auditing of these suppliers. In 2016, the share of suppliers visited for risk analysis increased to 84%, from 66% in 2015. Additionally, the share of suppliers being certified increased from 24% to 52% during the year.

All suppliers are required to sign and adhere to a Code of Conduct containing e.g. the requirements for the treatment of employees and the restrictions on child labour (following the UN and ILO - International Labour Organisation guidelines). The suppliers are also subject to periodic audits by the company in order to secure and maintain compliance with these policies.

The culture of the company, the “Kjell spirit”, forms the basis for the company’s CSR work with employees. The well-being of employees is

at the core of the culture, enabling the company to deliver an exceptional service experience for its customers. In addition to the general Code of Conduct, the company has specific policies in place in relation to recruitment, discrimination, working environment, gifts, health and sickness, and substance abuse, as well as driver and traffic safety. All stores are subject to a monthly review of the quality and safety of the working environment by the regional managers (based on a checklist), and the results of this monthly review form a part of the compensation for the store manager for the month. Kjell & Company also offers free gym membership to all its employees.

Finally, during FSN Fund IV’s ownership Kjell & Company has implemented systematic and regular customer and employee satisfaction (NPS) surveys.

INSTALCO

Instalco is a leading multidisciplinary technical installation company in Sweden with national coverage. Instalco was acquired by FSN Fund IV in 2014.

ESG challenges and opportunities: Instalco is a technical installation group with a presence in Sweden, Norway and Finland. They provide a broad range of services such as heating & plumbing (e.g. preventive maintenance and industrial piping), ventilation to complete and energy-saving electrical solutions. As an active company in the installation market, Instalco uses vast amounts of building materials and creates waste. This means that designing and installing solutions in an efficient manner are of paramount importance to reducing environmental footprint. Health and safety related to working conditions and adequate governance structures represent some of Instalco's social challenges.

ESG response during advisory period: When founding Instalco, the Board of Directors ini-

tiated the formulation of an Instalco Code of Conduct. The Code of Conduct is centered on values and desired behaviour which addresses the abovementioned ESG challenges. Together with the Code of Conduct, all employees of Instalco are made aware of the whistleblower policy and both of these documents are implemented in companies acquired by Instalco.

During 2016 Instalco adopted an environment and sustainability policy in order to formalise its commitment to take responsibility for the environment and operate in a sustainable way.

Major accidents are reported to the Swedish regulator Swedish Work Environment Authority and all minor accidents are reported to the relevant insurance company. Instalco has implemented

	2014	2015	2016
Revenue (mSEK)	505	1,369	2,852
Employees (FTE)	559	870	1,311
Revenue per Employee (mSEK)	0.90	1.57	2.20
Percentage women versus men	9 %	5 %	7 %
Absenteeism	4.6 %	4.7 %	4.8 %
Employee Satisfaction NPS		48 %	41 %
Customer Satisfaction NPS			55 %
Work related injuries		54	48



protocols to follow up on any accidents both at board and company level on a recurring basis.

Instalco's companies continuously strive to minimize waste at the construction sites and to recycle building materials. For example, when the plumbing companies at Instalco install new taps and pipes, they bring the old ones back to the depot and subsequently recycle them. Several companies have also constructed recycling stations outside their offices for workers to bring

back and recycle material properly.

Employee satisfaction at Instalco in 2016 continues to be at a high level (41% NPS). In 2016 Instalco implemented a customer satisfaction survey conducted by an independent third-party provider, Next Consulting. The results of the survey were very positive, with Instalco having an NPS of 55% vs. other key peers that showed negative scores.



VITA is the leading beauty product specialty retailer in Norway. VITA was acquired by FSN Fund IV in 2013.

Validus has been subject to a major streamlining since FSN Capital started advising the company in 2013. The principal remaining business is VITA, the leading Norwegian specialty retailer of beauty products. In 2015, the VITA group acquired Grand Parfymeri in Sweden. VITA is a franchise, and store personnel are employed by the respective franchisees, as opposed to Grand Parfymeri, where store personnel are employed by the company. The increase in number of employees, percentage of women vs. men, and absenteeism from 2014 to 2015 is mainly driven by Grand Parfymeri.

ESG challenges and opportunities: VITA's key ESG risks and opportunities relate to the qual-

ity and responsible marketing of products, in particular those related to health supplements. Managing the supply chain in an ethical way is also important. In its own operations, working conditions for workers on the shop floor are key, as this can influence sick leave and improve the service level and image of VITA. In addition, the environmental efficiency of operations can be an opportunity. It is also important to understand the social and environmental impact of products.

Employee NPS was 37%, showing high satisfaction among VITA employees. Absenteeism was 3.5% in VITA and 6.2 % in Grand Parfymeri. Going forward the VITA group will seek to implement initiatives to reduce absenteeism.

	2013	2014	2015	2016
Revenue (mNOK)	770	963	1,211	1,339
Employees (FTE)	25	55	100	101
Revenue per Employee (mNOK)	30.80	17.50	12.11	13.25
Percentage women versus men	84 %	69 %	81 %	80 %
Absenteeism	1.2 %	1.3 %	4.0 %	4.4 %
Employee Satisfaction NPS ¹⁾			37 %	37 %
Customer Satisfaction NPS ¹⁾			57 %	48 %
Number of Stores (excl. E-com)	150	196	212	219
Number of suppliers	82	80	100	100
Long-term supplier agreements ¹⁾	95 %	95 %	95 %	95 %
Suppliers checked by visit ¹⁾	15	17	17	17
Check of supplier certifications ¹⁾	3	5	5	5
Suppliers paid on time ¹⁾	100 %	100 %	100 %	100 %
Products with «the Swan» trademark ¹⁾	12 %	12 %	12 %	15 %
Other ecological certified products ¹⁾	45 %	45 %	45 %	50 %

¹⁾ Not including Grand Parfymeri



VITA has high customer satisfaction with a 48% customer NPS. The high customer satisfaction score is driven by accessible stores in good locations, broad product range, and friendly and knowledgeable staff.

ESG response during advisory period: During 2016, VITA has continued its focus on good working conditions in the entire supply chain through membership in the Ethical Trading Initiative (ETI). As a member of ETI Norway, VITA has made a commitment to implement measures that contribute to better conditions in its supply chain and to implement and drive practices to support ethical trading. Ethical trade should ensure that production and purchase of goods and services are fair, responsible and compliant with relevant legislation.

ETI's Code of Conduct provides the foundation for this work. The Code of Conduct covers working conditions, human rights, the environment and anticorruption. Members are also obliged to report annually on their progress, including the

challenges they face and their achievements to date. Other obligations include environmental certifications, education for key staff and suppliers and visits to production facilities of suppliers. Any new suppliers need to sign a Code of Conduct and their production facilities will be visited for inspection. VITA aims to have long-term supplier agreements to improve supplier employees job security. Suppliers in China are paid upfront to ensure staff can be paid in a timely manner.

VITA strives to improve its assortment of environmental friendly products and has developed its own series of products without parabens. About 65% of VITA's products have at least one ecological certification. The ETI report from VITA can be found here: fsn.link/vita-etisk

VITA will keep up its continuous efforts to improve ESG performance in the supply chain, mainly through leveraging the resources and support offered by the ETI.



Skamol is a leading producer of energy-saving, high temperature insulation products to the global market. Skamol was acquired by FSN Fund III in 2013.

ESG challenges and opportunities: Being a producer of technical insulation systems, Skamol systems help customers save energy in both buildings and industrial insulations. As Skamol has production facilities in Denmark and Russia, in addition to a new plant being built in Poland, their operations are exposed to social risk, such as health and safety and working conditions, and governance risk such as corruption. Environmental challenges relate to energy use, production, and mining of minerals.

Skamol produces and sells technical insulation systems which help in both reducing energy consumption and prolonging the lifetime of installations. The amount of energy used for production of Skamol systems in high temperature applications can be saved down to a few days of operations, while the life of the products can be between 5 and 25 years.

ESG response during advisory period: Since FSN Funds acquired Skamol in 2013, FSN Capital has worked with management to improve the company's governance structure and ensure compliance with the FSN Capital Code of Conduct (Ethical Guidelines) across the business. Another focus in this period has been to improve the working environment in general and enforce high safety standards also for the workers in the production facilities in Russia.

