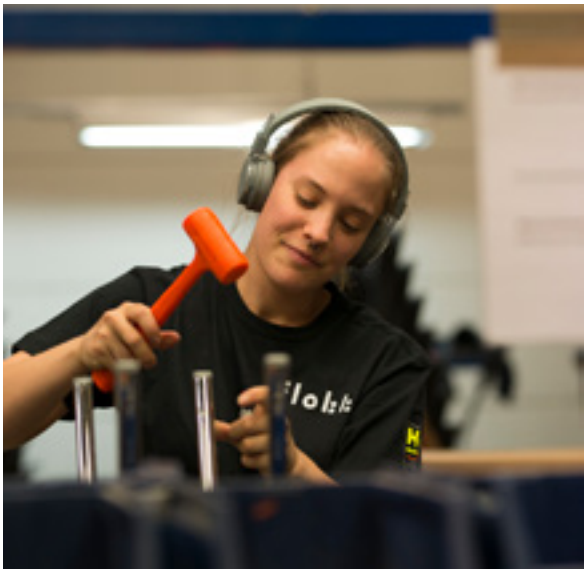
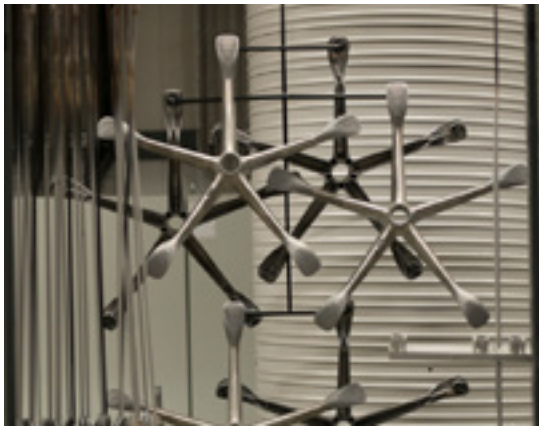
# Working to Make an Impression





Flokk
Annual Report
2017

# Key Figures

## Flokk is the leading manufacturer of high quality workplace furniture in Europe.

**Important Events in 2017:**
January: Acquired Swedish Malmstolen AB
May: Acquired Swedish Offecct AB
June: Re-branded the company from Scandinavian Business Seating to Flokk
July: Acquired Swiss Giroflex AG

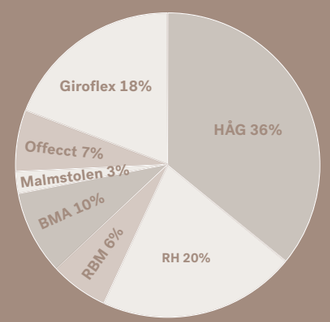
**495,000**
**chairs sold**

**Product News:**
HÅG Tribute launched at Stockholm Furniture Fair in February 2017


### SALES PER MARKET 2017

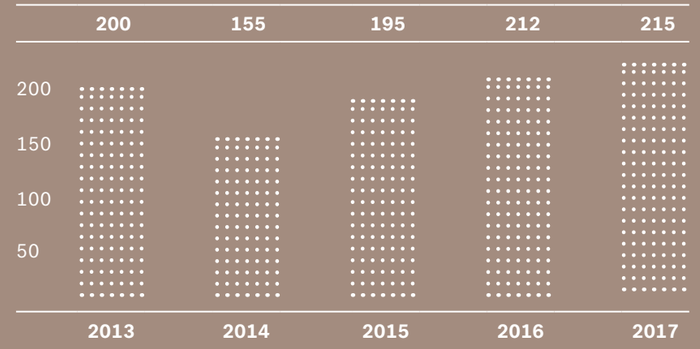
| | |
|---|---|
| Sweden | 20% |
| Germany | 14% |
| Norway | 13% |
| Benelux | 12% |
| Denmark | 11% |
| Switzerland | 9% |
| Export | 7% |
| UK & Ireland | 5% |
| Belgium | 5% |
| France | 4% |
| **Total** | **100%** |

### SALES PER BRAND 2017

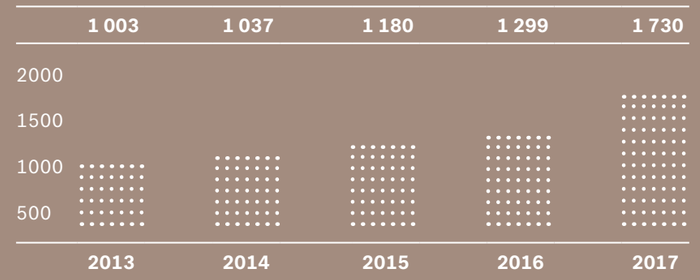



### INCOME AND RESULTS (MNOK)

#### EBITA (MNOK)




#### OPERATING REVENUES (MNOK)




| | | **2017** | 2016 | 2015 | 2014[3] | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating revenues | MNOK | **1 730** | 1 299 | 1 180 | 1 037 | 1 003 | 1 010 | 1 091 | 1 010 | 989 | 1 289 |
| EBITDA [4] | MNOK | **269** | 251 | 233 | 192 | 231 | 236 | 255 | 204 | 105 | 247 |
| Operating income | MNOK | **215** | 212 | 195 | 155 | 200 | 204 | 219 | 165 | 46 | 207 |
| EBITA margin | % | **12,4** | 16,3 | 16,5 | 15,0 | 20,0 | 20,2 | 20,0 | 16,4 | 4,6 | 16,1 |
| Income before taxes | MNOK | **62** | 119 | 90 | 14 | 77 | 84 | 82 | 72 | (8) | 26 |
| Net income | MNOK | **42** | 84 | 71 | 0 | 54 | 74 | 48 | 50 | (9) | 17 |
| Net interest bearing-debt | MNOK | **1 236** | 962 | 1 084 | 1 056 | 898 | 574 | 657 | 618 | 775 | 900 |
| Investments | MNOK | **44** | 50 | 39 | 33 | 61 | 58 | 28 | 19 | 31 | 60 |
| Total assets | MNOK | **2 898** | 2 409 | 2 369 | 2 246 | 1 882 | 1 830 | 1 854 | 1 835 | 1 859 | 1 985 |
| Net working capital [1] | % | **19** | 17 | 16 | 15 | 16 | 11 | 14 | 14 | 13 | 15 |
| Equity share [2] | % | **40** | 45 | 39 | 37 | 40 | 55 | 49 | 55 | 49 | 41 |
| No. of employees per 31.12. | | **829** | 546 | 555 | 480 | 472 | 475 | 479 | 463 | 457 | 633 |
| Full time equivalents per 31.12. | | **800** | 533 | 538 | 469 | 459 | 462 | 462 | 451 | 447 | 617 |
| **No. of sold chairs** | Thousand | **495** | 462 | 421 | 421 | 417 | 433 | 455 | 443 | 485 | |

1) Inventory + accounts receivables - accounts payable in percent of operating revenues.
2) Includes shareholder loan.
3) Pro forma figures for the entire 2014 if the acquired companies had been part of the Group as from 01.01.2014.
4) Not adjusted for non recurring costs.

# Content

## The Organisation



## Annual Accounts



## Corporate Sustainability



# The Organisation

# About Flokk

**With every new design we do, with every new product we plan to develop and bring to the market, one thing is clear to us; the world does not need another chair. As with most markets, the market for contract furniture is saturated. Doing one more of what is already there, will not change anything.**

Unless that is, you set out to do something which is different and better, providing our customers with an alternative which they do not yet have, that offers tangible improvement. This consideration is at the heart of Flokk. The result is a strong urge to move forward, in all aspects of our operation.

It makes us fundamentally design driven. We will always keep the human at the centre of our processes. We will deploy the best of our capabilities, invite strong skilled designers with perspectives different than our own, in comprehensive design collaborations, in order to make products and services that make a difference to our customers and those who use our products.

It makes us adapt to changing work-life practices, by ensuring our products are designed for the future, not the past. And by offering an increasing array of attractive, flexible solutions, for every professional furnishing purpose.

It makes our sustainability efforts very practical. Our products are engineered for assembly with no glue, making them easy maintain, to repair, and eventually to dismantle in pure material categories. While we design the products to be prepared for future circular economic models, we also ensure circular economy today, by using significant and strongly increasing amounts of post-consumer recycled material in our products.

And it makes us design for the highest of industrialization rates, giving us economy of scale. We conceive everything bottom-up, which is harder, but takes us further and keeps us in control of how every detail is produced. In our own factories, and with suppliers.

We are Flokk. A company of dedicated people, with strong and complementing competencies, joined by common aspirations and ideals. A group of brands & products with different identities and attributes. There to help our clients build their flokks, through furnishing inspiring workspaces.

We are large, growing and profitable. But size in itself, is not interesting. It only gets interesting when we use our size and profitability to invest even more, to get even further, in areas that matter. Better products, with functionality & visuals that make people prefer them and want to keep them longer, produced with the lowest possible environmental footprint. This is our practice and our aspiration.

# Flokk – “different and better”: The leading office seating player in Europe

**A Message From the CEO**

In 2017, Scandinavian Business Seating was renamed Flokk. Our new name was in part inspired by our collection of strong brands, which during 2017 and early in 2018 has been further expanded through the acquisition of Offecct, Giroflex and Profim. Our new name indicates our Scandinavian heritage while also opening up possibilities for new international partnerships in the future, with further companies joining our “flock”. Our long-term ambition to become the preferred partner in our industry, based on our motto of being “different and better”, has made us into the largest and most profitable manufacturer of office chairs in Europe. With the support of our solid, ambitious owners, our objective now is to become a leading supplier of office chairs worldwide. We will achieve this by continuing to focus on design, product development, automation and a high level of technological expertise, which makes us competitive in an international market. We truly are “different and better” when compared with our competitors.

