



# FSN Capital

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Environmental, Social and Governance report 2015  
*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 three different active Funds with a total committed capital of €2 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's period of ownership. The 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. 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
Number of Portfolio companies	15	16
Total Revenue of Portfolio companies	11 Billion NOK	13 Billion NOK
FTE	6 Thousand	6 Thousand
Percentage of women versus men	31 %	42 %
<i>Among our client beneficiaries are:</i>		
Students	50 Thousand	50 Thousand
Pensioners	10 Million	10 Million



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## Letter from our Founder

### THE NORDIC MODEL

As Private Equity practitioners, we are privileged to operate in the Nordic region. The region is one of the wealthiest regions of the world, thriving on a dynamic, innovative and competitive business sector. With the exception of Norway, the other three countries are not endowed with any particular resources, but they are nevertheless extremely prosperous. Denmark, for example, is nothing but a large sandbank, yet the country has one of the highest per capita incomes globally. So, what explains the apparent success of these countries. The answer lies in the way the Nordic countries have elected to organise their societies. This governance model is often referred to as «The Nordic Model». In short, the model is based on a troika consisting of the main societal stakeholders; the Unions, the Government and the Business Community. And the troika relationship is grounded in transparency and trust. This openness and trust allows for a constructive political dialogue and pragmatic policy formulations where the parties are willing to

give and take for the sake of the common good. As the model is generally accepted across party lines, we have been blessed with a largely predictable and stable political environment and responsible and steadfast macroeconomic development for many decades. Furthermore, as the model revolves more around social security than employment security, labour markets are quite dynamic, accommodating start-ups and facilitating repositioning of businesses and sectors for development and growth.

This is a good environment in which to take risk and invest, particularly if one's investment approach is based on business building through active ownership. But, the privilege of practising in this environment comes with a responsibility to invest and govern in line with the general principles and values of the societal model in which we operate.

### OUR ULTIMATE CLIENTS

The FSN Funds have been entrusted with the management of financial resources of our clients. These clients include Pension Funds, Sovereign Wealth Funds, Academic- and Research Foundations, and Insurance Companies. The beneficiaries of these institutions are pensioners, citizens, employees, students and scientific researchers from around the world. Our success is measured by the return we generate for these clients and their beneficiaries. Not only do the clients and their beneficiaries care about the absolute return, they also care deeply about this return being generated in a responsible manner.

### RESPONSIBLE INVESTMENTS

FSN Capital and the FSN Funds have had a strong commitment to responsible investment since their foundation through a clear and strict ethos: «We are decent people making a decent return in a de-

cent way». **As such, we believe that identifying and responsibly managing ESG issues is an integral part of the long-term performance of the FSN Funds' investments, and of earning and reinforcing the trust of FSN Funds' clients and the societies in which we operate.**

Taking ethical, environmental, social and governance issues into account is a natural part of the FSN Funds' investment approach. Since our first recruitments in 2000, we have worked to create a team with the highest level of integrity and to promote a culture for ethical behaviour and decision-making. In 2012, we formalized our commitment to responsible investment further through signing the UN Principles for Responsible Investments (UN PRI), which our Chairman, Knut Kjær, was involved in developing back in 2005 - 2006. In 2014, we published our first ESG Report with the objective of responding to key stakeholders request for information, and to make our ESG values and corresponding conduct more explicit.

## **ESG AND VALUE CREATION**

The private equity governance model can be very effective in transforming ESG issues into opportunities for value creation.

First, the FSN Funds have a long-term investment horizon that not only spans our 5-7 year investment period, but also into the next investment period and beyond. This puts us in a unique position to capitalize on ESG initiatives that have an impact on long-term value creation. Secondly, the FSN Funds' active ownership model offers opportunities to support and drive long-term change and to facilitate top-down implementation of value-enhancing ESG improvement programs. Our team believes it is our responsibility to seize and pursue these opportunities.

Throughout the FSN Funds' investment history, we have experienced many examples of the link between managing ESG issues and long-term value creation. For example, the impressive employee satisfaction ratings and their direct impact on VIA Travel's market leading customer satisfaction and loyalty ratings, reinforced our belief in the value of creating stimulating and motivating working environments. The substantial cost savings achieved in Kongsberg Automotive by reducing sick leave from 9% to 4% demonstrated the value of taking targeted measures to bring down sick leave. The value of being proactive in dealing with a 30-year industrial spill at Troax was demonstrated through its favourable industrial- and community- relations impact. The program at Lagkagehuset aimed at reducing end of day bakery waste, from 20% to 11% has saved thousands of tons of food waste, and contributed to an increased gross margin from 73% to 77%, translating to a 60% uplift in EBIT-DA. And finally the initiative by Skamol to reuse their heating did not only save energy but also generated a return on investment.

We do hope you appreciate reading this year's ESG report and we would welcome any feedback on our approach.

*Frode Strand-Nielsen  
Managing Partner  
FSN Capital Partners*





## Letter from our Chairman

### WHY PUBLISH AN ESG REPORT?

Why should we or other 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 should all take it for granted that Environmental, Social and Governance factors are included in everybody's framework for prudent risk management.

As 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 short-term cost-reducing shortcut by, for example, not cleaning up pollution may become a significant liability in the longer term. Lack of integrity and respect when 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 to expensive risk taking.

We manage and mitigate risk through active ownership of our portfolio companies. From the initial onboarding through the entire advisory period, we work extensively to ensure that we maintain 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 or regulators may impact the bottom line negatively in the future.

Even in the early phase of considering companies for investment, we use formalised risk management procedures that include the extra financial ESG dimensions. We will not invest if we have any



doubts about the integrity of the leadership or core values of the potential portfolio company. As a rule of thumb, we do not make investments in companies 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 improve employee satisfaction and reduce waste are paying off in improved financial results.

We have not produced this ESG report to please our 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 our 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 are living up to our ambitions, and when the business environment around us also seems 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. On behalf of the FSN Funds we 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 for-


mal review meetings. Employees voice potential concerns through employee surveys, individual conversations and Whistleblower Policy. We also engage with regulators on issues of particular concern. Responding to our ultimate key stakeholders' information need is important input for our ESG report.