Focus on safety includes setting Skamol Group standards, defining goals and constantly following up by management covering the whole group. Follow-up by internal audits and registration and use of near misses is used to improve safety, as is improvement of housekeeping and focus on managing safety. In addition, Skamol also has procedures regarding bribes and fraud.

	2013	2014	2015	2016
Revenue (mDKK)	303	324	337	316
Employees (FTE)	385	379	380	372
Revenue per Employee (mDKK)	0.79	0.85	0.89	0.85
Percentage women versus men	35 %	32 %	30 %	30 %
Absenteeism	4.7 %	3.3 %	4.5 %	3.1 %
Employee Satisfaction NPS		-1 %	30 %	
Customer Satisfaction NPS			41 %	52 %
Work related injuries		2	3	4

Skamol's environmental impact is seen mainly in connection with consumption of energy and the consequent emission of, among others, CO₂ and mining of Moler (diatomaceous earth).

Initiatives to reduce energy consumption and waste have been made. Waste material is primarily being recycled, whereas waste that cannot be reused is sold as raw material to other companies or in limited volume disposed of in controlled landfills.

In 2014, Skamol implemented a project where surplus heat from the Calcium Silicate Plant via pipelines will be supplied to Fur (an island in the Limfjord) where it is used for heating approximately 240 households. Expected reduced emission will be about 1500 tons of CO₂. This project is fully living up to its potential. For all production sites targets and improvement areas for greenhouse gases are set, and we have performed an energy audit on all Danish plants.

ISO 9001 is implemented in Skamol to support employee and customer satisfaction. Analysis of customer satisfaction is conducted on a regular basis, and provides important insights with regard to customer expectations and Skamol's strengths and areas of improvement. During inspections by «Arbejdstilsynet» (the Danish OSHA) all of Skamol's Danish plants have been categorized in the best category (Green Smiley) for companies with the «will and skill» to maintain a good working environment. In 2014 an employee satisfaction survey was carried out for the first time.

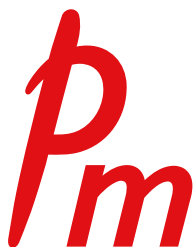
Skamol's Board has outlined target figures for the number of the underrepresented sex in the top and other management segments. Skamol aims to have at least 33% female employees in the management. This balance has not been obtained yet.

Skamol regularly visits its key supplier, focusing on their compliance with the ILO (International Labour Organisation) conventions.

HOUSEHOLDS IN FUR RECEIVE CHEAP HEAT FROM SKAMOL

Following an initiative from Skamol in 2014, a subsidised project was started to lead surplus heat from the Calcium Silicate Plant via pipelines to Fur (an Island in the Limfjord) where it is used for heating approximately 240 households. Expected reduced emission will be about 1,500 tons of CO₂. Pipelines were built from the Skamol factory at the harbour about ten meters below the water level to the island. 650 meters of pipelines spread the heating

to the households. The heat from Skamol comes from its kilns and so-called airborne heat. Skamol has installed a heat exchanger which transfers the heat from the ovens to heating pipes. «Fur kraftvarmeværk» communicates in a circular to consumers that they expect savings of at least 25-30 percent for the individual household. This represents a value exceeding 200,000 DKK. Skamol has pledged to send at least 5,800 MWh to consumers in Fur, but hopes that the power plant will distribute 7,000 MWh.



PM Retail is the leading women's apparel retailer focused on the 40+ segment in Norway. PM Retail was acquired by FSN Fund III in 2012.

ESG challenges and opportunities: As PM Retail (PM) is a provider of fast fashion with sourcing production facilities in China, working conditions, human rights, environmental impact and anti-corruption in the supply chain are key ESG risks for it.

ESG response during advisory period: Handling the supply chain is a focal point of PM's business strategy, which has been strengthened since FSN Capital became the advisor in 2012. PM's membership in the Ethical Trading Initiative (ETI), hereunder their Code of Conduct, provides the foundation for the supply chain work. The ETI Code of Conduct covers working conditions, human rights, the environment and anticorruption. Members are also obliged to report annually on their progress, including the challenges they face and their achievements to date. As a member of ETI Norway, PM has

made a commitment to implement processes that contribute to better conditions in their supply chains. Commitments for PM include checking individual suppliers and improving processes for these suppliers if necessary.

The majority of the company's supplier facilities are in Asia. 80% of PM's suppliers (weighted by purchased volume) have signed the Code of Conduct, which provides strict guidelines regarding e.g. child labour and minimum wage. This share is up from 45% in 2015 and PM is working to further increase the number of signatories through active dialogue with the suppliers.

2016 was a year of restructuring for PM, with a focus on improving gross margins and reducing operating expenses. As part of the restructuring efforts, the company downsized the organisation

	2013	2014	2015	2016
Revenue (mNOK)	329	364	367	306
Employees (FTE)	183	204	213	195
Revenue per Employee (mNOK)	1.80	1.78	1.72	1.59
Percentage women versus men	99 %	99 %	99 %	99 %
Absenteeism	5.3 %	4.8 %	4.0 %	4.1 %
Employee satisfaction NPS			18 %	13 %
Number of suppliers	35	52	55	50
Supplier visits (for risk analysis)		4 %	9 %	0 %
Suppliers paid on time	100 %	87 %	90 %	87 %
Products with ecological trademark	0	0	0	0

and had to let 13 people go. These lay-offs created a sense of uncertainty in the organization and contributed to the decline in employee satisfaction in 2016.

Moreover, PM continued to work on its supplier base, with a focus on ethical trading and commercial improvements, in 2016. In order to concentrate the supplier development efforts, the number of suppliers was reduced from 55 in 2015 to 50 in 2016 *. PM will continue the effort to reduce the number of suppliers further. Approximately 25 % of the suppliers produce in Europe.

Due to the prioritization of restructuring efforts, PM did not conduct any supplier visits in 2016. Going forward, supply chain optimization will receive added attention and supplier visits will be a natural part of operations.

PM continued its partnership with the iCare initiative headed by the Norwegian Association of the Blind and Partially Sighted («Norges Blindeforbund») in 2016. Through the partnership, PM supports Norges Blindeforbund with funds to surgically remove cataracts for poor people in Nepal.

«We are working hard to reach our CSR targets throughout our supply chain, focusing especially on our European and Asian suppliers. In 2017, we will further strengthen our purchasing department to ensure strong ethical values and competence.»

MARIANNE BJARSTAD, CEO, PM

*In PM's IEH report for 2016 the number of suppliers is set at 55. That number includes some discontinued suppliers that had their last deliveries scheduled for December 2015; however, these were delayed and accounted for in January 2016.



iCARE

In 2015, PM entered into a partnership with the iCare initiative headed by the Norwegian Association of the Blind and Partially Sighted («Norges Blindeforbund»). Through the iCare initiative, PM is generating funds to eradicate unnecessary blindness.

About 20 million people globally are blind due to cataracts, and it is the cause of nearly 60% of blindness in parts of Africa and South America. Prolonged exposure to sunlight is one of the most common causes of cataracts, which makes many people in developing countries lose their sight as early as in their thirties and forties. A five-minute surgery at the cost of NOK 250 can counteract this misfortune.

In all PM stores cashmere scarfs by the Norwegian designer Nina Skarra are sold. The scarfs are handmade in Nepal, and are packed in gift boxes by partially sighted persons. The earnings from these scarfs goes directly to iCare, and in 2015 PM's partnership with iCare helped 1,449 people to recover their eyesight.

PM's goal is to help at least 4,000 people recover their eyesight.

ESG challenges and opportunities: As an operator of independent schools in Sweden, Vindora's success is dependent on the quality of the education offered. The key focus area is to show stakeholders that Vindora creates sustainable value for society and the students, by offering high quality education. In 2016, 82% of the students moved on to a job or higher education after they graduated from Vindora's schools, which is a very important KPI (qualified student rate) for Vindora – especially bearing in mind that Vindora's students when they enrol, on average, have lower grades compared to the national average. Vindora has the ambition to make students employable, regardless of the qualifications when they enrol. The qualified student rate of 82% is above the level of the previous year.