Our objective is to win the battle for the market by means of strong product differentiation and strong brands that reach many segments, superb front-end efficiency, operational superiority and targeted acquisitions and mergers – and hence, in this area also, “different and better” when compared with our competitors. Thanks to our owners, we have chosen to take on the role of the consolidator in our industry, and we will continue in this role. It is simply a matter of finding the companies that are a good strategic fit, and in this respect, we have excellent opportunities in the years to come.

**Financial performance**
With the acquisition of Malmstolen, Offecct and Giroflex in 2017 and the Polish company Profim in early 2018, in the course of just over a year we have more than quadrupled our workforce, from 600 to 2 600, and increased our annual revenue to over NOK 3 billion.

However, experience with such acquisitions shows that integrating each company into the group, and in particular creating synergies, always takes some time and expense. Nevertheless, the financial statements for 2017 show that the companies that were part of the group at the start of 2017 achieved a combined revenue of NOK 1 411 billion – 8.6 per cent higher than the previous year. The group as a whole, including the three new companies Malmstolen, Offecct and Giroflex, generated proforma revenue of NOK 1 959 billion, up 3.3 per cent on the previous year. The financial statements also show that Flokk has experienced growth in all markets and all brands that we had in our portfolio at the start of 2017. The largest growth is now seen outside our core markets of Norway and Sweden, but these markets remain our most important in terms of revenue, and also showed growth in 2017.

**“Inspire great work”**
Although we make office chairs, the most important thing to us is people. Our design focus is linked to creating improvements in well-being and performance for those using our products. We endeavour to see a rapidly changing world from a furniture perspective, in order to better understand how people work and collaborate. In this way we are able to continuously learn how we can make a difference and contribute to increased well-being and productivity among our customers. We are part of a greater whole, but we aspire to perfection in all we do. Our greatest wish is that our products will “inspire great work”, in the words of our vision.

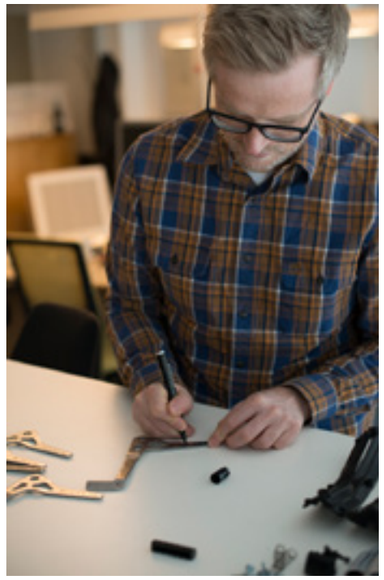
**Lars I. Røiri**
**CEO**

**Strong brands**
Our goal is to cover all seating needs for people at work. In order to make this goal as clear and understandable as possible for our customers, we offer our solutions through various brands, each with its own distinctive personality and character. All of these brands are based on a strong Scandinavian design tradition, ergonomics, high quality and environmentally friendly solutions, and all share the same context of use. Flokk’s products are “different and better” because they differentiate us in these areas.

**Customised mass production**
Flokk’s core expertise, which has contributed to our success and ongoing growth, is in a high level of automation with customised mass production, purchasing and supplier development, and a considerable focus on innovation and product development. Moreover, the entire value chain is digitalised. We own and produce all IP and design ourselves; we also adapt all engineering and design work for manufacturing. The assembly side of production is operated in accordance with the “just-in-time” principle, meaning that we do not manufacture chairs to go into stock. Our production is customised to the orders we receive, and everything goes straight out to the customer through a well-developed logistics and distribution system.
Over the years we have invested a considerable amount in modern production processes and methods, by means of robotisation and digital production lines. As a result, our production system is one of the most efficient in the world, allowing us to manufacture half a million office chairs each year, with 700 product variants, all produced with the same level of efficiency. None of our competitors can even come close to this, because most of the industry relies on a great deal of manual production.

**Market**
Taking into account our most recent acquisition, the Polish company Profim, Flokk now has a market share in office furniture in Europe of 11 per cent, making us the clear number one in the European market. We are now the biggest player in Norway, Poland, Denmark, Belgium, the Netherlands and Switzerland, and we have a presence in over 50 countries. In other words, we are on our way to becoming a prominent global player, and well on the way to reaching our goal of becoming a leading supplier of office chairs on the world market.

**Strategy**
Having become the largest office chair supplier in Europe, it is now natural for us to pursue our ambition of becoming a leading supplier worldwide – still under our slogan of “different and better”, in both existing and new markets. This means that we will defend our strong position in Scandinavia and grow throughout Europe, the USA and Asia. We



will achieve this by offering a complete range of products across all user situations and price levels. As already mentioned, we will win the battle for the market by means of strong product differentiation and strong brands that reach many segments, including medium/low segments.

**Environment and corporate social responsibility**
With nearly 40 years of focus on sustainability, we have been an industry leader in the development of environmentally efficient products. In a period with rapid growth, we intend to keep our role as a sustainability pioneer. We have gained valuable experience and expertise within our three focus areas – climate, resources and health – and thereby established a valuable understanding of how we can structure our work to minimise our products' and our overall environmental impact. We work continuously and comprehensively on both the internal and external value chain to ensure correct and controlled use of raw materials and chemicals in products and production processes, which in turn contributes to reduced greenhouse gas emissions, sustainable use of resources and waste handling, and good health among our employees and the users of our products. Many years of investment in intelligent development of recycled and recyclable products has equipped us for the circular economy. We place strict environmental requirements on all our suppliers, who also have to commit themselves to our ethical guidelines, which deal with human rights, working conditions and corruption.

**Outlook**
There is considerable long-term potential for further growth, in line with our ambitions to continue to drive consolidation in accordance with industrial parameters. This is because we, in danger of sounding complacent, are a sophisticated player who has leadership and are driving consolidation. Moreover, we operate in a cyclical business sector in relation to normal economic fluctuations, but we can see that the market is returning to full strength. This is due to the demand for new solutions and concepts that better meet customers' requirements linked to new ways of working and increased teamwork and collaboration projects in most sectors. Flokk is well positioned to meet changing demands, because we have long studied how people actually work and collaborate. We have used this knowledge to develop new products that meet changing market and customer requirements relating to the need for improved well-being, better health and increased productivity among our customers.

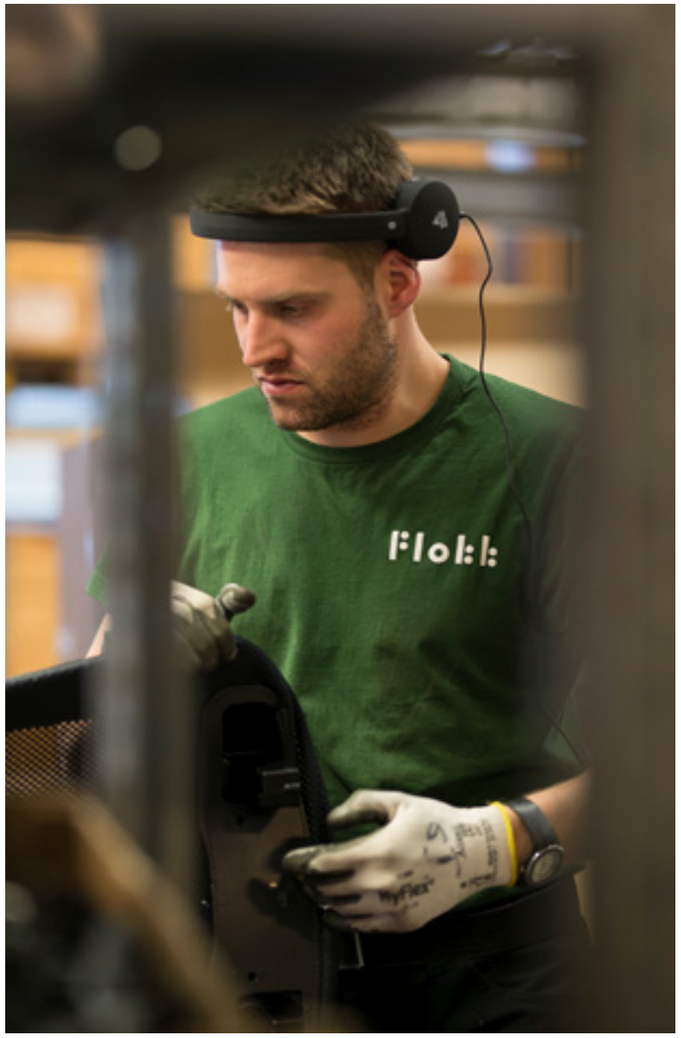
In the short term, our focus area in 2018 will continue to be organic growth, with a goal of at least 5 per cent growth per year. We will achieve this, following acquisitions, by adding new brands and developing appropriate strategies and marketing measures.

As part of creating organic growth, we will establish our own organisation in the USA and investigate opportunities in Eastern Europe, India and Latin America. Furthermore, we will develop a strategy for increased digital capacity in sales and marketing and develop new products. There are exciting and challenging times ahead!