### Stakeholder engagement on responsible investment in 2014

Our stakeholder engagement includes dialogue with investors, portfolio company management, our employees and other experts. In 2014, we conducted stakeholder engagement interviews specifically focused on responsible investment and reporting. This was an important input to our ESG report. Our understanding of the key takeaways from the stakeholder engagement are:



## EXAMPLES OF ESG ISSUES

<div>ENVIRONMENT</div> <div>  <ul style="list-style-type: none"> <li>Climate change</li> <li>Pollution to air, water and soil</li> <li>Water use</li> <li>Biodiversity</li> <li>Resource efficiency</li> </ul> </div>	<div>SOCIAL</div> <div>  <ul style="list-style-type: none"> <li>Labour rights</li> <li>Working conditions</li> <li>Health and safety</li> <li>Community impact</li> <li>Job creation</li> <li>Tax contribution</li> </ul> </div>	<div>GOVERNANCE</div> <div>  <ul style="list-style-type: none"> <li>Anti-corruption</li> <li>Transparency</li> <li>Shareholder rights</li> <li>Board composition and independence</li> </ul> </div>
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- » **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 emphasize 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 both drives returns and 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.

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**

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 is 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.

*«FSN Capital is concerned with these questions and stresses that there is no conflict with ESG and good business»*

**PER SJØSTRAND, CEO INSTALCO**

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 in 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



Cyclical  
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.

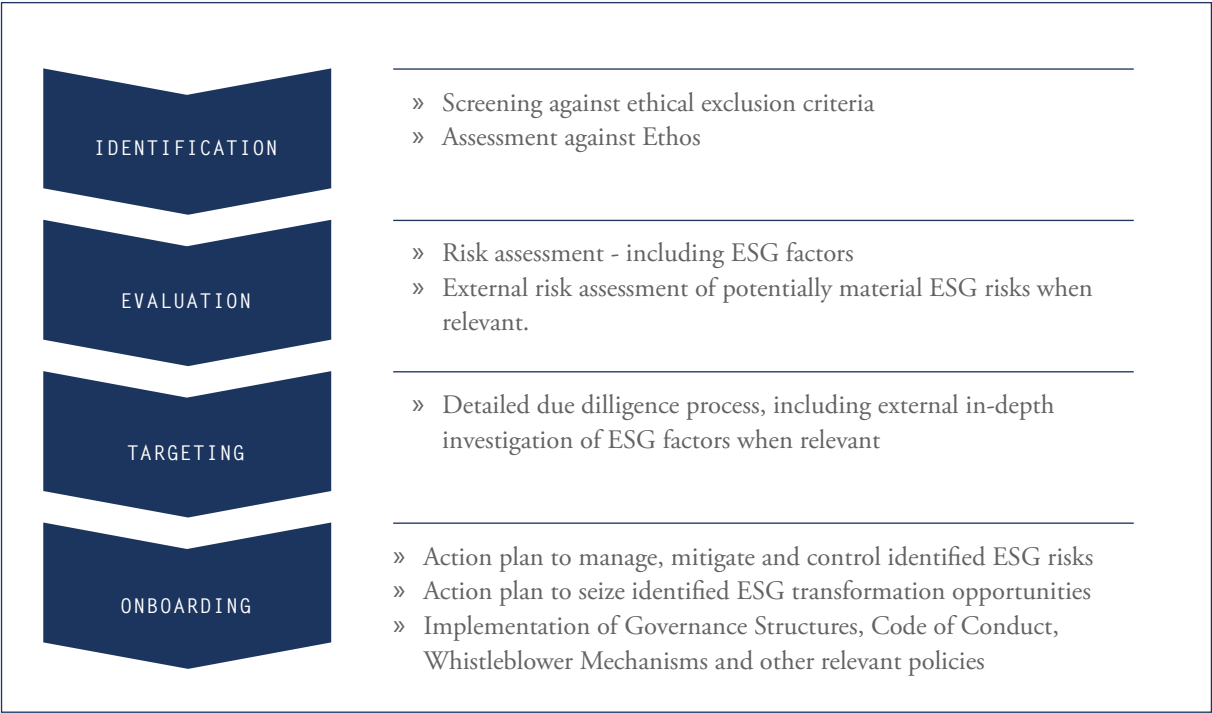
# Pre-investment: A Long-term perspective

### 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 whenever deemed relevant. We transfer the findings we make pre-investment to targeted plans in the onboarding phase.

Examples from the due diligence processes related to the Troax, Roplan and PM Retail investments 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.

**I**vir 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.

Spoersmålet blir da heller: Skal samfunnsansvar trumfe

## Innlegg Frøde Strand-Nielsen



Artikkelforfatter Frøde 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. Undersøker har ikke tatt en posisjon som samfunnsbevisst selskap kun for å være praktiske. Undersøker lever av sine konsumentenes, og i dagens verden appellerer samfunnsansvar til konsumenter. Klokke sagt: Undersøker selger mer når

mærket er forbundet med samfunnsansvar enn ellers. Likelihood kan risikoen ved ikke å opptre ansvarlig være brutal. Se bare på Volkswagen etter dieseldieselmotoren, Arthur Andersen etter Enron, BP etter «Deepwater Horizon» - for å nevne noen eksempler. Arvid Aspehøvd og Nilsdal K. Løvold 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 sikken ved å identifisere hvem avkastningen tilfaller.

De færreste investorer har guldklokke og peilvatn. De største investorene i verden representerer meg og deg. I vår del av verden er halvparten av befolkningens verdi eid av pensjonskasser, livsselskaper eller statlige fond. Dette er midler 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.

Spoersmålet 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 velledningsforklaring. Styrer og ledelser som utøver en ansvarlig selskapsstyring med henblikk på å maksimere langiktig avkastning, bidrar i høyeste grad til samfunnsnyttens gjennom å sikre arbeidere og borgernes velferd.

Når Realte kjøper og andre tar til orde for at man bør motivere litt på lønnsomhetsaktsene for å sikre større samfunnsnytte, er det nok på sin plass at man først setter seg ned med australske sykkelrydere, europeiske skiløbere og norske kommunean-

sette 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 hel del av beredvillighet 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 and contributing to conferences, he published the article below in Norway's largest business newspaper, «Dagens Næringsliv», on June 6<sup>th</sup> 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 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 past months' debates.