During recent years, Vindora's schools were subject to comprehensive review by the Swedish School Inspectorate. The review identified short-

comings in certain schools, and for ten out of Vindora's current 35 schools the Swedish School Inspectorate issued a penalty that falls due should Vindora not correct the identified shortcomings within a specified timeframe. In October 2016, the review by the School Inspectorate was concluded without any remaining remarks, which is an important milestone in Vindora's development and a result of the focus on systematic quality work where the management team and the board have been successful in the professionalization and institutionalization of Vindora, which was a key feature of FSN Fund's investment thesis. Vindora has during FSN Fund's ownership made significant investments to strengthen the organization and Vindora has improved the systematic quality work significantly over the last couple of years, evidenced by the unconditional approval from the Swedish School Inspectorate's review of the schools.

	2013	2014	2015	2016
Revenue (mSEK)	651	587	650	770
Employees (FTE)	728	685	690	869
Revenue per Employee (mSEK)	0.89	0.86	0.94	0.92
Percentage women versus men	47 %	47 %	47 %	47 %
Absenteeism	3.2 %	2.9 %	3.2 %	3.7 %
Employee satisfaction NPS	3 %	33 %	23 %	9 %
Student satisfaction NPS	15 %	3 %	4 %	9 %
Qualified Student rate ¹⁾	83 %	80 %	80 %	82 %

ESG response during advisory period: Since being acquired in 2010, Vindora has focused on developing and implementing governance structures, which comprises policies, a Code of Conduct, as well as quality systems and processes across the organization. Employees of a school can face ethical issues every day and need to be an example for the students. Hence, a Code of Conduct is implemented in the employment agreement. Annual internal audits of quality for each of Vindora's 35 schools have been put in place. The schools measure student and employee satisfaction on a regular basis. During the academic year 2016/2017, the employee satisfaction measured by the Net Promoter Score decreased from 23% to 9% and the absenteeism increased from 3.2% to 3.7%. The NPS score for students increased from 4% to 9%. Consequently, the overall satisfaction rate is positive for both employees and students but the deviations between individual measurements are still relatively high on consolidated level. During 2017 a material add-on acquisition (Hagströmska Gymnasiet)

was concluded and this might have impacted the development in the KPIs above. From next year these KPIs will be measured on a like-for-like basis, with a history including Hagströmska Gymnasiet. The NPS score is measured on the individual school level and primarily used as a KPI for the management team to identify schools with weak student and / or employee satisfaction, where corrective measures need to be taken.

Private equity-owned assets in the educational segment are under political scrutiny in Sweden. This focus has been further fuelled by extensive media coverage. This has led to a higher proportion of students favouring municipality-owned schools, as well as reduced compensation and increased operational requirements from the government. This reinforces the need for close monitoring of regulations, employee/student satisfaction and student placement rates.





Green is Sweden's largest provider of commercial landscaping services to municipalities, property owners and housing co-operatives. Green was acquired by FSN Fund III in 2009.

ESG challenges and opportunities: Green is a provider of commercial landscaping services to municipalities, property owners and housing cooperatives. Green's services are all about creating an enjoyable, clean and safe (e.g. safer playgrounds, fewer dark spaces in parks at night) outdoor environment for the local community residents.

For Green, it is important to address challenges and opportunities related to the environmental footprint from production, including chemical use and waste. Social challenges include health and safety and working conditions as well as governance-related concerns such as corruption. Governance structures and rules regarding representation and gifts are particularly important to Green as municipalities are an important customer group.

Green has a large number of seasonal workers, which creates opportunities for local residents without a full-time job.

ESG response during advisory period: In FSN Capital's advisory period, the focus has been on improving health & safety conditions, work environment and implementing governance structures, hereunder a Code of Conduct. This includes a whistleblower policy that all employees need to sign upon being hired. Employees also receive formal training on the Code of Conduct. Green conducts employee and customer surveys on an annual basis. In 2015, the method of measuring overall employee and customer satisfaction was changed to Net Promotor Score, hence the limited historical data available. Green has implemented several actions to improve employee and customer satisfaction. These actions include introduction of more structured communication between management and field workers and raising customer focus by adopting lean manufacturing principles and reducing red tape reporting for filed managers.

During 2016 daily management was implemented at Green. The task has been given to check

	2013	2014	2015	2016
Revenue (mSEK)	702	775	751	673
Employees (FTE)	449	494	463	419
Revenue per Employee (mSEK)	1.56	1.57	1.62	1.61
Percentage women versus men	14 %	16 %	17 %	18 %
Absenteeism	5.9 %	4.7 %	5.8 %	5.4 %
Employee satisfaction NPS			-38 %	-38 %
Customer satisfaction NPS			-13 %	-13 %
Green house gas emissions (tons of CO2 per Revenue)	0.0034	0.0029	0.0027	0.0027
Accidents	20	16	22	20

every day that Green is working according to the plan, and if not, what has to be done to get back on to the plan, and what has to be done to work more efficiently. As a result, quality, team involvement and delivery accuracy have improved, and have subsequently led to an increase in both customer and employee satisfaction. Green expects this development to continue in the coming years.

Green has implemented an annual environmental impact review process, whereby the company tracks its emissions and maintains an action plan for how they can be reduced. The long-term aim is to be a climate neutral company. This is also a requirement from key customers. In 2015, Green changed the method of calculating emissions to exclude subcontractors (due to limited data availability) and to include carbon emission offsetting activities such as tree planting. 735 trees were planted in 2015, reducing the carbon emission by 27%. Last year the number of trees planted was 575 with a positive impact of 26%.

In order to gain control of the fuel consumption, which constitutes 97% of Green's total emissions, a lean initiative with ABAX Triplog was introduced. The aim is to optimize route planning, which leads to less mileage, less fuel consumption, cost savings and lower climate impact. At the same time, we are upgrading the fleet and the goal is to reduce the average age of the fleet by one year every year.

With regard to absenteeism, Green has implemented a process to monitor sickness rate more closely and to make sure employees on longer sickness leave have a plan for rehabilitation. This is monitored centrally on a quarterly basis although the responsibility to reduce the sickness rate is with the local line manager. After significant improvement in 2014, absenteeism increased

in 2015 (partly as a reaction to the opex reduction program), but has again declined during 2016 through renewed focus and better routines for when employees report absenteeism. Green has during 2016 started to work with EuroAccident, a health care company that offers a service for the employees to ensure that, from day one of sick leave, they have a contact with a professional medical person to help get back to work as fast as possible. The positive effect has been that we can find out faster the real root cause of the absenteeism, and the time of sick leave is reduced.

Green tracks accidents on an ongoing basis and is continuously working to inculcate safety measures and communication about the importance of wearing safety equipment. The type of accident varies greatly, and ranges from smaller cuts and bruises from working in the outdoors to a sprained ankle and more serious accidents. As a response to the increasing number of accidents in 2015, the focus on preventive measures and education has been increased. During the last year we have continued to work with the respective teams to increase proactivity for safety issues and stressed that this topic should be the first question in every morning meeting.

In addition, Green is concerned with chemical use and has integrated chemical standards into their procurement requirements. Green holds quality and environment certifications ISO 9001 and 14001 to support these desired improvements.





Lagkagehuset is the creation of a chain of high quality bakeries, and has become Denmark's largest bakery chain. Lagkagehuset was acquired by FSN Fund III in 2008.

ESG challenges and opportunities: As a bakery chain, food quality and safety is at the core of the business. It is also important for Lagkagehuset to limit the ratio of eatable food turned to waste due to excessive production. Lagkagehuset has the opportunity to reduce costs and environmental footprint through initiatives to increase energy efficiency. Social and governance challenges relate to working conditions and employee satisfaction.

ESG response during advisory period: A focus during the FSN Capital advisory period has been to implement best practice approaches to food safety standards. The authorities conduct control visits to all stores selling food. Based on their visit a store is given a "smiley". At year-end 2016 Lagkagehuset had the best possible smiley score in all 62 stores. Internal audits in respect of quality are performed to ensure that Lagkagehuset complies

with hygiene and quality standards. All audit reports can be checked at findsmiley.dk. Since the start of the advisory period, Lagkagehuset has expanded from three to 61 bakeries in Denmark, and in December 2016 the first store in London was opened. Lagkagehuset now employs more than 1500 people, with more than 600 of these having full-time contracts. The average number of Full Time Employees (FTE) grew by more than 100 during 2016. The company also had a strong focus on growing in a manner that preserves the baking profession and culture. The craftsmanship of baking is being challenged by discount stores, making life difficult for the traditional baker. The company has a manual (Arbejdsmiljøhåndbog) which describes how to work. There is a Code of Conduct, which is handed out to new employees in connection with the onboarding process.