Lars I. Røiri
CEO

# Trends in the Workplace

**The workplace is currently experiencing the most radical period of change since the 1940s. Rapid advancements in technology coupled with a constant drive for productivity means that traditional concepts of how we should work are being eroded and new models are beginning to emerge. One of the biggest battlegrounds is the workspace itself. We've known for many years that people are affected in profound and meaningful ways by the environment and the culture in which they work, but only recently have these ideas begun to have a significant influence on workplace design. As a manufacturer of office furniture, it is vital that we understand these trends, and continually adapt our own activities in order to keep providing a relevant and valuable service to our customers.**




The good news, is that despite this period of flux, most office workers still heavily rely on desking and seating. The Leesman index, which has surveyed nearly 300,000 employees at over 2000 offices, finds that individual, desk based, focused work is still seen as the most important activity to workers. However, what has changed is the environments in which the furniture is located. One of the biggest trends in recent years is the exploration into new office models. The growth of agile working practices has meant that more flexibility is being required from workspaces. Traditional open plan offices which have dominated the scene for several decades are losing their appeal. A growing body of research highlights a dissatisfaction among workers at open plan designs, and the response has been to create more versatile environments, with a variety of spaces for different needs. Combining both formal and informal collaborative, focused and leisure spaces is at the vanguard of office design.

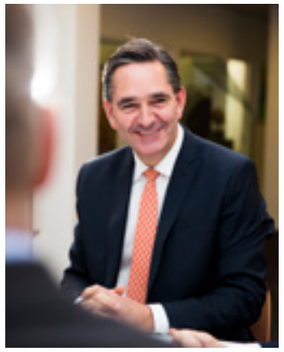
This 'zoning' of the workplace means that more variety than ever is required from furniture. Comfortable and ergonomic task chairs are still fundamental requirements from nearly every office, but new environments require new ideas. Casual and recreational spaces look for comfortable, inviting and design led seating, with a more homely appeal. Collaborative environments, which are used by multiple people, require flexible and universal furniture which can be used by anyone at any time with minimal adjustment. Where space is a premium, entirely new furniture is required to be able to effectively create different environments

without building walls. Attractive and creative room dividers, private phone booths and tall backed privacy enhancing seating are all ideas which are becoming more prominent.

Aside from the design elements of the workplace, ethics and accountability and general wellbeing are issues which are increasingly important for occupants and designers alike. As furniture manufacturers, it is more important than ever to be able to demonstrate strong sustainability credentials, a transparent life cycle of our products, and ensure that our products work with the body and not against it. These features are not only a bonus today, but often a demand when it comes to public sector tenders. This is great news for us, as these notions represent two of our historic cornerstones, and are concepts we have been proactive about for many decades, giving us a head start on many of our competitors.

For Flokk, this changing environment presents an exciting opportunity for growth and development. In 2017, Scandinavian Business Seating became Flokk, a new name to better reflect our expansion into new product categories, and a new corporate identity to demonstrate our commitment to high quality, design led furniture. Through the acquisition of Offecct, Giroflex and Malmstolen, we are better positioned to meet the fresh demands from the industry, with furniture suited to the new office models that we are seeing. The development of all of our brands is heavily influenced by the office design trends, and this is reflected in the development of all of our products.


# Group Management



**Lars I. Røiri**
**(b. 1961)**

**CEO**
Joined Flokk (HÅG) in 1999 and was appointed Managing Director in 2001. Became CEO when the group was formed in June 2007. MSc in Business. Previously worked at Tomra, Saba-Mölnlycke, Jordan and Coloplast Norge.

**Christian Eide Lodgaard**
**(b. 1970)**

**Senior Vice President Products & Brands**
Responsible for product development, marketing, environment and CSR. Joined in 2007. MSc in Design Engineering and previously worked at Hydro Aluminium Automotive.

**Ketil Årdal**
**(b. 1970)**

**Senior Vice President Commercial Operations**
Responsible for sales in Europe. Joined in 2012. Training and experience from the Norwegian Armed Forces. Holds a diploma from BI / Varehandelens Høyskole and has completed Business programmes at the London Business School and the IMD in Lausanne. Past experience from Kellogg's, Findus and Duni.

**Patrik Röstlund**
**(b. 1970)**

**Senior Vice President Manufacturing & Purchasing Operations**
Responsible for production, procurement and logistics. Joined in 2010. Holds a Bachelor in Business Administration. Previously worked at Saab Automobile and General Motors.

**Frederik Fogstad**
**(b. 1965)**

**Senior Vice President Global Partner Organisation (GPO)**
Responsible for sale to markets outside Europe. Joined in 2013. Education and experience from the Norwegian Armed Forces.MSc in Business. Past experience from Varier Furniture AS, Kunde & Co, Intersport, Kellogg's, Middelfart and Coca Cola.

**Lillevi E. Øglænd Ivarson**
**(b. 1964)**

**Senior Vice President HR & Organisation Development**
Responsible for the HR function. Joined in 2007. MSc in Business. Previously worked at Hydro and Yara.

**Eirik Kronkvist**
**(b. 1969)**

**Chief Financial Officer/CFO**
Responsible for the accounts, finances, legal and IT. Joined in 2010. Bachelor in Business Administration and MBA in strategic management. Previous experience from Compaq Computer Norge, Hewlett Packard Norge and Steria.

**Trygve Aasland**
**(b. 1964)**

**Senior Vice President Commercial Development Soft Seating**
Responsible for the commercial development of the Soft Seating segment. Hired in 2018. Education: Master of General Management. Former professional experience from North Investment Group, Lammhults Design Group and Fora Form AS.

# Corporate Governance

**The company complies with the Norwegian recommendations regarding corporate governance. As the company is not listed on the stock exchange, its corporate governance has been tailored to the company's situation. 88% of the company's shares are owned, directly and indirectly, by Triton, a private equity investment company. The remaining shares are owned by a large number of executives and board members.**

Flokk has defined its values. Together with the company's corporate culture, this forms the basis on which the board and management believes that Flokk should be managed. The company's most important success factor has been its ability to develop, produce and market new seating solutions for office environments. Innovation, a cost-efficient procurement function, flexible production, familiarity with the market, and effective sales work are key success factors for Flokk. Flokk strives to maintain high ethical standards in its business practices. All of the companies and employees must comply with the relevant laws and regulations in the country in which they work. The company practises values-driven management based on its values. The company has drawn up guidelines for ethics and corporate social responsibility.

**Business**
The objects clause in Flokk Holding AS's articles of association stipulates that: "The company's operations are to own, directly or indirectly, other companies producing or selling office furniture, including chairs, as well as other activities naturally related thereto."

Flokk designs, develops, produces and markets seating solutions for office environments. Growth and good profitability will be created through a high degree of innovation, modern Scandinavian design, good ergonomic solutions and a people and environment-oriented approach to the products.

The group's executive management team currently has eight members. They cover the group's main processes in the value chain: CEO, R&D, environment and corporate social responsibility, production and procurement, sales and marketing, HR and finance/IT. The group's executive management team is constantly tailored to suit the company's strategic and operational development. The CEO has day-to-day responsibility for Flokk's activities and manages the organisation within the framework set by the board.

**Equity and dividends**
The company's equity share as at 31.12.2017 was 40.4%. No dividends will be paid in the short and medium term, as available liquidity will primarily be used to invest and repay debt. The board does not have a mandate to increase capital.

**Equal treatment of shareholders and transactions with close associates**
Flokk has one class of share and each share provides one vote. The company has laid down guidelines that require the board to be notified when board members or the CEO have significant interests in a transaction entered into by the company.

**General meetings**
Flokk's supreme body is the general meeting. The ordinary general meeting will normally be held every year by the end of March.

**Nomination committee**
A nomination committee has not been established for the election of shareholder-elected board members. As a result of the ownership structure, it has been natural that the work related to the composition of the board's shareholder-elected members be handled by the largest shareholder, Triton.

**Corporate assembly and board: composition and independence**
The current board of Flokk has four members, all of whom are shareholder-elected. The board's chair is selected by the general meeting.

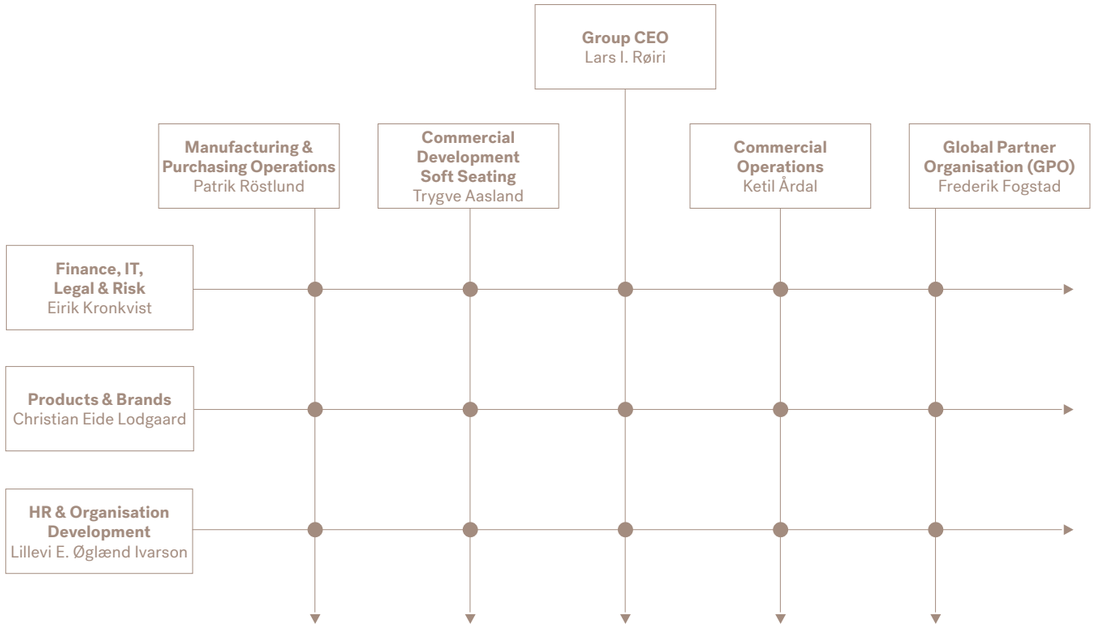
The board is broadly made up of technical, marketing and financial expertise. There are no limits on the terms of board members, as the board's composition is regularly reviewed. The CEO is not a member of the board, but regularly attends the board meetings. Flokk Holding AS has no employees, and is a holding company. The employee's representatives sit on the boards of the operating companies Flokk AS and Flokk AB.