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 ENVIRONMENTAL RISK PRE-INVESTMENT - TROAX

#### IDENTIFICATION

During the acquisition of Troax, a manufacturing company, the Investment Team was notified by the seller of a known spill of an industrial solvent, called Tri, on a company site. As a consequence, an environmental due diligence consultant was immediately engaged to perform an in-depth risk assessment of the incident. Two risk items associated with the spill were identified:

- » The risk of the spill affecting human health is low since the drinking water is cleansed through a carbon filter. In addition, the employees have been tested and no traces of Tri were found.
- » The reputational risk for FSN is viewed as low since FSN is unlikely to be associated with the spill. The spill was also reported to the relevant authorities and known by the local media.

#### EVALUATION

Despite considerable financial risk – which caused some financing providers to back away – the FSN Funds decided to make the investment. This was made possible through an escrow arrangement, provided by the seller, which ensured that Troax had the financial means to deal with the potential clean-up. The assessment established

that the incident happened in the 1980s, prior to the current seller's ownership and the current management team's appointment. Further, the incident has been reported to the relevant authorities and was under investigation by the company in full cooperation with the relevant authorities and agencies.

#### TARGETING AND ONBOARDING

Troax has now raised environmental issues to the board level and significantly improved its environmental performance. The level of Tri in the ground / water is measured on a regular basis in the area and reported to the municipality. The observed level of Tri is now at a very low level, and most likely no further clean-up actions will be required.





## EXAMPLE

### IDENTIFYING ENVIRONMENTAL RISK PRE-INVESTMENT - ROPLAN

#### IDENTIFICATION

During the due diligence of Roplan, a manufacturing company, the Investment Team became aware that we could be facing the same risk as in Troax. 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, the 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 Capital 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 Retail 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 sectors 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 for example be a reduction in emissions to air and

#### 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

energy use, a reduction in waste, improve education, or lower accident rate. We believe that it is crucial that monitoring and reporting does not place an unnecessary burden, but that it adds 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 for example be reports to the general public or direct reports to investors or employees.

FSN Capital is 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, and Troax' focus on environmental risks related to production. *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, pro-

mote sound labour and human rights practices in the portfolio companies, including:

- » Reinforcing management practices and working environments that promotes employee satisfaction and loyalty.
- » Considering employee working conditions such as minimum wages, working hours, health and safety of work force.
- » Supporting the elimination of child labour including possible use of child labour by the suppliers to underlying portfolio companies.
- » Promoting employees' right to collective bargaining.
- » Avoiding discrimination based on e.g. 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)
- » Principles for remuneration
- » 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.

## 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 objectives and our efforts please refer to the respective chapters in this report.



### WHAT WE SAID (2014)

- » Instruct boards and management to identify material ESG aspects and define KPI's and related performance management and reporting
- » Instruct boards to start each board meeting with an ESG review
- » Have consistency in the portfolio companies to present numbers for Employee Satisfaction (Net promoter score), Customer Satisfaction (Net promoter score), Revenue, Employees, Gender distribution and Absenteeism

### WHAT WE DID (2015)

- » Boards and management identified material ESG aspects and defined Key (Sustainability) Performance Indicators (KPI)
- » ESG matters became a fixed agenda point in board reporting
- » Implemented consistent reporting on key portfolio-wide indicators including Employee Satisfaction (Net promoter score), Customer Satisfaction (Net promoter score), Revenue, Employees, Gender distribution and Absenteeism
- » Supply chain audits were commenced

## WHAT WE WILL DO

- » 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
- » Recognise and award the portfolio companies on ESG practices
- » Take a proactive role in communicating our ESG effort to society at large





## 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, FSN Capital 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 understand 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

*«FSN's approach to  
responsible investment can be described as clear,  
straightforward, honest and transparent»*

**SILVAN BÄTTIG, SUVA**





## 4.

# Status – ESG developments in portfolio companies

The objective for 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.





*Roplan is a niche leader in high-end custom mechanical seals with a unique OEM value proposition. Roplan was acquired by FSN Fund IV in 2015.*

The Velcora Holding Group consists of Roplan (~85% of sales) and Steridose (~15% of sales). FSN Capital has been advising the Velcora Holding Group since July 2015.

**ESG challenges and opportunities:** Roplan is a global manufacturer of customised mechanical seal solutions for OEMs, based in Tumba, Sweden. 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 byproduct of the pumping process. Therefore, minimising the volume of the liquid barrier required is key to minimise waste of potentially hazardous media for Roplan's customers 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, based in Madison, US. In many biopharmaceutical applications, different strains of viruses are used (such as E-coli) where it becomes critical to ensure containment of such micro-organisms during the production process. This is critical 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 customers' needs and partnering with them to design, develop and deliver the optimal long

	2015
Revenue (mSEK)	294
Employees (FTE)	132
Revenue per Employee (mSEK)	2.23
Percentage women versus men	24%
Absenteeism	3%
Employee satisfaction NPS	8%
Customer satisfaction NPS	54%
Accidents	1



life sealing solution. Roplan works with their customers to optimise both the volume and type of barrier media required for the sealing solutions. An environmental due diligence was performed by an independent environmental consultant on the production facilities in Timrå and Tumba in July 2015. The due diligence recognised the high overall environmental routines and knowledge with respect to handling environmental waste. Production facilities in Tumba, UK and US are 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 geographies, management in Sweden conduct site

visits each year and share best practice throughout the organisation. In addition, all employees annually fill out an employee satisfaction survey. Issues raised in the employee satisfaction survey are discussed and later addressed by management.

The reported accident in 2015 related to a motorcycle accident, where an employee in China had an accident on his way home from work. There were no serious injuries.

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. Together with the Code of Conduct, all employees of the Velcora Holding Group are made aware of 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 located 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 secure 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 to train suppliers in these important issues. Also, Fibo has been the PEFC certified (Programme for the Endorsement of Forest Cer-

tification - 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 in normal weather conditions.