	2012	2013	2014	2015	2016
Revenue (mDKK)	315	407	478	552	665
Employees (FTE)		436	500	569	702
Revenue per Employee (mDKK)		0.93	0.96	0.97	0.95
Percentage women versus men				72 %	74 %
Absenteeism				2.0 %	2.0 %
Customer satisfaction NPS					54 %
Best possible Smiley Score		100 %	100 %	100 %	100 %
Waste	20 %	13 %	11 %	11 %	11 %
Electricity kWh per mDKK Revenue	17,847	15,064	15,897	16,828	16,636

Lagkagehuset has initiated projects to reduce eatable food turned to waste due to excess production. One such initiative has been to track food waste expressed as the monetary value of lost sales on the cash register. Lagkagehuset also aims to initiate projects to measure and optimize the temperature of the bakery ovens to increase energy efficiency and reduce energy related costs. During 2015 a compulsory energy review (energitilsyn) was conducted and the report in which various energy saving initiatives were identified was filed with the authorities (Energistyrelsen).

Lagkagehuset measures waste on a weekly basis as this is an important KPI for the store managers. The aim is to have waste between 10-15%. Most of the waste is re-used in the production of other products. A small part is given for free to institutions. Some products which cannot be re-used are used for pig food.

Lagkagehuset only uses Danish suppliers, which not only supports the local community but also give a high degree of transparency, as these are obliged to follow the strict Danish legislation for regulations on food safety. In total, Lagkagehuset has approximately 200 suppliers. During the last years, focus has been on reducing the number of raw material suppliers to a few selected suppliers with whom a trusted relationship has been built. Currently more than 90% of all raw materials are delivered by 4 suppliers which are found suitable in terms of quality, reliability and ethical stand-



ards. During 2016 one supplier visit was carried out in order to ensure that the suppliers meet the quality standards of Lagkagehuset. The supplier agreements contain payment terms which are always complied with by Lagkagehuset unless the invoiced amount is subject to a dispute.

Lagkagehuset has a narrow assortment of baked organic products (13 items). Production accounts illustrating the use of organic ingredients versus the sale of organic products are prepared for each production site in order to document that products labelled as organic are in fact comprised of organic ingredients. The production accounts are reviewed by the authorities annually.

In 2015, Lagkagehuset made the decision to launch a whistleblower policy. The purpose of the whistleblower policy is for employees at all levels in Lagkagehuset to have a means to report behavior conflicting with Lagkagehuset's code of conduct and Danish legislation in general.

WASTE REDUCTION AND RECYCLING AT LAGKAGEHUSET

Lagkagehuset tries to obtain the best possible order levels / waste levels through the use of historical data. Order suggestions are made for all products for all stores every day. A small percentage of waste is unavoidable when fulfilling the needs of all customers. However, the aim is to keep the waste as low as possible for economic and environmental reasons. Furthermore, many consumers are very conscious about food waste, and therefore it becomes increasingly important from a commercial perspective to reduce waste to the extent possible. At the end of 2012 Lagkagehuset started to measure their waste levels. At that time the rate was above 16%.



All waste products are sent back daily to central product locations where they are sorted. A part of these products is used in other products, for example:

- » Rye breads can be sliced and sold as Rye Chips, which has become a popular snack in Denmark.
- » Some breads are granulated and reused in the dough for new breads, which actually improves the quality of the dough.
- » Pastry products like «wienerbrød» can be reused as a main component for other products like «Romkugler».

Some of the products are given for free to institutions helping poor people. All cream products cannot be reused. These products are placed in a large container at the central production in Copenhagen and are picked up regularly by a farmer who uses it as food for pigs.

Lagkagehuset thinks the appropriate waste level for the stores should be 10%. At this rate there is a proper balance between a reasonable waste level and not having empty stores at the end of the day. Today the waste level is around 11%. The reduced waste not only reduces the use of raw materials but also production salaries and other operational costs.



ESG challenges and opportunities: For Aura Light, sustainability and profitability are linked. An increasing portion of Aura Light products are LED-based. The company's LED products, together with its Light Management System (mainly sensors), help customers lower their energy consumption by up to 80%. Also, Aura Light's products have a long lifetime, which enables customers to apply a lower replacement frequency. Together this leads to reduced maintenance and energy costs, as well as reduced environmental impact.

As a provider of lighting solutions, Aura Light works with environmental challenges related to their production and end use, such as energy efficiency and management and avoidance of

harmful chemicals.

Aura Light has implemented the ISO 9001, 14001 and 26000 management systems to ensure continuous improvement and adequate control related to ESG issues.

Although Aura Light has experienced continued positive momentum with regard to environmental and social matters, the company has recently had governance issues related to substantial customer losses and unsatisfactory internal control, partly as a result of increasing sales of larger projects. These issues also impacted customer and employee satisfaction, as well as employee absenteeism, during the year. Furthermore, the former CEO was not granted discharge of liability for the fiscal year 2016.

	2013	2014	2015	2016
Revenue (mSEK)	580	604	785	722
Employees (FTE)	250	241	273	264
Revenue per Employee (mSEK)	2.30	2.50	2.90	2.70
Percentage women versus men	33 %	35 %	37 %	38 %
Absenteeism	2.7 %	2.8 %	2.9 %	3 %
Employee satisfaction NPS				-16 %
Customer satisfaction NPS ¹			43 %	8 %
Hazardous waste (tons)	30	40	31	0
Mercury (grams after filter)	10	20	<10	<10
VOC (tons)	2.2	2.5	2.4	<0.5
SO ₂ (tons)	0.1	0.5	0.5	<0.5

¹) Customer NPS data for different years are not comparable due to differing survey methods



ESG response during advisory period: Aura Light's management team have had a clear vision to differentiate their products by offering more sustainable lighting products and solutions. This vision has transformed the company into a successful provider of more economical and ecological lighting solutions. The company has during our ownership implemented the Global Reporting Initiative (GRI). Moreover, the company is actively supporting the Global Lighting Challenge derived from the Paris climate agreement.

An increased share of Aura Light's revenues stems from energy-efficient products and solutions with a long lifetime. Aura Light has ambitions to further improve their revenue from sustainable products and solutions. In 2016, 46% of the sales

came from the energy-saving LED products and solutions.

During the last year, the company has focused on improving its governance and related internal control functions. For example, the company has strengthened its organization with a new management team, including a new CEO and CFO. In addition, the Board of Directors has been entirely replaced, and the company now has a smaller Board than previously, in order to stay closer to business. Moreover, the company improved its environmental footprint by decreasing its hazardous waste, following reducing its own production.

AURA LIGHT'S AWARD WINNING SUSTAINABILITY PHILOSOPHY

Aura Light's sustainable lighting solutions are part of tackling climate change. In recent years their products and organization have had a focus on energy-saving products with a long lifetime, contributing to a sustainable future by minimizing the use of energy, raw material, packages and transports. They also do third-party audits at suppliers, to make sure that they work according to the same high standards.

By setting up clear goals, improvements are made continuously. The same strategy is deployed at the customer end by installing newer, more efficient lighting technologies. Demonstrably, Aura Light has sustainability at the core of its business strategy and operations. It aims to reduce the energy consumption and CO₂ generated during the production and transportation of its products, and the CO₂ emissions that cannot be eradicated are offset through collaborations with ClimateCare. Through offsetting over 15,500 tons since 2008, Aura Light has supported LifeStraw projects including clean cookstove projects in Uganda and Ghana. They also supported renewable energy projects including geothermal, hydro and wind energy in the developing world.

Aura Light is strongly committed to contribute to a more sustainable society while operating a profitable business. They believe that being environmentally friendly as well as socially and economically responsible is fundamental to a long-term business success. Sustainability is shaping their business creating valuable opportunities for them and their customers.

In 2016, Aura Light has been awarded for their efforts at the European Business Awards by receiving the Award for Environmental and Corporate Sustainability. Furthermore, Frost & Sullivan recognized them by granting them the European Lighting Entrepreneurial Company of the Year Award.