A dedicated group committee has been established to secure good and open dialogue between the management and the employee-elected representatives across the organization and geographical location. The committee has permanent members from the sites (two from Røros, two from Nässjö, and one from Oslo), as well as members from the Management and the HR department. Three meetings are normally held each year.

Flokk and its underlying subsidiaries do not have their own corporate assemblies. An agreement has been concluded on extra board representation from the employees of Flokk AS. The board of Flokk AB also has employee representatives. The boards of Flokk's other subsidiaries consist of the CEO of Flokk, as chairman of the board, and members of the group's Executive Management team.

**The work of the board**
The board has overall responsibility for the management and control of the company. The management group updates the company's three-year strategy plan every year on behalf of the board. This plan also contains the company's financial target figures. The board approves general strategies and sets strategic and financial goals, which are maintained in the company's three year strategy plan and in the annual budget. Outside board meetings, the board serves as advisers to the management group.

# Organisational Structure






Five board meetings are held according to a fixed meeting and work plan. They are linked to the approval of quarterly figures and regular strategy work. The board has rules of procedure, and annually assesses its work. The board appoints the company's CEO. The CEO performs his or her work pursuant to a job description, the company's budget and strategy plan, and contact with the board.

The board has a dedicated audit committee made up of selected members of the board. This committee prepares business for review before final decisions are made at the board meeting. The committee performs tasks related to financial reporting, the annual accounts, internal control, and has contact with the company's auditor. The board annually reviews and approves the company's policies, including environmental policy, code of ethics and personnel policies.

**Risk management and internal control**
Every month, and as needed, the CEO reports on the company's position and financial performance to the board in writing. Flokk systematically revises its strategies based on a three-year rolling plan. Every year an extended group of key managers is involved in this work before the strategies are represented to the board. All employees are involved later and are informed of the content and the consequences for their areas of responsibility. The final, revised strategy provides the basis for the coming year's goals and priori- ties in the company's business plan. The strategy plan must be plain and simple, and provide clear guidelines for every function in the organisation. The ISO 9001 and ISO 14001 general management/quality system is reviewed and evaluated annually. The group's interest and currency strategy is set by the board, provides guidelines to secure a good financial structure and to reduce risk in relation to fluctuations in the interest levels and exchange rates.

Flokk has a number of internal controllers who are organised under a group controller who reports to the CFO. The group has also drawn up a framework for risk management – a so-called Enterprise Risk Management framework. This framework deter- mines how to work to identify, handle and follow up business risk at the group. The key strategic and operational risk is followed up closely through action plans and regular reporting. The board is regularly briefed on this work.

**Remuneration of the board**
The board's remuneration is reported in note 21 of the company's consolidated annual report. The board's remuneration is fixed by the general meeting every year. The board's remuneration is not linked to performance. The board members hold no options in the company.

**Remuneration of executives**
The remuneration of the CEO and other group management is reported in note 21 of the company's annual report. The board fixes the terms of the CEO based on a proposal from the chairman of the board. There is no fixed bonus system for executives. However, various forms of bonus schemes are practised, where financial performance and qualitative goals are the most important indicators.

**Auditor**
The financial positions of almost all of the group's companies are audited by the auditing firm Ernst & Young. The company's central finance department cooperates with Ernst & Young in Norway to ensure good and coordinated auditing in all of the group's units. The auditor's fees are reported in note 10 of the company s consolidated annual report. Information is provided at the general meeting about the breakdown of the auditor's remuneration into auditing and other services. The auditor regularly attends audit committee meetings, and attends board meetings that review the annual accounts.

Audits of health, safety and the environment and the maintenance of ISO certifications are carried out by DNV GL auditors.

# Flokk – A House of Brands

2017 was a big year for us. In June, after 10 years as Scandinavian Business Seating, we became Flokk. A change in name and a change in identity. What was four brands (HÅG, RH, BMA & RBM) has now become seven, with the addition of Offecct, Giroflex and Malmstolen. With these new additions, our product portfolio has expanded to so much more than seating, and our growing house of brands now features some exciting brands outside of Scandinavia, so a new name was needed to better reflect our identity. With our new name and visual identity we emphasise what it was always about in the first place - people. At Flokk we design for well-being and performance, supporting the functional needs, identity and culture of our customers. And why Flokk? Flokk is the Norwegian word for flock, which in its most basic terms means a group or a gathering. But it can be much more than that. A Flokk is synonymous with a group, defined by a common idea or goal. It's about being part of something greater than yourself, while fulfilling your own personality and identity. We like to think that our Flokk is greater than the sum of its parts. Each brand has their own compelling story, with their own distinct character and style, but we are united by a common goal, and a shared passion for «deep design thinking».

## HÅG

HÅG's sitting philosophy was established in the early 1970's and remains just as relevant and unique today. Based on the belief that humans are not made to sit still, HÅG persists in developing new products that give people a more active and better day at work. When you sit in a HÅG chair, you sit in balance. Your whole body is continuously moving in a natural way, without you ever having to think about it.

Emphatic, visual design, and an ambition to always be an environmental pioneer are our inspiration, and the driving force behind the development of our products. All HÅG chairs are true to this principle: Always focus on people, and express empathy for people's needs and requirements.

The Success of the HÅG SoFi mesh, launched at the end of 2016, is a great example of how HÅG's innovative designs are appealing to the architect and designer community as well as the general public. 2018 will see the second mesh back chair by HÅG, providing even greater options in the market.

## RH

With roots going back to 1977, RH is an integral part of the Swedish design tradition. When the first RH chair was launched, it attracted well-deserved attention because it took users seriously.

Today, the RH chair is recognised by ergonomists, physiotherapists and other professionals for its unique ergonomic philosophy. It is based on the importance of an upright sitting position, support and movement. These are qualities that increase users' job satisfaction and perfor¬mance. They are also qualities that help to create a more effective working environment.

All RH chairs have been developed with a focus on functionality. As a result, RH products are comfortable ergonomic chairs that offer many adjustment possibilities and are durable. Despite the advanced construction and maximum performance, they are easy to understand and use, with clear pictograms and intuitive handles and grips. An RH chair offers a high level of individual seating comfort, dynamic ergonomics, user friendliness and flexibility. This philosophy is the basis for all chair series from RH.



## Giroflex

More than 145 years ago Albert Stoll I became a chair manufacturer in Koblenz, Switzerland. The first swivel chair with a suspension system, the "Federdreh", was developed and patented worldwide as early as 1926. The "Giroflex" (turn and flex) brand name, introduced in 1948, can be traced back to this invention. Since then, the brand has been synonymous with wide-ranging expertise in ergonomic seating.
As an international quality brand, Giroflex epitomises the Swiss benchmark for value. Product development, manufacture, service, innovation, Swiss craft and design as well as a strong commitment to sustainability are the hallmarks of the corporate philosophy.

In 2017, Giroflex became the seventh brand of Flokk, adding further depth and range to our house of brands, meaning we truly can offer the most versatile range of office seating in the world.

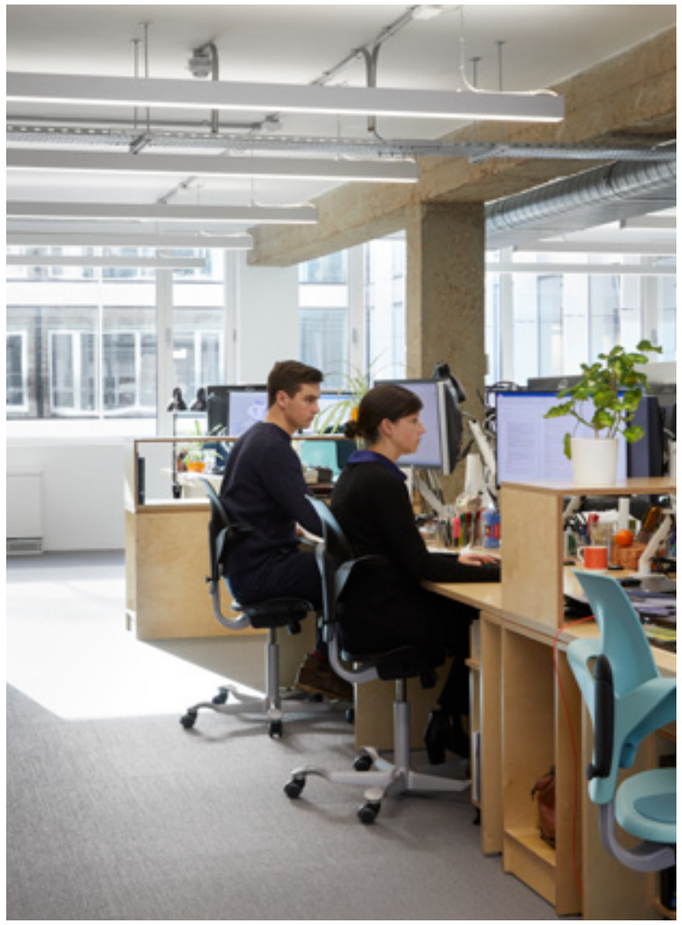
## BMA

BMA Ergonomics was founded in Zwolle, The Netherlands as Biomechanisch Adviesbureau ('Bio Mechanical Advisory') in 1988. At first an RH importer, in 1996 the Axia® office chair was developed, based on the vision and expertise of scientists, physicians, occupa¬tional health specialists and designers. As a consequence, BMA transformed from a consultant to a designer and manufacturer of ergonomic office chairs. From 2006, BMA has expressed its vision on sustainability as "closing the loop". BMA is continuously seeking ways to prolong product life and to gain more control over the bought and sold materials.
At BMA, knowledge and expertise in the field of ergonomics and biomechanics is combined with technology and sustainability. The constantly changing workplace is studied and the wishes and requirements of the individual office worker are understood. An Axia with Smart Technology makes users more aware of their posture and provides active support. It is BMA's mission to improve the posture of office workers and to ensure that everyone learns to adopt a healthier way of working: Work Healthy – Sit Smart!