	2014 *)	2015
Revenue (mNOK)	493	552
Employees (FTE)	124	124
Revenue per Employee (mNOK)	3,98	4,45
Percentage women versus men	23 %	23 %
Absenteeism	3 %	3 %
Employee satisfaction (1-6)		4,5
Customer satisfaction NPS		37 %
Work related injuries	1	1
Energy use (kWh/sqm of panel produced)	2,4	2,3

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





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

**ESG response during advisory period:** In connection to the acquisition of Fibo, a Code of Conduct and Whistleblower Policy was implemented. In addition to being signed by all new employees, the code and policy have been discussed with the unions and communicated to the entire existing staff.

In December 2015, Fibo started a project to expand the capacity of the current factory. On top of enabling growth, the investment is expected to reduce the amount of electricity used to produce one m<sup>2</sup> of panel significantly and reduce the need of forklift and manual handling of panels to a minimum, which further reduces the risk of injuries.

During 2015, Fibo had one injury in the factory leading to absence. Whenever accidents occur, a thorough analysis of the cause of events is conducted. In this case, the analysis resulted in improvements to the relevant production cell in order to avoid similar accidents 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 employing people with a broken employment history and thereby lifting people out of unemployment. The award was given by the Confederation of Norwegian Enterprises (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 KNUITSEN, MD FIBO LYNGDAL





**Fibo**

har rekruttert gjennom Ringer i Vannet

*Kristin Skogen Lund*  
Kristin Skogen Lund  
Administrerende direktør i NHO





*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 also has 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 in its own right, limiting the environmental impact through optimising 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.

Since it was acquired in 2015, Fitness World has implemented a framework for measuring employ-

	2015
Revenue (mDKK)	1051
Employees (FTE)	898
Revenue per Employee (mDKK)	1.17
Percentage women versus men	62 %
Absenteeism	2 %
Employee satisfaction NPS	11 %
Customer satisfaction NPS	3 %
Member base end of year	451,226
Visit to FW clubs (millions)	23.5
Avg. days of service obligation	8



ee satisfaction. This is an important tool helping management in its effort to ensure a positive work environment. Furthermore, a high employee motivation and satisfaction is 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 a number of Danish charities at a

local level with special event classes and through large-scale national campaigns.

A local example is the yearly 12-hour BikeFit-event where all proceeds are donated to Danish Hospital Clowns, on a national level in co-operating with The Danish Cancer Society's annual «Pink Saturday - Fight against breast cancer» Fitness World clubs offers special pink classes where members and non-members donate a small amount to participate.

Fitness World implemented the Code of Conduct in October 2015. During the autumn of 2016, Fitness World will also implement a new Whistle-blower Policy.

**ESG challenges and opportunities:** As a distributor of technology and digital products, the main ESG challenges for EET Group relates 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 sale of spare parts for various electronic devices such as computers, servers, mobile handsets, etc. As a result, the lifespan of the devices is extended, which in turn contributes to a more sustainable and environmentally friendly approach to the rapid proliferation of technology hardware.

**ESG response during advisory period:** During the investment period, which commenced in April 2015, EET Group 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 are read and understood. All new employees will be made familiar with EET Group's Ethical Guidelines by the same procedure.

As part of its efforts in relation to ESG, EET Group published its first quarterly CSR audit report in February 2016. The report covered EET Group's strategy and actions in the area of

CSR/ESG including all its subsidiaries located in 26 different countries. The report has been issued quarterly in 2016 and will henceforth be issued annually in a more comprehensive form. 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 scope 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.eetgroup.com/info/CSR-Report](http://uk.eetgroup.com/info/CSR-Report).

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/questionnaire and short facility assessments.

EET Group's current CSR audit report covers all suppliers exceeding 0.5% of total purchase

	2015
Revenue (mDKK)	2,352m
Average employees	513
Number of suppliers covered by latest CSR audit	299
Suppliers accounting for % of total sourcing volume covered in latest CSR audit	93 %



volume. In total 299 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 from the supplier will continue without sanctions during the improvement period. In case of critical concerns, EET Group will stop all purchases activities until corrective measures are implemented and approved. Further, EET Group is currently in the process of securing corrective measures for five different suppliers, accounting for less than 0.5% of EET Group's total purchase volume.

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 environ-

mentally friendly product materials and shipping methods, as well working towards reducing its operational electric energy consumption.

Among major achievements in 2015 is the installation of a large capacity automated warehouse robot, with a very low level of electricity consumption, at the main warehouse in Ballerup, Denmark.

At the main warehouse, EET Group is collaborating with the Danish Energy Agency, and recently 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).



**ESG challenges and opportunities:** As a service retailer of accessories for consumer electronics, the main ESG challenges for Kjell & Company relate to the treatment and working conditions for employees and the sourcing of products, especially from China. 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 a «throw-away mentality».

**ESG response during advisory period:** Since the FSN Capital advisory period that started in 2014, Kjell & Company has focused on developing and institutionalising the ESG processes inherent to the company, and improved the review and audit of suppliers.

The culture of the company, the «Kjell-spirit», forms the basis for the company's CSR-work with employees. The wellbeing of employees is at the core of the culture enabling the company to

	2014	2015
Revenue (mSEK)	1040	1170
Employees (FTE)	589	595
Revenue per Employee (mSEK)	1.76	1.97
Percentage women versus men	11 %	12 %
Absenteeism	4 %	4 %
Employee Satisfaction NPS		49%
Customer Satisfaction NPS		18 %
No of suppliers		1068
Supplier visits (for risk analysis)		66 % <sup>1)</sup>
Supplier certification check		24 % <sup>2)</sup>
Suppliers paid on time		98 %

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

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



deliver a good 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, 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). The results of this review impacts monthly compensation for store managers. Another example of the focus on employee wellbeing is the free gym membership Kjell offers to all employees.

Ensuring the proper application of ESG-policies in the supply chain is another focus area for Kjell

& Company. The company has a number of employees permanently located in China focusing on the sourcing of products from the local suppliers, as well as ensuring efficient monitoring and auditing of these suppliers. 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.