GOVERNANCE STRUCTURE FOR FSNC II AND III

	AURA LIGHT	GREEN LANDSCAPING	LAGKAKEHUSET	PM RETAIL	SKAMOL	VINDORA	
Articles of Association	✓	✓	✓	✓	✓	✓	●
Rules & Procedures for the BoD	✓	✓	✓	✓	✓	✓	●
CEO instructions	✓	✓	✓	✓	✗	✓	●
Code-of-Conduct	✓	✓	✓	✓	✓	✓	●
Ethical guidelines	✓	✓	✓	✓	✓	✓	●
Environmental policy	✓	✓	✓	✓	✓	✓	●
Whistleblower protection	✓	✓	✓	✓	✓	✓	●
Evaluation CEO	✓	✓	✓	✓	✓	✓	●
Evaluation CFO	✓	✓	✓	✓	✓	✓	●
Agreements covering executive shareholding	✓	✓	✓	✓	✓	✓	●
Employment contracts for executives	✓	✓	✓	✓	✓	✓	●
	●	●	●	●	●	●	

GOVERNANCE STRUCTURE FOR FSNC IV AND V

	NETCOMPANY	BYGGHEMMA*	FIBO	EET NORDIC	FITNESS WORLD	INSTALCO	KJELL & CO.	ROPLAN	VITA	
Articles of Association	✓	✓	✓	✓	✓	✓	✓	✓	✓	●
Rules & Procedures for the BoD	✓	✓	✓	✓	✓	✓	✓	✓	✓	●
CEO instructions	✓	✓	✓	✓	✓	✓	✓	✓	✓	●
Code-of-Conduct	✓	✓	✓	✓	✓	✓	✓	✓	✓	●
Ethical guidelines	✓	✓	✓	✓	✓	✓	✓	✓	✓	●
Environmental policy	✓	✓	✓	✓	✓	✓	✓	✓	✓	●
Whistleblower protection	✓	✓	✓	✓	✓	✓	✓	✓	✓	●
Evaluation CEO	✓	✗	✓	✓	✓	✓	✓	✓	✓	●
Evaluation CFO	✗	✗	✓	✓	✓	✓	✓	✓	✓	●
Agreements covering executive shareholding	✓	✓	✓	✓	✓	✓	✓	✓	✓	●
Employment contracts for executives	✓	✓	✓	✓	✓	✓	✓	✓	✓	●
	●	●	●	●	●	●	●	●	●	

* As the Bygghemma transaction closed in December 2016, no CFO / CEO evaluation was completed in 2016. However, both CEO and CFO evaluations are included in the BoD agenda for 2017 and will be completed by year-end.

MAJORITY OF PORTCOS HAVE IMPLEMENTED ESG KPIS

	Employee Satisfaction (Net promoter score)	Customer Satisfaction (Net promoter score)	Revenue	Employees	Gender distribution (% women)	Absenteeism	
AURA LIGHT	✓	✓	✓	✓	✓	✓	●
GREEN LANDSC.	✓	✓	✓	✓	✓	✓	●
LAGKAKEHUSET	✗	✓	✓	✓	✓	✓	●
PM RETAIL	✓	✗	✓	✓	✓	✓	●
SKAMOL	✗	✓	✓	✓	✓	✓	●
VINDORA	✓	✓	✓	✓	✓	✓	●
FIBO	✓	✓	✓	✓	✓	✓	●
EET NORDIC	✗	✗	✓	✓	✓	✗	●
FITNESS WORLD	✓	✓	✓	✓	✓	✓	●
INSTALCO	✓	✓	✓	✓	✓	✓	●
KJELL & CO	✓	✓	✓	✓	✓	✓	●
ROPLAN	✓	✓	✓	✓	✓	✓	●
VITA	✓	✓	✓	✓	✓	✓	●
BYGGHEMMA	✓	✓	✓	✓	✓	✓	●
Netcompany	✓	✓	✓	✓	✓	✓	●
	●	●	●	●	●	●	

ACTUAL ESG KPI FIGURES

	Employee Satisfaction (Net promoter score)	Customer Satisfaction (Net promoter score)	Revenue (EURm)	Employees	Gender distribution (% women)	Absenteeism	
AURA LIGHT	-16 %	8 %	76	264	38 %	2.7 %	●
GREEN LANDSC.	-16 %	-3 %	71	419	18 %	5.4 %	●
LAGKAKEHUSET	-	54 %	89	702	74 %	2.0 %	●
PM RETAIL	13 %	-	33	195	99 %	4.1 %	●
SKAMOL	-	52 %	42	372	30 %	3.1 %	●
VINDORA	9 %	9 %	81	869	47 %	3.7 %	●
FIBO	13 %	47 %	64	131	21 %	2.3 %	●
EET NORDIC	-	-	301	482	28 %	-	●
FITNESS WORLD	14 %	3 %	148	867	62 %	2.4 %	●
INSTALCO	41 %	55 %	301	1,311	7 %	4.8 %	●
KJELL & CO	49 %	18 %	144	699	13 %	3.7 %	●
ROPLAN	29 %	61 %	31	135	24 %	2.6 %	●
VITA	37 %	48 %	144	101	80 %	4.4 %	●
BYGGHEMMA*	-33 %	41 %	275	346	50 %	5.1 %	●
NETCOMPANY	52 %	19 %	142	1,183	12 %	3.6 %	●
TOTAL / AVERAGE	16 %	32 %	1,942	8,076	40 %	3.6 %	

*As the aquisition of Bygghemma was closed in December 2016, absenteeism was measured by DIY Sweden in December 2016, and employee satisfaction in August 2017.

5.

FSN Capital – «Decent people making a decent return in a decent way»

GOVERNANCE OF FSN CAPITAL

FSN Capital focuses on implementing good corporate governance structures in the FSN Funds' portfolio companies because we believe this strengthens confidence in the companies and helps ensure the greatest possible value creation over time in the best interest of shareholders, employees and other stakeholders. We believe that these principles apply to FSN Capital as well.

BOARD COMPOSITION OF FSN FUNDS

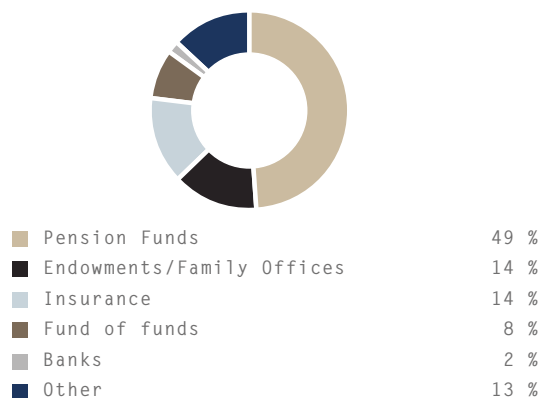
The investor board is responsible for reviewing the ESG strategy as well as ensuring that man-

agement is held accountable for implementing those strategies in an efficient and responsible way. The Board of Directors of the FSN Funds per Q2 2017 includes four independent members, being Chris Clark, Miguel Arraya, Charlotte Valeur and Phil Balderson. In addition, Knut N. Kjær represents the advisory company as an observer. The board includes members from Denmark and the UK with different expertise, capacity and diversity. The board members have diverse industry and business experience including corporate governance, financial management and entrepreneurship.

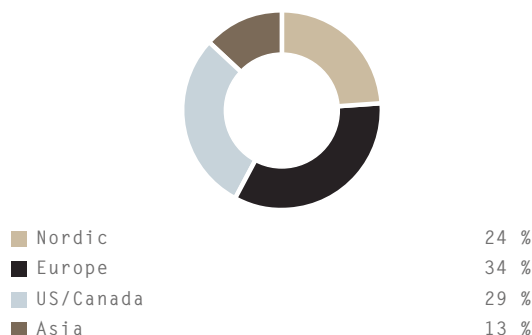
	2014	2015	2016
Employees (FTE)	28	30	32
Percentage women versus men	25 %	27 %	28 %
Absenteeism	1 %	1 %	1 %
Employee Satisfaction NPS	87 %	92 %	92 %