**Segerstedthuset, Uppsala University**
Country: Sweden
Products: RH Logic

**Mourant Ozannes**
Country: UK
Products: HÅG SoFi mesh

**Segerstedthuset, Uppsala University**
Country: Sweden
Products: HÅG Capisco



**Jestico Whiles**
Country: UK
Products: HAG Capisco Puls

## Offecct

Offecct is a Swedish design brand with a passion for all kinds of meeting places. In partnership with selected designers and architects, and with the aim of always being sustainable in the long term, we develop and produce innovative furnishings for the whole world.

Everything we do at Offecct is dedicated to our mission of creating sustainable meetings and sustainable life cycle for furniture, in collaboration with our clients. It´s our conviction that original design, genuine quality and individualized solutions prolong the life cycle of our products.

As Offecct is a design brand, the hi ghest level of design in every detail is the basis of our operation. To us it´s not enough to launch another chair or sofa into the market. We want to add other qualities in addition to aesthetics with every new product that we releases. This ambition is the core of the Offecct Lifecircle philosophy.

## RBM

Established in Denmark in 1975, RBM's history is deeply entrenched in the traditions of Danish design and represents a Scandinavian state of mind expressed through design. Robust and vibrant furniture, with simple lines, inviting curves, supportive shapes and vivid colour stories. The product range consists of a wide range of meeting chairs and tables, designed for meeting and conference rooms, canteens, public spaces and open-plan offices. RBM furniture enables you to create environments that encourage collaboration, learning, sharing, relaxation or play, because at the end of the day, all that matters is an enriched daily life.

Cooperation with selected designers has given the RBM brand a distinct and authentic Scandinavian identity with unique products covering major consumer needs in this market segment. The RBM Noor collection launched in 2013 is a successful result of an innovative design collaboration between the designers: Form Us With Love, StokkeAustad, Susanne Grønlund/Grønlund Design and the Flokk design team.



## Malmstolen

Malmstolen AB designs work chairs using the human form as our template. Ergonomic working tools must be designed according to the human form and the work situation. The Malmstolen chair has to be a work implement that prevents and alleviates injury.

Malmstolen has all throughout the brand´s history worked to create the best ergonomic work chairs in the market, and to prevent and alleviate musculoskeletal disorders that are often caused by sitting. To ensure this happens, Malmstolen mointors the research and development that is being conducted in stress ergonomics both in Sweden and abroad.

With unique properties for fitting and adjusting the chair to your body, it really becomes your personal task chair. The goal is to create a more human working environment, for a long time.

**University of South Wales - ATRiuM Building**
Country: UK
Products: RBM Noor & RBM Noor Up

**Mediathek Kamp-Lintfort**
Country: Germany
Products: RBM Noor


**Otto**
Country: Germany
Products: HÅG SoFi mesh

**ISTA**
Country: Germany
Products: HÅG SoFi mesh, HÅG Tribute

**Net-a-Porter**
Country: UK
Products: HÅG SoFi mesh

**Bang & Olufsen**
Country: Denmark
Products: HÅG SoFi – 210 chairs

**Convendum**
Country: Sweden
Products: HÅG SoFi mesh – 1000 chairs

**Maersk HQ**
Country: Denmark
Products: HÅG Capisco - 727 chairs

**Segerstedthuset, Uppsala University**
Country: Sweden
Products: HÅG Capisco – 88 chairs,
RH Logic – 439 chairs

**Statoil ASA - Johan Sverdrup platforms**
Country: Norway
Products: RH Mereo – 203 chairs,
RH Logic 400 XL – 22 chairs

**Stockholmsmässan (Stockholm fair)**
Country: Sweden
Products: RBM Ana - 1500 chairs

**HIST - Sør-Trøndelag University College**
Country: Norway
Products: RBM Noor – 900 chairs,
RBM Standard Folding table – 250 tables

**Nexperia, Nijmegen**
Country: The Netherlands
Products: BMA Axia 2.5 - 207 chairs

**ETH Zürich**
Country: Switzerland
Products: Swivel Chair Giroflex 64,
Giroflex 68 – 700 chairs

**UNHCR (The UN Refugee Agency)**
Country: Switzerland
Products: Giroflex 353 – 80 chairs

# Annual Accounts

# Report from the Board of Directors 2017

**Flokk is a leading group in Europe, engaged in the design, development and production of seating solutions for office environments. The group supplies branded goods, selling HÅG, RH, BMA, Giroflex, Offecct, RBM and Malmstolen. Its head office is located in Oslo, with production taking place at its own factories in Norway (Røros), Sweden (Nässjö, Tibro and Hunnebostrand), the Netherlands (Zwolle) and Switzerland (Koblenz). The group also has sales companies in Denmark, Germany, England, Belgium, France, Singapore, China, Hong Kong, Australia and the USA.**

Flokk Holding AS is the group's parent company. The company's activities include direct or indirect ownership of other companies engaged in the production and sale of office furniture, including chairs, and anything else naturally associated with such. The company was established on 28 April 2014. Flokk Holding AS is a holding company for Flokk AS in Norway and Trispin Acquico AB in Sweden.

The group changed its name to Flokk in 2017. Scandinavian Business Seating changed its name to Flokk as a result of international growth and the fact that the business was becoming increasingly more design-oriented.

In 2017 the group underwent substantial expansion in Europe and purchased three new brands; Malmstolen, Offecct and Giroflex. On 5 January 2017, the group purchased 100% of the shares in Malmstolen AB in Sweden. Malmstolen AB was founded in 1994 and over the years has developed a strong position in the segment for ergonomic office chairs in Sweden and some other European markets. On 5 May 2017 the group purchased 100% of the shares in Offecct AB. Offecct is a manufacturer of lounge and office furniture, focussing on sustainability, functionality and design. Offecct's manufacturing operations are based on traditional local crafts, combined with new furniture technology. On 13 July 2017 the group purchased 100% of the shares in Giroflex, the leading manufacturer of ergonomic office chairs in Switzerland. Giroflex is well known as a premium brand and enjoys a strong position in German-speaking markets. Thanks to this acquisition, Flokk became one of the leading manufacturers of office chairs in Europe.

On 28 February 2018 Flokk signed an agreement to purchase the Polish company, Profim, a leading manufacturer of office chairs in central Europe. This company has seen substantial growth over a number of years, increasing its market shares in its main markets in Germany and Poland. Profim is Flokk's fourth acquisition over the course of 14 months and this will serve to reinforce the group's leading position in Europe. These acquisitions are in line with the group's strategy to become a leading global office furniture business.

**Going Concern**
The group and Flokk Holding AS have good levels of profitability and equity. In accordance with Section 3-3 of the Norwegian Accounting Act, it is hereby confirmed that the prerequisites for the going concern assumption exist and accordingly the accounts have been prepared on the basis of the going concern principle.

**Market and General Conditions**
The group's sales growth amounted to 33.1% when compared to 2016. This sales growth is the result of organic growth and the acquisition of Malmstolen, Offecct and Giroflex. The group's organic sales growth of 8.6% compared to 2016 for its HÅG, RH, BMA and RBM brands is considered to be satisfactory in a market which continues to suffer from relatively tame overall developments. The group's markets in Denmark, the Benelux countries and Switzerland experienced the greatest growth in sales, while the market in Norway has stabilised.

In 2018 we will continue our work on integrating Giroflex on the commercial side, especially in Switzerland, Germany, Belgium and the Netherlands. This acquisition has provided the group with larger market shares in the market for office chairs in the respective countries. The Scandinavian markets are also benefitting from expanded portfolio that came with Giroflex. Work is being undertaken on establishing Offecct in Flokk's existing dealer network, as well as continuing to develop the position that this brand has with architects and designers. In the future the group will work to strengthen its position in growth markets, especially in the project market. In 2018 the group expects to see a positive contribution from the launch of its new range of chairs for HÅG and from new products from RH and BMA.

**Income Statement**
The parent company, Flokk Holding AS, had no operating revenues in 2017. Its operating costs amounting to TNOK 5,777 consisted of fees paid to the Board and for other consultancy services. The company's income consists of group contributions from its subsidiaries. Income before tax amounted to TNOK 19,495, against TNOK 265,663 in 2016. This drop was primarily due to foreign exchange losses. Net income amounted to TNOK 28,918, against TNOK 250,847 the previous year.

For the group, operating revenues amounted to TNOK 1,729,941, against TNOK 1,299,480 in 2016. This increase was attributable to organic growth and growth resulting from the three acquisitions which were made in 2017. The group's operating income for the period was TNOK 214,918, against TNOK 211,506 in 2016. The operating margin in 2017 was 12.4%. Net financial expenses amounted to TNOK 153,335, against TNOK 92,635 in 2016. Most of these financial expenses consisted of interest on loans and currency losses. Income before tax amounted to TNOK 61,583, against TNOK 118,871 in 2016. Net income amounted to TNOK 41,712, against TNOK 83,603 in 2016.