# 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 operations in Sweden, Norway and Finland. They provide a broad range of services such as heating & plumbing (e.g. preventive maintenance and industrial piping), complete ventilation systems and energy-saving electrical solutions. As a player in the installation market, Instalco are using vast amounts of building materials and creating waste. This means designing and installing solutions in an efficient manner is paramount in order to minimise 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 centred 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. Both of these documents are implemented in companies acquired by Instalco.

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

Instalco's companies continuously work with minimising waste at the construction sites and

	2014	2015
Revenue (mSEK)	505	1369
Employees (FTE)	559	870
Revenue per Employee (mSEK)	0.90	1.57
Percentage women versus men	9 %	5 %
Absenteeism	5 %	5 %
Employee Satisfaction NPS		48 %
Work related injuries	0	0



with recycling of building materials. For example, when the plumbing companies in Instalco install new taps and pipes they bring the old 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.

Since its foundation in 2014, Instalco has been in the process of implementing employee and customer satisfaction measurement tools. The first

results for the employee satisfaction came in 2015 with high results; e.g. >90% respondents saying that they enjoy working at Instalco and would recommend Instalco as an employer to others. A customer satisfaction survey is currently being created and the first results will be known during 2016.



*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. After several divestments, 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 is 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. Going forward the VITA group will seek to implement initiatives to reduce absenteeism.

	2013	2014	2015
Revenue (mNOK)	770	963	1211
Employees (FTE)	25	55	100
Percentage women versus men	84 %	69 %	81 %
Absenteeism	1 %	1 %	4 %
Number of Stores	150	196	208
Employee Satisfaction NPS <sup>1)</sup>			37 %
Customer Satisfaction NPS <sup>1)</sup>			57 %
Number of suppliers	82	80	100
Long-term supplier agreements <sup>1)</sup>	95 %	95 %	95 %
Suppliers checked by visit <sup>1)</sup>	15	17	17
Check of supplier certifications <sup>1)</sup>	3	5	5
Suppliers paid on time <sup>1)</sup>	100 %	100 %	100 %
Products with «the Swan <sup>2)</sup> » trademark <sup>1)</sup>	12 %	12%	12%
Other ecological certified products <sup>1)</sup>	45 %	45 %	45 %

<sup>1)</sup> Not including Grand Parfymeri

<sup>2)</sup> The Swan is the official Nordic ecolabel, introduced by the Nordic Council of Ministers. The Swan logo demonstrates that a product is a good environmental choice.



VITA has high customer satisfaction with a 57% customer NPS. The high customer satisfaction score is driven by friendly and knowledgeable staff, accessible stores in good locations, broad product assortment and competitive pricing.

**ESG response during advisory period:** During 2015, 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 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 that 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 57% of VITA's products have at least one ecological certification. The ETI report from VITA, as well as the Code of Conduct, can be found here: [fsn.link/vita-etisk](https://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 high temperature insulation products, Skamol helps its customers save energy. As Skamol has production facilities in Denmark and Russia, its operations are exposed to social risks, like 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 heat insulation products which contributes to reduced energy consumption. The amount of energy used for production of a Skamol product is typically saved within the first day of use while the life of the products can be between five and 25 years.

**ESG response during advisory period:** Since FSN Fund IV's acquisition of 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.

These guidelines were discussed with the employee representative committee and communicated to the Danish and Russian employees. Another focus in this period has been to improve the working environment and enforce high safety standards for the workers in the production facilities in Russia, and to improve the cooperation with the authorities. In addition, Skamol has procedures regarding bribes and fraud. These procedures are audited on a regular basis by internal audits.

Skamol's environmental impact is seen mainly in connection with consumption of energy and the consequent emission of among others CO<sub>2</sub> and mining of Moler (diatomaceous earth). Last year's initiatives to reduce waste have continued, and shows a significant reduction in gas and waste. As much filtered material as possible is reused whereas waste that cannot be reused is sold as raw material to other companies or disposed in controlled landfills. For all production sites targets and improvement areas for greenhouse gases are set.

	2013	2014	2015
Revenue (mDKK)	303	324	337
Employees (FTE)	385	379	380
Revenue per Employee (mDKK)	0.79	0.85	0.89
Percentage women versus men	35 %	32 %	30 %
Absenteeism	5 %	3 %	5 %
Employee Satisfaction (NPS)		-1 %	30 %
Customer Satisfaction (NPS)			41 %
Work related injuries		2	3



A project started in 2014 where surplus heat from the Calcium Silicate Plant is used for heating households, is now in full operation. Approximately 240 households in Fur (an island in the Limfjord) are now heated with the surplus heat, and the expected reduction in emission will be about 1,500 tons of CO<sub>2</sub>.

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 regards to customer expectations and Skamol's strengths and areas of improvement. During inspections by «Arbejdstilsynet» (the Danish OSHA) all Skamol's Danish plants have been categorised in the best category (Green Smiley) for companies with «will and skill» to maintain a good working environment. Skamol regularly visits its key supplier focusing on their compliance with the ILO (International Labour Organisation) conventions.

The low Employee Satisfaction NPS in 2014 was related to Russia, where NPS was -16% in 2014. Subsequently local management worked with improvements in the areas with the low scores, and in the survey for 2015 the NPS for Russia improved to 40%. As the result for Denmark in 2015 was somewhat unchanged compared to 2014 (going from 15% to 12%), the overall score for Skamol group improved from -1% to 30%. None of the work related injuries led to long term absenteeism or permanent injuries.

Due to changes in the Danish legislation, it is expected that Skamol by the end of 2016 will no longer be considered as an environmental impact listed company. As such, Skamol will no longer require an environmental permit, but only a discharge permit.

#### **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 CO<sub>2</sub>. 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 was acquired by FSN Fund III in 2012.*

**ESG challenges and opportunities:** As 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 PM Retail.

**ESG response during advisory period:** Handling the supply chain is a focal point of PM Retail's business strategy. This focus has been strengthened since FSN Capital became the advisor in 2012. PM Retail's membership in the Ethical Trading Initiative (ETI), hereunder adherence to their Code of Conduct provides the foundation for this 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 its supply chains. Commitments for PM are for example to check individual suppliers and to improve processes for these suppliers if necessary.