FSN CAPITAL V - SEK 9713M

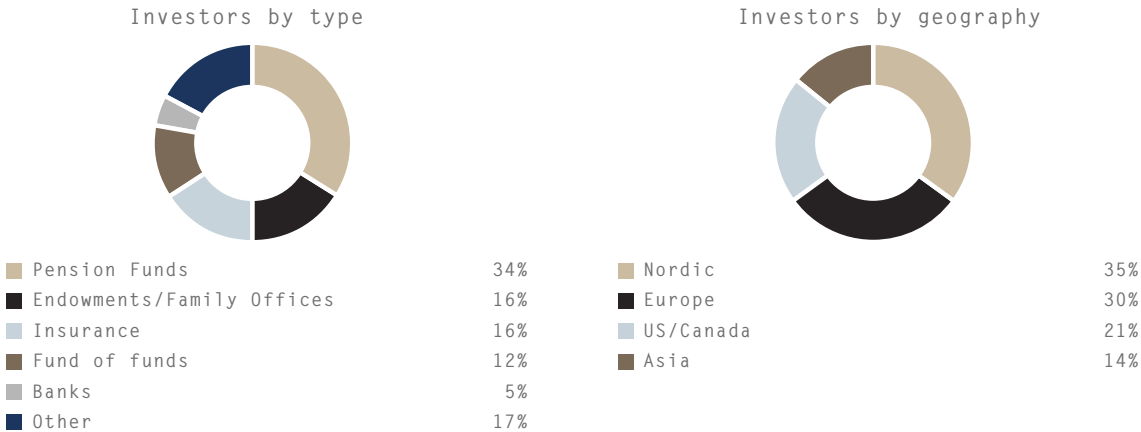
Investors by type



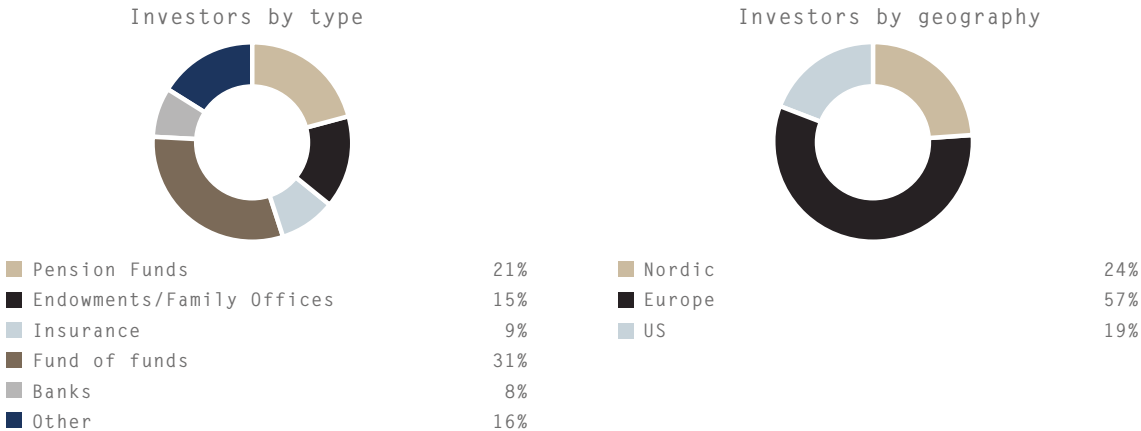
Investors by geography



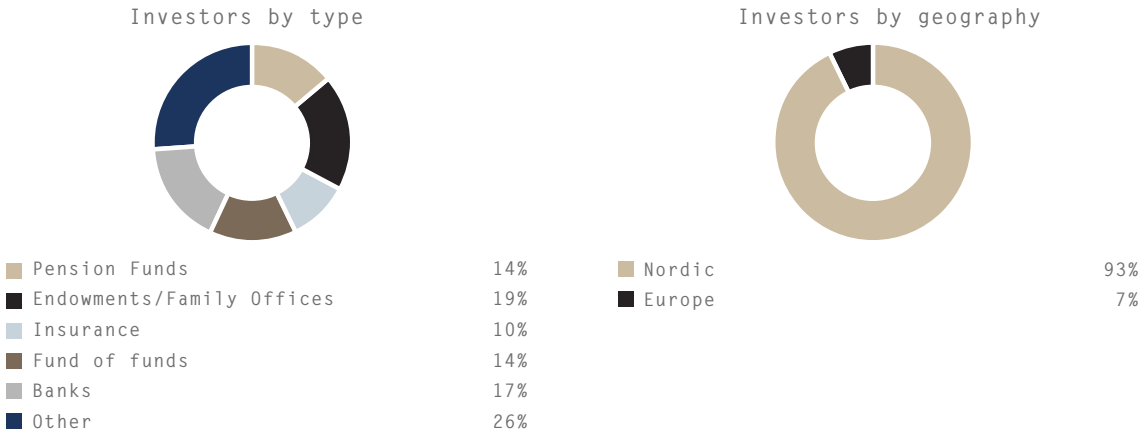
FSN CAPITAL IV - SEK 5421



FSN CAPITAL III - EUR 380



FSN CAPITAL II - EUR 151



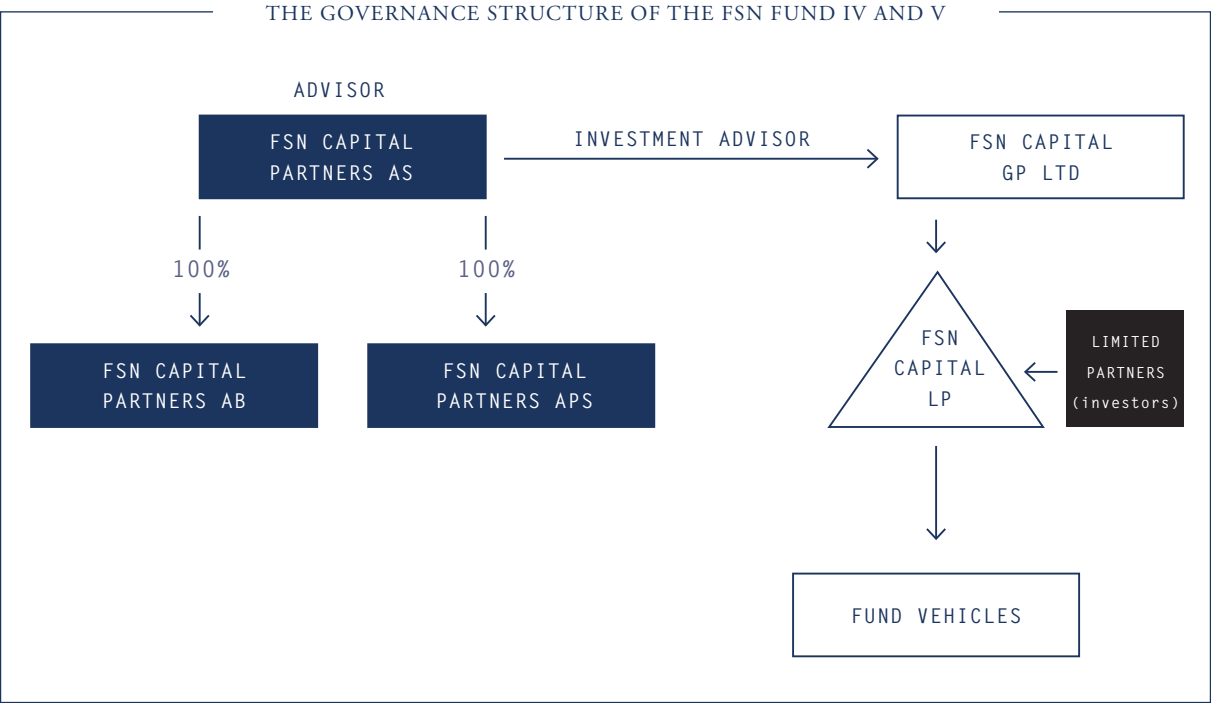
The FSN Funds invest in multiple countries with the support of investors from around the world. As illustrated in the table on the previous page, the investor base is increasingly international. For these investors, differences in languages and lack of knowledge of local legal and regulatory requirements could impede investment in one of the FSN Funds. In order to facilitate an international investor base, the FSN Funds are set up in Jersey. Despite its historical reputation as a “tax haven”, Jersey is a well-organised and regulated jurisdiction offering, among other things, tax transparent structures such as fund vehicles. This allows the FSN Funds to bring together investors from different nationalities and countries to pool funds efficiently without complex cross-border taxation issues.

The Jersey authorities co-operate internationally and have signed numerous tax information exchange agreements. There is full engagement

by the Jersey authorities in respect of the G8 and G20 transparency agendas.

As part of investing in the FSN Funds, all investors are included in a strict know your client (KYC) policy and mandatory anti-money laundering declarations in order to be accepted as a Limited Partner. This provides the necessary added confidence to pension funds, insurance providers and other investors that they will not be associated with undocumented sources of capital.