Adjusted for one-off costs which were derived from the integration of Giroflex and other acquisition processes, the group's normalised operating income for 2017 amounted to TNOK 314,800, giving an operating margin of 16.1%.

**Balance Sheet and Liquidity**
Total group investments amounted to TNOK 277,139, covering the purchase of subsidiaries for TNOK 233,955, fixed assets of TNOK 34,603 and capitalised development expenses of TNOK 8,581. Most of the group's investments in operating assets were associated with new products and production equipment.

The group had good liquidity throughout the year. At the end of 2017, net interest-bearing debt amounted to TNOK 1,233,099, which is 28% higher than at the end of the previous year. In 2017 the group took out a new bank loan amounting to TNOK 191,400 and paid off TNOK 104,355 of its bank loans.

Total cash flow for the group derived from operating activities amounted to TNOK 207,792. The difference in relation to the operating profit is mainly due to depreciation, taxes paid and changes in working capital.

The group's total capital at the end of the year stood at TNOK 2,898,333, an increase of TNOK 488 840 from the end of 2016. The group's equity ratio, including long-term loans from shareholders, was 40.4%, against 44.8% in 2016. The group's short-term debt at the end of the year was 16.4% of its total debt, against 15.7% the year before. Its total debt-equity ratio, minus long-term loans from shareholders, amounted to 59.6% compared to 55.2% in 2016.

Interest expenses related to long-term loans from shareholders are not being paid out, but are being added to the capital sum in October each year. Debt financing is subject to requirements concerning the achievement of key figures linked to profits and solvency. Bank covenants are valued at the end of every quarter, and the group met the requirements at the end of 2017.

At the beginning of 2018, the group had a total credit line of TNOK 1,521,106, consisting of long-term loans of TNOK 1,306,106 and an unused overdraft limit of TNOK 215,000. Available funds in the form of unused credit facilities and cash at bank as at 31 December 2017 amounted to TNOK 364,788.

**Financial Risk**
Approximately 86% of the group's sales revenues are invoiced in currencies other than Norwegian krone. A large proportion of the company's financial risk is therefore linked to fluctuations in exchange rates, especially with respect to SEK, DKK and EUR. Most of the company's raw material purchases are made in NOK, SEK and EUR. Currency derivates are used in order to reduce currency risk. The group's balance sheet is exposed to exchange rate fluctuations in EUR, as loans in EUR exceed receivables in EUR. This exposure is not hedged.

Credit risk associated with counterparties being unable to meet their financial obligations is regarded as acceptable. The majority of the company's sales are in Northern and Central Europe. Sales are made to our own sales companies and to dealers and importers with whom the group has been working for some time. Historically, losses from receivables have been limited and amounted to TNOK 3,512 in 2017. Gross accounts receivable as at 31 December 2017 amounted to TNOK 294,983.

The company regards the company's/group's liquidity as being good. No decisions have been made to implement any measures that would change the group's liquidity risk.

The group has centralised its financing function, which has responsibility for financing, currency risk, interest rate risk, credit risk and liquidity management.

**Research and Development**
The successful launch of HÅG's Sofi Mesh range of chairs at the end of 2016, and the volumes generated by this product during 2017, provided inspiration and a boost for research, development and marketing throughout the year. HÅG Tribute, a new addition to the group's Executive segment, was presented at the Stockholm Furniture Fair in February 2017. Both launches have been followed up by more comprehensive digital marketing, better sales training and storytelling.

The launch of Flokk as a new company name and identity in June 2017 resulted in a significant change in the company's image. The company's values and philosophy remain the same, but now the Flokk name has served to create a profile which also makes the company's core visible to the outside world on communications platforms. At the same time the company presented its new website and new social media strategy. As regards communications, greater emphasis is now being placed on design and on the stories behind the products. Monitoring traffic from target groups on the company's website and social media has confirmed that this strategy has been the right one.



During 2017 work was carried out on continuing to develop the organisation and its processes for dealing with the commercial aspects of its digital developments and the growth it is experiencing organically and as a result of its acquisitions. The company's process developments have been focussed on the most recent industrialisation phases of its development projects. From a quality point of view, the launch of HÅG Sofi Mesh and HÅG Tribute has been the most successful launch in the history of the company.

In 2017 the HÅG Futu Mesh and BMA Axis Vision ranges of chairs were prepared for launching during the first half of 2018. Projects are also in progress with the following designers: Peter Opsvik, StokkeAustad, Studio Tolvanen, Big Game, Andersen & Voll and Hunting Narud. The company wishes to secure the launch of these products with the right quality and at the same time realise efficiency improvements which will serve to increase the rate of launch during the forthcoming years.

**Production,Logistics and Procurement (MPO)**
Throughout the value chain the company has placed considerable focus on integrating BMA in MPO and completing the transfer of production from Zwolle to Nässjö. During 2017 Giroflex became integrated as a natural part of MPO's matrix organisation. Work has been commenced that is designed to influence Giroflex's profitability through the optimisation of production costs and improving materials.

Overall, the group achieved the targets set for all its production units in respect of delivery, quality, direct salaries and outgoing logistics. At the same time increases in raw materials were weighed up against commercial activities in respect of direct materials which produced positive results.

Furthermore, improving efficiency and optimising the value chain will continue, with the main focus being placed on production in Switzerland. This is designed to achieve the group's profitability requirements and to maintain customer satisfaction for its brands in all markets. MPO will play a key role in the company's strategic initiatives which will result from increased market expansion and new acquisitions, and it will help the group to succeed in realising any potential savings which are identified.

**Working Environment, Equal Opportunities and Discrimination**
The parent company, Flokk Holding AS, has no employees. The company hires administrative services from its subsidiaries.

Working environment surveys are conducted every other year. The next time will be in 2018. After each survey has been conducted, targeted measures are drawn up in different parts of the Flokk group, depending on whether or not such surveys reveal a need for such changes. These measures are followed up throughout the whole period leading up to the next survey. This creates good results and safe, predictable frameworks for the group's employees. The company's core values (innovation and sustainability), focus on confident, clear leaders, the establishment of individual targets related to the company's strategy, individual personal development goals, equality, HSE and organisational conditions are important factors in securing and steadily improving a good working environment.

Like 2016, 2017 has been characterised by organisational consolidations in respect of some commercial operations and other parts of the value chain. After Giroflex was acquired in July 2017, the commercial markets in Switzerland, the Netherlands, Belgium and Germany have been reorganised and the local Giroflex organisations have been incorporated into existing local market organisations. These changes have not resulted in any structural downsizing, although on the other hand the need for additional resources has been obvious and considerable focus has been placed on recruitment in order to boost expertise in some of these organisations. Giroflex's operations in Koblez, Switzerland have been directly incorporated into Flokk's matrix organisation, with direct reporting taking place in all parts of the value chain in addition to commercial operations.

During 2017 and the integration of yet another major company into Flokk, we have maintained high levels of activity in respect of providing internal information to all parts of the organisation in order to ensure involvement and close dialogue. Due

to these high levels of activity in the group, over 100 new jobs were created, and at times large numbers of personnel have been hired for the group's production facilities in both Røros and Nässjö. There is a good, trusting relationship between the company and trade unions. This is an important area for close dialogue and providing good, timely information. In the Netherlands the company has a good working relationship with the local Works Council, with various changes in local operations being implemented during the course of the year.

Within the group, everyone, regardless of gender, age, ethnicity and general background, has equal opportunities for employment and development. In addition, women and men who perform the same job should normally receive equal pay before their work performance is assessed. For new recruits and the composition of teams/departments, we aim at a working environment with variations in age, gender and background. The company works actively to prevent discrimination on the basis of age, gender, disability, ethnic background, national origin, skin colour or personal beliefs.

At the end of 2017, the group had 833 employees, of whom 537 were men and 296 women, with the female percentage constituting 35.5%. The company's Board of Directors has one female member. There is one female member of the group's executive management, i.e. a female percentage of 14%. After 2017, the group reported a Lost Time Frequency Rate (LTIFR) of 45.4 (number of incidents involving absence * the number of workers' hours/1 million) and a Recordable Case Frequency Rate (RCFR) of 26.5 (number of injuries involving absence * number of hours worked/1 million).

**External Environment**

With the environment as one of four cornerstones, the group works continuously to minimize its total environmental impact on a global basis. With nearly 40 years of focus on the environment and sustainability, the group's overall strategy has been to position itself in the upper strata internationally in terms of the environment, by constantly setting new standards for sustainable products in the market. By focussing in a structured manner on the climate, resources and health, the group has succeeded in maintaining its position as a leader in the industry in the development of environmentally efficient products, with an ever lower carbon footprint, an increasing percentage of recycled materials and the complete avoidance of chemicals which are harmful to health and the environment. The group places a high degree of focus on having lower energy consumption in a lifelong perspective, bearing in mind that 95% of its environmental impact occurs before components arrive at its factories for final product assembly. The group applies strict environmental requirements to product solutions, choice of materials, processes and waste management throughout the value chain, both internally and at its joint venture partners.