A CSR (corporate social responsibility) plan can be found at the PM website [www.pm.no](http://www.pm.no), where also an ETI (Ethical Trading Initiative) report is available.

The majority of the company's supplier facilities

	2013	2014	2015
Revenue (mNOK)	329	364	367
Employees (FTE)	183	204	213
Revenue per Employee (mNOK)	1.80	1.78	1.72
Percentage women versus men	99 %	99 %	99 %
Absenteeism	5 %	5 %	4 %
Employee satisfaction (NPS)			18 %
Number of suppliers	35	52	55
Supplier visits (for risk analysis)		4 %	9 %
Suppliers paid on time	100 %	87 %	90 %



are in Asia. A part of the supplier base has signed the Code of Conduct, which covers strict guidelines regarding e.g. child labour and minimum wage. PM is working to increase the number of signatories through active dialogue with the suppliers.

In 2015, PM continued to work on its supplier base with focus on ethical trading and commercial improvements. One of the key initiatives, is to reduce the number of suppliers in order to concentrate the supplier development efforts. Moreover, PM entered into a partnership with the iCare initiative headed by the Norwegian Association of the Blind and Partially Sighted («Norges Blindeforbund»).

Furthermore, at the end of 2015 management instituted an in depth employee satisfaction mapping programme both at the headquarter in Hønefoss and in the store network.



#### **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. Both in 2014 and 2015, 80% of the students moved on to a job or higher education (qualified student rate) after they graduated from Vindora's schools. The qualified student rate is a very important KPI for Vindora, especially having in mind that Vindora's students when they enrol, on average, have significantly lower grades compared to the national average (2014: 140 p vs. 215 p).

During 2015, Vindora's schools were subject to comprehensive review by the Swedish School Inspectorate. The review identified shortcomings

in certain schools. 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. The management team and board agree that addressing the identified shortcomings is the highest priority as a part of the professionalisation and institutionalisation of Vindora, which in turn is a key feature of the investment thesis. Vindora has during the FSN Capital advisory period made significant investments to strengthen the organisation in areas where the shortcomings were identified. Vindora has improved the systematic quality work significantly over the last couple of years, evidenced by positive development in the average number of remarks from the Swedish School Inspectorate's review. In the review that was finalised in 2014, the average number of remarks was 22, while the

	2013	2014	2015
Revenue (mSEK)	651	587	650
Employees (FTE)	728	685	690
Revenue per Employee (mSEK)	0.89	0.86	0.94
Percentage women versus men	47 %	47 %	47 %
Absenteeism	3 %	3 %	3 %
Employee satisfaction NPS	3 %	33 %	23 %
Student satisfaction NPS	15 %	3 %	4 %
Qualified Student rate <sup>1)</sup>	83 %	80 %	80 %
Number of students	4,811	4,522	4,757

<sup>1)</sup> % of students moved on to job or higher education

same KPI from the ongoing inspection is two. As of August 2016, three out of Vindora's 35 schools are not fully approved by the Swedish School Inspectorate. The Swedish School Inspectorate has significantly raised the bar concerning its supervision during 2015, which is something that Vindora welcomes as it contributes to higher quality in the Swedish education system.

There is an intense debate going on in Sweden regarding private ownership in the tax-funded welfare sector. The debate climate is highly ideological and the debaters often argue for their position based on historical circumstances and biased information. The debate around private ownership in the welfare sector is set to be one of the main questions in the parliamentary election in 2018, so it is reasonable to believe that the debate will continue.

**ESG response during advisory period:** Since it was acquired by FSN Funds in 2010, Vindora has focused on developing and implementing

governance structures, policies, Code of Conduct, as well as quality systems and processes across the organisation. Employees of a school can face ethical issues every day and should be role models for the students. Hence, a Code of Conduct is included in the employment agreement. Annual internal audits of quality for each of Vindora's schools have been put in place. Further, the schools measure student- and employee satisfaction on a regular basis. During the academic year 2015/2016, the Net Promoter Score for employee satisfaction decreased from 33% to 23%, while absenteeism increased slightly from 2.9% to 3.2%. The NPS for students increased from 3% to 4%. Consequently, the overall satisfaction rate is positive for both employees and students but the deviation between individual measurements are still relatively high on consolidated level. The NPS is measured on individual school level and primarily used as a KPI for the management team to identify schools where corrective measures need to be taken.





*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 co-operatives. Green's services are all about creating an enjoyable, clean and safe outdoor environment for the local community residents, e.g. safer playgrounds and less dark spaces in parks at night.

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, as the Code of Conduct. This includes a Whistleblower Policy that all employees need to sign upon employment. 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. However, a comparison of the previous metrics reveal a decline in 2015 on some measures. As a response, 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 increased customer focus by adopting lean manufacturing principles and red tape reduction for filed managers.

	2013	2014	2014
Revenue (mSEK)	702	775	751
Employees (FTE)	449	494	463
Revenue per Employee (mSEK)	1.56	1.57	1.62
Percentage women versus men	14 %	16 %	17 %
Absenteeism	6 %	5 %	6 %
Employee satisfaction NPS			-38 %
Customer satisfaction NPS			-13 %
Green house gas emissions (tons of CO2 per Revenue)	0.0034	0.0029	0.0027
Accidents	20	16	22

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%.

In order to gain control of the fuel consumption, which stands for 91% of Green's total emissions, a lean initiative with ABAX Triplog was introduced in 2015. The aim was to optimise route planning, which leads to less mileage, less fuel consumption, cost savings, and lower climate impact.

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 recovery. 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 H1 2016 through renewed focus and better routines.

Green tracks accidents on an ongoing basis and is continuously working with education of safety measures and the importance of wearing safety equipment. The type of accidents vary greatly and range from smaller cuts and bruises from working in the outdoors to a sprained ankle and more serious accidents. As a response to an increased number of accidents in 2015, there is more focus on preventive measures and education.

In addition, Green is concerned with chemical use and has integrated chemical standards in 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 its 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 2015 Lagkagehuset had the best possible smiley score in all 44 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](http://findsmiley.dk).