To ensure transparency in the way the FSN Funds are set up, we focus on creating functional fund structures in the simplest way possible, thus avoiding complicated financial architecture. This is important to create confidence among our key stakeholders, such as authorities and investors. The structure of FSN Fund IV and V is an example of how a functional fund structure can be set up:



APPENDIX I

CODE OF CONDUCT FOR FSN CAPITAL

INTRODUCTION

Our ethos reads «We are decent people making a decent return in a decent way».

Integrity and honesty are at the heart of who we are. We maintain high ethical standards in everything we do and take pride in living by these standards, both in our professional and personal lives.

We believe that FSN Capital has three assets – people, capital and reputation. If any of these are ever compromised, reputation is the most difficult one to restore. Reputation takes years to build, but only one wrong decision to ruin.

The purpose of this Code of Conduct is to breathe life into the definition of who we are and what we stand for, and to inspire and steer our team members, Executive Advisors and portfolio companies to do the right thing every day – even when no one is looking. A breach of law or of our Code of Conduct is a threat to our Firm's culture, our competitiveness and our reputation. We strive, therefore, to ensure that we do not compromise our ethos, integrity or values and that every member of the FSN Capital team is encouraged to raise the following question if in doubt: «Is this behaviour in line with our ethos and values?»

CODE OF CONDUCT FOR FSN CAPITAL

Ethics deals with ideas about what is right and wrong. We believe that ethics in professional life must be directly linked to the ethics that set the standards for us as individuals and as a society. Combining ethical judgment with personal strength to act out that judgment is our definition of integrity.

FSN Capital shall respect the principles set out in the UN Global Compact, attached hereto as Appendix A, (principles derived from the UN Convention against Corruption, the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work and the Rio Declaration on Environment and Development), the OECD guidelines for corporate governance for multi-lateral enterprises and the UN Convention on the Rights of the Child.

1. Personal Conduct

FSN Capital sets high ethical standards for everyone who acts on behalf of the Firm. All board members and employees must conduct themselves with courtesy, respect and integrity in business relationships, towards customers, colleagues and others who they encounter in professional life. No one should behave in a manner that may offend local customs or culture.

All board members and employees must protect FSN Capital's assets to ensure that they are used efficiently and properly for legitimate business purposes. Each employee is personally accountable for the use of any Firm assets which he or she controls. Incidental personal use of telephones, copy machines, personal computers and similar equipment is allowed provided that there is no significant cost to the Firm, it does not interfere with duties to the Firm, and it is not related to any illegal activity or is otherwise outside the Firm's business activity.

FSN Capital team members must not use assets of the Firm or of the FSN Funds direct-

ly or indirectly for contributions of any kind to any political party, political committee or candidate for, or holder of, any public office. Board members and employees may participate in political activities solely in their personal capacity and never in the capacity of being an employee or representative of FSN Capital, and always with due consideration to FSN Capital's Code of Conduct.

Even when a person makes a statement in a personal capacity, they are still representing FSN Capital. Each employee is personally responsible for blog entries or participation in internet discussions. Everyone at FSN Capital shall be particularly careful in relation to entries and pictures in blogs and internet discussions relating to FSN Capital, any FSN Funds or any of the portfolio companies. Confidential information shall not be published and neither colleagues, customers, partners nor suppliers may be quoted or referenced without their prior consent. Everyone at FSN Capital must respect intellectual property rights and copyright-protected material.

2. Laws and Regulations

All board members and employees are personally responsible for complying with applicable laws, regulations and guidelines issued by public authorities. In some instances, FSN Capital's Code of Conduct may be more comprehensive than the applicable laws and regulations and, if not in conflict with the laws and regulations, FSN Capital's Code of Conduct shall prevail.

3. Work environment and safety

FSN Capital shall provide a professional, inspired and safe workplace in accordance with mandatory legislation and will show respect for all individuals and make active efforts to ensure

a good and inclusive working environment characterised by equality and diversity. FSN Capital's suppliers shall be required to apply the same principles.

No form of harassment, discrimination, differential treatment or other conduct which may be interpreted as threatening or degrading shall take place.

All board members and employees must refrain from conduct that may have a negative effect on colleagues or on the work environment of FSN Capital.

4. Conflicts of interest

Board members and employees must behave impartially in all business dealings and not give other individuals, companies or organisations improper advantages. Everyone shall avoid situations where conflicts of interest may arise between their personal and/or financial interests and those of FSN Capital or any of the FSN Capital Funds.

No one must work on or deal with any matter in which they themselves, their spouse, partner, close relative or any other person with whom they have a close relationship, has a direct or indirect financial interest. Further, the same applies when special circumstances exist which may weaken the perceived impartiality or the trust and integrity of employees or of their work.

Employees who consider themselves not to be impartial in relation to any particular matter, or who are uncertain as to their impartiality, shall notify their sponsor or point person of their situation and may then be excused from having any further involvement in the matter concerned.

5. Directorship, employment and other assignments

Board members, Executive Advisors and employees are expected to show loyalty towards FSN Capital and the FSN Capital Funds and shall not participate in any competing business.

No one must engage in other directorships, employment or assignments of any material significance outside FSN Capital unless otherwise agreed with FSN Capital. Should a conflict of interest arise, or if the relevant person's ability to perform their duties or fulfil their obligations to FSN Capital is compromised, such approval will be evaluated and could be withdrawn.

6. Investment in publicly traded shares and funds

FSN Capital's Executive Advisors, board members and employees are not permitted to invest in single company shares in companies trading on any of the Nordic stock exchanges. Portfolio investments made by independent financial advisors on behalf of the employee or in investment funds are exempted from this policy.

FSN Capital employees are required to report all share and fund holdings to the Compliance Officer every six months.

7. Confidentiality

Everyone at FSN Capital shall maintain all proprietary and confidential information in strict confidence, except when disclosure is authorised by FSN Capital Partners' Managing Partner or required by law.

Proprietary and confidential information generated and gathered in the Firm's business is a valuable FSN Capital asset. Protecting this information is critical to FSN Capital's reputa-

tion for integrity and its relationship with the FSN Capital Funds, and ensures compliance with the complex regulations governing the financial services industry. "Proprietary information" includes all non-public information that might be useful to competitors or that could be harmful to FSN Capital, the FSN Capital Funds, its investors, portfolio companies or other connections if disclosed. It includes, for example, intellectual property, business plans, personal employee information, unpublished financial information and identification of target portfolio companies. "Confidential information" is information that is not generally known to the public about FSN Capital, the FSN Capital Funds, or other parties with whom FSN Capital or the FSN Capital Funds have a business relationship and that have an expectation of, or legal right to, confidentiality.

8. Insider information

All Executive Advisors, FSN Capital board members and employees shall comply with applicable laws and regulations regarding insider information. Everyone is advised to take necessary measures to ensure that insider information regarding a potential target portfolio company is not received. FSN Capital should under no circumstance advise the FSN Capital Funds to act (purchase or sell shares) as a result of insider information.

9. Anti-corruption regulations: Remuneration and gifts

FSN Capital is strongly opposed to all forms of corruption. Corruption undermines legitimate business activities, distorts competition, ruins reputations and exposes companies and individuals to risk. FSN Capital makes active efforts to ensure that corruption does not occur in its business activities.

The purpose of entertainment and gifts in a business setting is to create and enhance goodwill and working relationships to better serve the FSN Capital Funds and their investors, and not to gain an unfair business advantage. No Executive Advisor and no one at FSN Capital shall offer, promise, request, demand, receive or accept unlawful or inappropriate gifts or other remuneration. In some countries, “facilitating” (paying a “small token” to smooth a transaction) is not uncommon, but FSN Capital does not accept this as a way of doing business.

No one shall gain personal business-related benefits other than gifts or services of insignificant value.

FSN Capital Partners’ policy for gifts is as follows:

- » No gift, entertainment or preferential treatment can ever be solicited, provided or accepted by any individual at FSN Capital unless (i) it is a non-cash gift, (ii) it is consistent with customary business practices, (iii) it is of insignificant value, (iv) it cannot be construed as a bribe, payoff or kickback, (v) it is in accordance with FSN Capital’s ethos and (vi) it does not violate any laws;
- » All directors and employees of FSN Capital shall notify the Compliance Officer of any gifts, entertainment or preferential treatment prior to such being provided or accepted. The Compliance Officer shall maintain a gift-log and approve gifts, entertainment or preferential treatment only when such are in compliance with FSN Capital’s anti-corruption policy set out herein;
- » As a general rule, one should decline invitations to paid events or trips hosted by service providers or other business contacts. Participation at paid events must always be authorised by FSN Capital’s Compliance Officer.