Environmental strategy in recent years has focused on maintaining the group's leading position in environmental performance in the industry, and simultaneously communicating this better both internally and externally. In 2017 increased focus was placed on forming strategic partnerships in our work on the circular economy. This included a target of substantially increasing the percentage of recycled plastics during the forthcoming years, and identifying new material flows into our value chain. The group's environmental management system is certified in accordance with ISO 14001:2015. An annual review is conducted to identify any operational situations which have an impact on the external environment, in the form of environment aspect analyses conducted at our factories in Røros, Nässjö and Zwolle, as well as at our head office in Oslo. The most significant environmental aspects are defined and provide guidelines for the group's annual environmental targets, in compliance with the group's long-term targets and thus current global strategies, objectives and plans of action. A new aspect of our work in 2017 involved drawing up procedures for internal and external environmental communication, focussing on external partners who have a relationship with our significant environmental aspects.

Climate and Energy - with a target of achieving a 20% reduction in energy consumption per produced unit by 2020, based on 2010 figures, the group is contributing directly to the EU's long-term goal of cutting greenhouse gas emissions by 40% by 2030 in order to meet the

2-degree target. In 2017 Flokk managed to retain its total energy consumption at the same level as in 2016, achieving a slight increase of 0.1%. For the group's factories, there was a marked reduction in energy consumption per produced unit compared to 2016 (Røros 8.9% and Nässjö 9.6%). The group complies with the EU's EED - Energy Efficiency Directive - and in 2017 it followed up measures for qualified EU locations which were identified in energy reviews conducted in accordance with EN 16247. An energy review was also conducted in Norway in order to anticipate forthcoming EEA directives.

Resources and Waste - with a goal of developing lighter, weight-optimised products and increasing the percentage of recycled materials in its products to 60% by 2020, the group is contributing to the UN's new Sustainable Development Goal no. 12, which is designed to "Ensure sustainable consumption and production". In 2017 the use of recycled polypropylene plastics increased from 484 to 592 tonnes, partly as a result of increased sales of RH Logic and BMA Axia. Considerable emphasis is placed on minimising production waste. In 2017 the group experienced an increase in cardboard waste (Nässjö +40T and Røros +70T), something which was partly attributable to increased production volumes and a new supplier of plastic components who had no procedures in place for returning cardboard. This was offset by a marked reduction in hazardous waste. At Røros a quantity of oily waste was reduced from 4 tonnes to 400 kg, and a quantity of process water was reduced from 66 000 litres to 28 500 litres. The group is continuing to work proactively on circular business models. During 2017 its first market pilot displayed good potential and the group consequently boosted its efforts to identify production/reproduction and logistics opportunities. At the same time the group will scale up market testing with several pilots.

Health and Chemicals. The group has a general objective to cut the use of undesirable chemicals in its products, in production and at its suppliers, and it achieved its goal for 2017 by substituting two undesirable chemicals at Røros and eliminating at least one process involving the use of glue in Nässjö. Overall EU countries are the largest producers of chemical products in the world, and the EU also leads the way in regulating chemicals under the REACH regulations. The group therefore operates on the basis of the REACH regulations, and places the strictest demands in the industry on itself, its partners and its suppliers.

Flokk documents and communicates its environmental performance through carefully selected international labels and certificates. The Environmental Product Declaration (EPD) documents the environmental performance of products throughout their lifecycle by quantifying energy consumption and associated greenhouse gas emissions in the supply chain; from the extraction of raw materials, through refinement, transport and production, to use and disposal. The group's most important chair collections carry the US GREENGUARD indoor climate certificate, which guarantees that products contribute to a healthy indoor environment by not emitting hazardous gases. Three of the group's ranges of chairs carry the Nordic Swan Ecolabel which defines strict requirements for the use of chemicals and recycled materials.

The group rates social responsibility as highly as the environment. All employees and suppliers undertake to comply with the company's strict ethical guidelines, based on the "10 principles" contained in the UN Global Compact, which includes human rights, working conditions, child labour and corruption. The company is a member of the Initiative for Ethical Trade (IEH). The company creates long-term value for owners and society by engaging in efficient commercial activities based on the principle of sustainable development. The company wants to be a positive contributor to society for its employees, partners and subcontractors. In Røros in particular, the company is a cornerstone company and an important contributor to the local community. A great deal of work is put into maintaining a good dialogue with the responsible authorities and other important opinion-formers in Røros and Nässjö.

The group's annual Sustainability Report is based on the internationally recognised GRI (Global Reporting Initiative), which covers how the group works in order to improve its environmental performance, the results achieved and how the organisation handles its social responsibilities towards its internal and external partners by engaging in dialogue.

**Board and Management Changes**
Mikael Aro was elected as a new Board member in May 2017 and took over as the Chairman in December 2017 following the departure of Sven-Gunnar Schough. Trygve Aasland became a new member of the group management with effect from January 2018 with responsibility for commercial development of the soft seating part of the group's product portfolio.

**Future Prospects**
There is normally significant uncertainty associated with assessments of future conditions. A good macro-picture in several of the group's markets indicates that positive developments are anticipated in respect of demand during 2018. So far in 2018, the influx of orders in the group's main markets has been slightly higher than it was for the corresponding period last year.

Order reserves at the end of 2017 ensured the satisfactory utilisation of capacity at the start of 2018. The company expects a normal cyclical start to 2018, with a stable development in the price of raw materials during the first quarter.

Processes and contingencies for rapid changes in connection with cutting activity levels, investments and general expenses are in place in case there is a drop in demand.

**Allocation of Profit**
The board proposes that the net income of TNOK 28 918 in Flokk Holding AS should be allocated as follows:

| | |
|---|---|
| **Transferred to other equity** | **TNOK 28,918** |

Oslo, 9 April 2018

Mikael Aro
Chairman of the Board

Thomas Hofvenstam

Pernille Stafford-Bugg

Joachim Espen

Lars I. Røiri
CEO

## CONSOLIDATED INCOME STATEMENT

| NOK 1000 | Notes | 01.01.-31.12.2017 | 01.01.-31.12.2016 |
|---|---|---|---|
| Sales revenues | 5 | 1 729 941 | 1 299 480 |
| **Total operating revenues** | | **1 729 941** | **1 299 480** |
| Cost of goods sold | | 609 718 | 425 606 |
| Inventory movements, in-house production | 15 | (10 706) | (15 215) |
| Cost of labour | 10 | 509 830 | 378 274 |
| Depreciation | 4, 6, 12 | 52 637 | 37 937 |
| Write down | 4, 6 | 1 846 | 1 875 |
| Other operating costs | 13 | 351 698 | 259 497 |
| **Total operating costs** | | **1 515 023** | **1 087 974** |
| **Operating income** | | **214 918** | **211 506** |
| Financial income | 17 | 192 212 | 173 936 |
| Financial expense | 17 | (345 547) | (266 572) |
| **Net financial income/(expense)** | | **(153 335)** | **(92 635)** |
| **Income before tax** | | **61 583** | **118 871** |
| Income tax expense | 14 | 19 871 | 35 268 |
| **Net income** | | **41 712** | **83 603** |
| **Consolidated statement of comprehensive income** | | | |
| Actuarial changes pensions | | 11 419 | 747 |
| Exchange differences on translation of foreign operations | | (10 561) | 35 735 |
| **Total comprehensive income for the period** | | **42 570** | **120 085** |
| **Information concerning:** | | | |
| Earnings per share (NOK 1 000) | 20 | 1 390 | 2 787 |
| Fully diluted earnings per share (NOK 1 000) | 20 | 1 390 | 2 787 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| NOK 1000 | Notes | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| ASSETS | | | |
| Deferred tax benefit | 4, 14 | 43 432 | 21 435 |
| Goodwill | 4, 6 | 1 793 689 | 1 675 293 |
| Other intangible assets | 4, 6 | 89 813 | 68 361 |
| Depreciable assets and fixed property | 12 | 303 995 | 157 160 |
| Financial fixed assets | | 1 248 | 2 026 |
| **Total fixed assets** | | **2 232 177** | **1 924 275** |
| Inventories | 15 | 188 512 | 113 014 |
| Accounts receivables | 16 | 290 906 | 223 832 |
| Other short-term receivables | 16 | 36 896 | 19 565 |
| Financial instruments | 7 | 54 | 818 |
| Liquid funds | | 149 788 | 127 988 |
| **Total current assets** | | **666 156** | **485 217** |
| **Total assets** | | **2 898 333** | **2 409 493** |
| EQUITY AND LIABILITIES | | | |
| Share capital | 19 | 60 | 60 |
| Other paid-up equity | | 404 770 | 404 770 |
| **Total paid-up equity** | | **404 830** | **404 830** |
| Total other equity | | 124 838 | 82 268 |
| **Total equity** | | **529 668** | **487 098** |
| Pension obligations | 4, 11 | 79 755 | (95) |
| Deferred tax liabilities | 14 | 30 006 | 11 285 |
| Guarantees provision | 23 | 4 536 | 3 335 |
| Senior loans | 7, 8 | 1 224 794 | 1 013 228 |
| Subordinated loan | 8 | 641 390 | 593 268 |
| Other long-term debt | | 356 | 361 |
| **Total long-term liabilities** | | **1 980 837** | **1 621 382** |
| Senior loans | 7, 8 | 55 757 | 54 299 |
| Financial instruments | 7 | 6 563 | 882 |
| Accounts payable | | 148 108 | 117 102 |
| Taxes payable | 14 | 12 583 | 12 096 |
| Accrued liabilities (taxes, VAT, social security etc.) | | 53 106 | 34 662 |
| Guarantees provision | 23 | 1 513 | 2 881 |
| Other short-term debt | 24 | 110 198 | 79 091 |
| **Total current liabilities** | | **387 828** | **301 013** |
| **Total liabilities** | | **2 368 665** | **1 922 395** |
| **Total equity and liabilities** | | **2 898 333** | **2 409 493** |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| NOK 1000 | Notes | 01.01.-31.12.2017 | 01.01.-31.12.2016 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax *) | | 61 583 | 118 871 |
| Depreciation of assets | 6, 12 | 52 637 | 37 937 |
| Write-downs of assets | 6 | 1 846 | 1 875 |
| Unrealised exchange rate difference | | 45 877 | (3 003) |
| Other | | 5 493 | 5 101 |
| Paid tax | 14 | (23 018) | (31 637) |
| **Cash flow from operating activities before change in working capital** | | **144 418** | **129 144** |
| **Cash flow from change in working capital:** | | | |
| Change in inventories | | 17 590 | (26 426) |
| Change in operating receivables | | 13 064 | (52 221) |
| Change in payables | | (14 952) | 34 808 |
| Change in operating liabilities | | 47 672 | 47 551 |
| **Cash flow from operating activities** | | **207 792** | **132 856** |
| **Investing activities** | | | |
| Acquisition of subsidiaries | | (233 955) | |
| Acquisition of intangible assets | | | (369) |
| Acquisition of tangible assets | 12 | (34 603) | (38 338) |
| Capitalised development expenditures | 6 | (8 581) | (11 836) |
| **Cash flow from investing activities** | | **(277 139)** | **(50 543)** |
| **Financing activities** | | | |
| Short or longterm borrowing | 8 | 191 400 | |
| Repayment of amount borrowed | 8 | (104 355) | (67 163) |
| **Cash flow from financing activities** | | **87 045** | **(67 163)** |
| **Cash flow for the year** | | **17 698** | **15 150** |
| Opening balance - liquid funds | | 127 988 | 128 314 |
| Exchange rate difference in liquid funds | | 4 102 | (15 476) |
| **Closing balance - liquid funds** | | **149 788** | **127 988** |
| Liquid funds booked as bank deposit | | 149 788 | 127 988 |
| *) Includes: | | | |
| Interest income | | 694 | 723 |
| Interest expenses | | 49 638 | 35 237 |