Since the start of the advisory period, Lagkagehuset has expanded from three to 44 bakeries, employing now more than 1,000 people, with almost 600 full-time contracts. The average number of Full Time Employees (FTE) grew by almost 70 during 2015. The company also had a strong focus on growing in a manner that preserves the baking profession and culture. The craftsmanship of baking is challenged due to 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.

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 optimise the tem-

	2012	2013	2014	2015
Revenue (mDKK)	315	407	478	552
Employees (FTE)		436	500	569
Revenue per Employee (mDKK)		0.93	0.96	0.97
Percentage women versus men				71 %
Absenteeism				2 %
Customer Satisfaction (0 - 100)		94 %	94 %	94 %
Employee Satisfaction (1-7)				5.5
Best possible Smiley Score		100 %	100 %	100 %
Waste	20 %	13 %	11 %	11 %
Electricity kWh per mDKK Revenue	17847	15064	15897	16828

perature 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 at approximately 10% or less. 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 support the local community, but also give a good transparency as they are obliged to follow the strict Danish regulations on food safety. In total, Lagkagehuset has approximately 200 suppliers. During the last year the 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 four suppliers which are found suitable in terms of quality, reliability and ethical standards. During 2015, two supplier visits were carried out in order to ensure that the suppliers met 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 based on organic ingredients. The production accounts are reviewed by the authorities annually.

Lagkagehuset has during 2015 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 place to report behaviour conflicting with Lagkagehuset's Code of Conduct and Danish legislation in general. The Whistleblower Policy will be rolled out during 2016.

In 2015 Lagkagehuset conducted an employee survey among the more than 1,000 employees. The results showed a good employee satisfaction as overall employee satisfaction was 5.5 on a scale from 1 to 7.



## 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 and stores every day. A small percentage of waste is unavoidable to be able to fulfil 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. As such, it becomes increasingly important from a commercial perspective to reduce waste to the maximum extent possible. At the end of 2012, Lagkagehuset started to measure its waste levels. At that time the rate was above 20 %.



All waste products are sent back daily to central product locations where they are sorted. Part of these products are used in other products like 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 percent or less. At this rate there is a right balance between a reasonable waste level without having empty stores at the end of the day. Today the waste level is around 11%. The reduced waste does not only reduce the use of raw materials but also production salaries and other operational costs.





*Aura Light is a market leader in providing sustainable lighting solutions with clear economic benefits. Aura was acquired by FSN Fund II in 2006.*

**ESG challenges and opportunities:** For Aura Light's management team, sustainability and profitability go hand in hand. An increasing part of Aura Light products are LED based. This, and Light Management System (mainly sensors) that Aura Light has included in the product range, help customers lower the energy consumption by up to 80%. Aura Light's products have long lifetime which enable customers to apply a lower replacement frequency. Together this leads to reduced maintenance and energy costs as well as reduced environmental impact.

As a producer 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. All employees are invited to take education on sustainability.

Aura Light has implemented the ISO 9001, 14001 and 26000 management systems to ensure continuous improvement and adequate control related to ESG issues in production. To ensure proper environmental management, Aura Light is tracking emissions of, for example, Mercury. The aim is to sell only LED products, which contains no Mercury.

**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 FSN Fund II's ownership established a CSR team and implemented The Global Reporting Initiative (GRI) in 2012.

	2013	2014	2015
Revenue (mSEK)	580	604	785
Employees (FTE)	250	241	273
Revenue per Employee (mSEK)	2.32	2.51	2.88
Percentage women versus men	33 %	35 %	37 %
Absenteeism	3 %	3 %	3 %
Customer satisfaction NPS			43 %
Hazardous waste (tons)	30	40	31
Mercury (grams after filter)	10	20	<10
VOC (tons)	2.2	2.5	2.4
SO2 (tons)	0.1	0.5	0.5



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 its revenue from sustainable products and solutions. In 2015, 70% of the sales came from Long Life products and solutions of which 61% from energy-saving products and solutions.

To be truly sustainable, the value chain of the Aura Light's products must also be in tune with

its natural and social environment. In 2015, 88% of waste, of which the bulk is glass, was recoverable. In addition, 42% of chemicals were phased out.

Third party audits of three key suppliers of LED were conducted. No signs of abuses of forced labour or child labour were found.

## AURA LIGHT'S AWARD WINNING SUSTAINABILITY PHILOSOPHY

For Aura Light sustainability comes naturally. Its sustainable lighting solutions are part of how to tackle climate change. In recent years its products and organisation have had a focus on energy-saving products with a long lifetime, contributing to a sustainable future by minimising the use of energy, raw material, packages and transport. It also carries out 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 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 13,800 tons since 2008, Aura Light has supported projects including the «LifeStraw Carbon For Water» project, which is providing 4.5 million people in Western Kenya with safe water, and clean cookstove projects in Uganda and Ghana. It 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 driving

a profitable business. It believes that being environmentally friendly as well as socially and economically responsible is fundamental to a long-term business success. Sustainability is shaping its business creating valuable opportunities for it and its customers.

Recently, Aura Light has been awarded for its efforts at «The European Business Awards» by receiving the Award for Environmental and Corporate Sustainability. Frost & Sullivan recognized the company by granting it the European Lighting Entrepreneurial Company of the Year Award. Other recent awards include winner of the SEAD (Super Efficient Equipment and Appliance Deployment) Global Efficiency Medal Competition and Company of the year, category electronics, in the International Stevie Business Awards.