Agreements with consultants, suppliers, partners or other middle-men must never be used to channel payment or other remuneration to anyone within or outside FSN Capital.

10. Fair Competition

FSN Capital will compete in a fair and ethically justifiable manner within the framework of the antitrust and competition rules in the markets in which the Firm operates.

11. Correct information

FSN Capital requires that all employees are truthful in their dealings with one another, our clients and other business partners. In our interaction with investors, each other, intermediaries and potential sellers of portfolio companies, FSN Capital will always be honest and fair in terms of how we act in processes and “only promise what we can deliver”.

We will never take short-cuts in terms of due diligence of potential portfolio companies. We will view each deal in isolation and only base our investment recommendations on the merits of that particular transaction.

FSN Capital’s business information will be communicated accurately and fully, both internally and externally. All accounting information must be correctly registered and reproduced in accordance with laws and regulations, including relevant accounting standards. Any intentional act that results in material misstatements in financial statements will be treated as fraud.

APPENDIX II

FSN CAPITAL'S WHISTLEBLOWER POLICY

Any behaviour, omissions or acts that violate our Code of Conduct may have serious consequences for the Firm, and infringements will therefore be investigated.

Everyone at FSN Capital is obligated to report breaches, or reasonable suspicions of breaches, of the Code of Conduct, the FSN Capital ethos and values that may have an impact on FSN Capital as a whole or may have a material impact on individuals' lives or health.

Reports in accordance with the Whistleblower Policy may also be made by any person affiliated with FSN Capital, including business partners, suppliers, investors in any of the FSN Funds etc.

1. REPORTING OF BREACHES OR REASONABLE SUSPICIONS OF BREACHES

Any breach, or reasonable suspicions of breaches, of the Code of Conduct shall be reported.

At FSN Capital, we foster an open door policy and encourage employees to share their questions, concerns, suggestions or complaints with someone who can address them properly. In most cases, an employee's sponsor is in the best position to address an area of concern. If this reporting channel is deemed inappropriate due to the individuals involved or the severity of the breach in question, the breach or suspected breach should be reported to the Managing Partner (Frode Strand-Nielsen), or directly to the Compliance Officer (Rebecca C. Svensøy), or alternatively, to the Chairman of the Board of FSN Capital Partners AS (Knut Kjær). In exceptional circumstances where it would be inappropriate to approach the Managing Part-

ner, the Compliance Officer or the Chairman, FSN Capital's Executive Advisor Dag Opedal may be contacted.

All reports shall be submitted in writing containing the name of the reporting party, the date and the basis for the report.

DENMARK:

In Denmark, specific rules apply: Not all concerns or breaches of the Code of Conduct may be reported through the Whistleblower Policy as such. The Whistleblower Policy only applies to material and serious illegal activities and violations. The reports that may be made in accordance with this Whistleblower Policy (collectively referred to as "Suspected Misconduct") include the following:

- » Fraud
- » Bribery
- » Blackmail and extortion
- » Money laundering
- » Anti-competitive practices
- » Pollution of the environment
- » Physical assault and gross sexual harassment
- » Suspected violations of financial statement disclosure rules, accounting rules violations, violations of internal accounting controls or auditing matters
- » Other suspected activities which may be illegal or constitute serious misconduct.

Concerns regarding other issues, such as bullying, cooperation problems, incompetence, absence, violations of internal policies on dress code, drugs and alcohol, usage of internet and emails, etc. are not covered by this Whistleblower Policy. Such concerns can, however,

be raised directly with the relevant Executive Advisor or sponsor independent of the Whistleblower Policy.

2. PROCESSING AND OUTCOMES

The Compliance Officer is responsible for resolving all reported complaints and allegations concerning breaches of the Code of Conduct, our ethos and values and shall at her discretion inform and advise the Managing Partner or the Chairman of the Board of FSN Capital Partners AS. The Compliance Officer is required to report to the Chairman of the Board of FSN Capital Partners AS at least quarterly on compliance activity. The Compliance Officer shall immediately notify the Managing Partner of any reported concerns or complaints regarding FSN Capital's accounting practices, reporting procedures, internal controls or auditing.

Based on the outcome of such investigation, the Managing Partner or Chairman of the Board of FSN Capital Partners AS shall take any such action and/or impose such sanctions as are deemed appropriate and/or necessary, including any preventative measures or disciplinary sanctions.

For employees, consequences may involve verbal or written warnings or, if the matter is very serious, termination of, or summary dismissal from, their employment.

3. WHISTLEBLOWER PROTECTION – NO RETALIATION WHEN ACTING IN GOOD FAITH

The Whistleblower Policy is intended to encourage and enable employees and others to raise serious concerns within FSN Capital prior to seeking resolution outside the Firm.

No one who in good faith reports a violation

of the Code of Conduct, our ethos or values shall suffer harassment, retaliation or adverse employment consequences. An employee who retaliates against someone who has reported a violation in good faith is subject to discipline up to and including termination of employment or summary dismissal.

However, any employee who is found to have intentionally and in bad faith made a false claim of violation of the Code of Conduct, our ethos or values will receive disciplinary action as deemed necessary, up to and including termination of employment or summary dismissal. For external whistleblowers, such as business partners and customers, it may lead to non-renewal of their contract or having their contract terminated.

4. PERSONAL DATA

In relation to this Whistleblower Policy, FSN Capital may receive information on both the Whistleblower and persons involved in the suspected misconduct. Such information may contain sensitive information on suspected criminal behaviour and other personal matters.

All information received according to the Whistleblower Policy will be handled in accordance with applicable law on processing of personal data. Generally, all information received according to the Whistleblower Policy will only be retained for as long as it is necessary unless otherwise required by law.

DENMARK:

In Denmark, specific rules apply: FSN Capital will store the information according to the guidelines below.

If a reported violation submitted under the Whistleblower Policy in the initial screening

process is considered to be obviously without basis or outside the scope of the Whistleblower Policy, the reported violation will not be considered or investigated further. FSN Capital will in such case delete the reported violation and the information received in this regard immediately and will, if possible, encourage the whistleblower to raise the concern directly with the relevant sponsor or in another appropriate way.

If the investigation demonstrates that the reported violation is without basis, all information received and otherwise generated through their investigations will be destroyed immediately and no later than two months after the conclusion of the investigation.

The result of the investigation may be that the reported violation is reported to the police or other relevant authority. In such case, all information received according to this Whistleblower Policy, including the information obtained and received and generated through their investigations will be retained until the case has been completed with the authorities and until the period allowed for complaints and/or appeal has expired. Upon the relevant authority's completion of their investigations and their processing of the case, the information will be deleted.

When a case concerns an employee, the investigation may also result in disciplinary sanctions, including written warnings, termination of employment and, in very gross circumstances, summary dismissal. In such cases, the information collected during the investigation may be kept for as long as the disciplinary case is in progress. Furthermore, the information may also be stored in the employee's personnel file. The information kept in the personnel file will

be retained for a period of up to five years after the termination of employment.

5. CONFIDENTIALITY

It is as important for FSN Capital to provide a mechanism for employees and board members to safely report illegal activities and/or serious misconduct, as it is for the Firm to protect and to avoid damage to the reputation of innocent employees or board members who are the subject of a reported violation. For these reasons, FSN Capital will conduct its investigations of any reported violation as discretely as possible and in a confidential manner to the extent possible and carry out a thorough and adequate investigation. Furthermore, to the greatest extent possible, all reasonable efforts will be made to treat the whistleblower's identity as confidential.

APPENDIX A

THE TEN PRINCIPLES OF THE UN GLOBAL COMPACT

HUMAN RIGHTS

- Principle 1:* Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2:* make sure that they are not complicit in human rights abuses.

LABOUR

- Principle 3:* Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4:* the elimination of all forms of forced and compulsory labour;
- Principle 5:* the effective abolition of child labour; and
- Principle 6:* the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

- Principle 7:* Businesses should support a precautionary approach to environmental challenges;
- Principle 8:* undertake initiatives to promote greater environmental responsibility; and
- Principle 9:* encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

- Principle 10:* Businesses should work against corruption in all its forms, including extortion and bribery.



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