## 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	✓	✓	✓	✓	✓	✓	●
Principles for remuneration	✓	✓	✓	✓	✓	✓	●
Agreements covering executive shareholding	✓	✓	✓	✓	✓	✓	●
Employment contracts for executives	✓	✓	✓	✓	✓	✓	●
	●	●	●	●	●	●	

## GOVERNANCE STRUCTURE FOR FSNC IV

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

## MAJORITY OF PORTCOS HAVE IMPLEMENTED ESG KPIS

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

## ACTUAL ESG KPI FIGURES

	Employee Satisfaction (Net promoter score)	Customer Satisfaction (Net promoter score)	Revenue (NOK)	Employees	Gender distribution (% women)	Absenteeism	
AURA LIGHT	-	43 %	822	273	37 %	2.9 %	●
GREEN LANDSC.	-38 %	- 13 %	787	463	17 %	5.8 %	●
LAGKAKEHUSET	-	-	712	569	71 %	2.3 %	●
PM RETAIL	18 %	-	367	N/A	N/A	N/A	●
SKAMOL	30 %	41 %	434	380	30 %	4.5 %	●
VINDORA	23 %	4 %	681	690	47 %	3.2 %	●
FIBO	-	37 %	552	124	23 %	2.6 %	●
EET NORDIC	-	-	3,032	531	-	-	●
FITNESS WORLD	11 %	3 %	1,355	898	62 %	1.9 %	●
INSTALCO	48 %	-	1,434	870	5 %	4.7 %	●
KJELL & CO	49 %	18 %	1,226	595	12 %	3.7 %	●
ROPLAN	8 %	54 %	308	132	24 %	2.6 %	●
VITA	37 %	57 %	1,211	100	81 %	4.0 %	●
TOTAL / AVERAGE	21 %	27	12,921	5,992	42 %	3.5%	
	●	●	●	●	●	●	

## 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.

	2014	2015
Employees	28	30
Percentage women versus men	25 %	27 %
Sickness Rate	1 %	1 %
Employee Satisfaction NPS	87 %	92 %

#### BOARD COMPOSITION OF FSN FUNDS

The investor board is responsible for reviewing the ESG strategy as well as ensuring that management is held accountable for implementing those strategies in an efficient and responsible way. The Board of Directors of the FSN Funds includes four independent members being Per Etholm, Ole Jacob Diesen, Charlotte Valeur and Phil Balderson. In addition, Knut N. Kjær represents the advisory company on the Board of Directors. The board includes members from Norway, 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.

FSN CAPITAL IV - SEK 5303

Investors by type



Pension Funds	34%
University Endowments/Family Offices	16%
Insurance	16%
Fund of funds	12%
Banks	5%
Other	17%

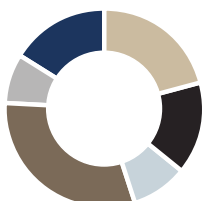
Investors by geography



Nordic	35%
Europe	30%
US/Canada	21%
Asia	14%

FSN CAPITAL III - EUR 380

Investors by type



Pension Funds	21%
University Endowments/Family Offices	15%
Insurance	9%
Fund of funds	31%
Banks	8%
Other	16%

Investors by geography



Nordic	24%
Europe	57%
US	19%

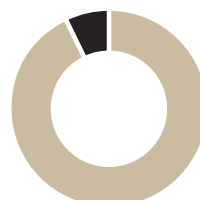
FSN CAPITAL II - EUR 151

Investors by type



Pension Funds	14%
University Endowments/Family Offices	19%
Insurance	10%
Fund of funds	14%
Banks	17%
Other	26%

Investors by geography



Nordic	93%
Europe	7%



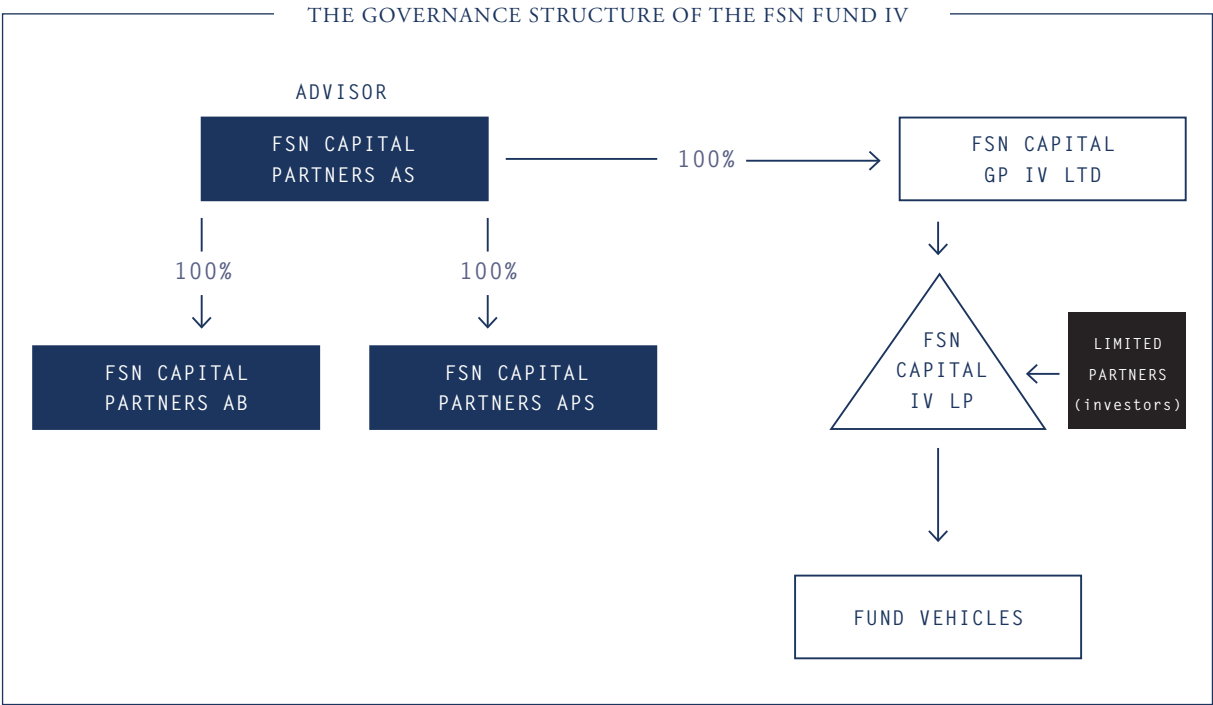
The FSN Funds invest in multiple countries with the support of investors from around the world. As illustrated in the table on the previous page, the investor base is increasingly international. For these investors, differences in languages and lack of knowledge of local legal and regulatory requirements 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, amongst others, 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 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 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 as 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 directly 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 reputation 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) 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 PARTNERS' 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

Partner, the Compliance Officer or the Chairman, FSN Capital's Executive Advisor Lennart Sundén 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, or Managing Partner 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 the 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 carrying 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.







Miljømerket 241-796 Trykksak