Unrealised exchange rate difference includes a loss of MNOK 6 447 (TNOK 13 100) on unrealised forward exhange contracts.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| NOK 1000 | Share capital | Other paid-up equity | Total paid-up equity | Foreign currency translation differences | Retained earnings | Total other equity | Total equity |
|---|---|---|---|---|---|---|---|
| **Equity 31.12.15** | **60** | **404 770** | **404 830** | **(34 031)** | **(3 786)** | **(37 817)** | **367 013** |
| Net income | | | | | 83 603 | 83 603 | 83 603 |
| Actuarial changes pensions | | | | | 747 | 747 | 747 |
| Exchange differences | | | | 35 735 | | 35 735 | 35 735 |
| **Equity 31.12.16** | **60** | **404 770** | **404 830** | **1 704** | **80 564** | **82 268** | **487 098** |
| Net income | | | | | 41 712 | 41 712 | 41 712 |
| Actuarial changes pensions | | | | | 11 419 | 11 419 | 11 419 |
| Exchange differences | | | | (10 561) | | (10 561) | (10 561) |
| **Equity 31.12.17** | **60** | **404 770** | **404 830** | **(8 857)** | **133 695** | **124 838** | **529 668** |

## NOTES – GROUP

### NOTE 1 – GENERAL INFORMATION

Flokk Holding AS and its subsidiaries develops, produces and distributes seating solutions for the office market through independent retail chains, importers and dealers. The mother company, Flokk Holding AS, is registered in Norway and has its head office at Majorstuen in Oslo.

The group has production facilities in Norway (Røros), Sweden (Nässjö, Tibro and Hunnebostrand), the Netherlands (Zwolle) and Switzerland (Koblenz). The group primarily sells its products in Europe. An overview of the group's companies is provided in note 18. The group's ultimate parent company is Triton IV No.10 S.à r.l. The consolidated accounts were approved by the board of directors for Flokk Holding AS on 09.04.2018.

### NOTE 2 – ACCOUNTING POLICIES

**Basic policies**

Flokk's consolidated accounts for the 2017 financial year were prepared in accordance with international financial reporting standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB) approved by EU.

The group presents its annual financial statements in NOK, which is also the parent company's functional currency. All figures are stated in NOK thousands, unless otherwise is specifically stated. The financial statements have been prepared on an historic costs basis with the exception of pensions and financial instruments, which have been assessed at fair value.

**Changes in accounting policies and note information**

In January 2016, IASB issued amendments to IAS 7 Statement of Cash Flows with the aim of improving presentation of financing activities and helping the user to better understand the reporting positions' liquidity positions. Under the new requirements, companies will have to present changes in their financial obligations as a result of financing activities with and without cash effect. The change will not have any material impact on the Group's consolidated financial statements other than being an expanded requirement to the consolidates notes.

**Consolidation policies**

The consolidated accounts include Flokk Holding AS and companies in which Flokk Holding AS has a determining influence with respect to the entity's financial and operational strategy, normally through owning more than half of the capital entitled to vote. Subsidiaries are consolidated from the moment control has been transferred to the group and excluded from consolidation when such control ceases.

Intragroup transactions and outstanding balances within the group, including internal profits and unrealised gains and losses, have been eliminated. The consolidated accounts have been prepared on the basis of an assumption of uniform accounting policies for equal transactions and other events in equal circumstances. All companies follow the same financial year.

The financial statements of the individual units in the group are valued in the currency that is primarily utilized in the economic area in which the unit operates (the functional currency). The balance sheet is translated using the exchange rate on the balance sheet date, while the income statement is translated using the average exchange rate for the accounting period. Translation differences that arise due to this are included in the translation differences reserve in equity. Major single transactions are converted separately to spot rate.

**The use of estimates and judgements**
Preparation of the annual financial statements in conformity with IFRS often requires the management to exercise judgement and make use of estimates. Estimates are based on historical information and judgements are largely made on the basis of management's knowledge of the market and various indicators. Certain accounting policies are regarded as being particularly important to the company's financial position, as they are largely determined on the basis of judgements and estimates.
These will typically be:
- Goodwill impairment tests (see note 6)
- Estimates of pension liabilities (see note 11)
- Guarantee provisions (see note 23)
- Capitalising development costs (see note 6)

**Segment information**
An operating segment is that part of the business which generates operating income and incurs costs, and in which the operating result for the segment is regularly reviewed by the management to decide which resources need to be allocated to it. A segment for which reporting is mandatory is a grouping of segments with similar economic characteristics. The group supplies products under the brand names: HÅG, RH, RBM, BMA, Giroflex, Offecct and Malmstolen. Of these, Work Chairs (HÅG, RH, RBM, BMA, Giroflex and Malmstolen) are similar products where risk and returns for the brands do not differ significantly. The six brands have the same management and financial monitoring structure, and the management does not monitor operating results for each of the brands. The group segment is based on two mandatory reporting segments, Work Chairs and Soft Seating (see note 5).

**Business amalgamation**
The acquisition method is used when recognising business amalgamations. When new business and companies are acquired the cost price must be allocated by identifiable assets and liabilities on the basis of estimated fair value. The acquisition costs upon acquisition are valued at fair value of: assets that are paid as remuneration upon the acquisition, issued equity instruments, liabilities assumed by transferring control. Added values upon acquisition in excess of fair value for the net assets in the acquired business valued on the date control is transferred, are classified as goodwill. If the acquisition costs are less than the net assets, the difference is recognized through profit and loss at the time of the acquisition.

**Fixed assets**
Fixed assets are valued at their acquisition cost less accumulated depreciation and write-downs. The acquisition cost includes costs directly linked to the acquisition of the asset. Subsequent costs are allocated to the assets' balance sheet recognised value or recognised in the balance sheet separately when it is likely that future financial benefits will flow to the group and the expense can be valued reliably. Other repair and maintenance costs are recognised through profit and loss in the period the expense is incurred. In cases where increased earnings can be demonstrated due to repair/maintenance, the costs associated with this will be recognised in the balance sheet as asset supply.

When assets are sold or disposed of the cost price and the accumulated depreciation is reversed in the accounts and any loss or gain from the transaction is recognised through profit and loss.Depreciation is calculated using linear method over the following periods:
- Property and other real estate 10-25 years
- Machinery and equipment 6-8 years
- Movable property, inventory and vehicles 3-10 years

The depreciation period and method, as well as the residual value, will be assessed annually to ensure the method and period used concurs with the financial realities associated with the asset. The group has construction in progress. This is primarily linked to investment in tools and machinery for products which are being developed. Operating equipment is therefore activated and depreciated when the product is launched/completed. This will only be done for tools and machinery for products under development if it is almost certain that future financial benefits related to sales will accrue to the group and this can be measured reliably.



**Intangible assets**
Intangible assets are recognised in the balance sheet when likely future financial benefits that can be ascribed to the asset owned by the group can be demonstrated and the assets' cost price can be valued reliably. Intangible assets associated with business amalgamations are activated at fair value. The subsequent valuation is based on cost price less amortization and write-downs. The recoverable amount is calculated annually and when there are indications of a fall in value.

Intangible assets with fixed lifetimes are amortised over the lifetime of the asset. Amortisation is applied using a linear method over the estimated financial lifetime. The amortisation estimate and amortisation method are assessed each year on the basis of the financial realities that exist.

**Goodwill**
Goodwill is recognised as the difference of the group's procurement costs in relation to the overtaking enterprise's net actual value of the recognisable assets, liabilities and subordinated liabilities at the time of acquisition.
A large part of the added value that are paid by acquisitions of business' is attributable to goodwill. Through several acquisitions, the group has acquired high industry-specific expertise in all parts of the value chain. This competence provides margins that will give the group a competitive advantage in the future and margins that are above average for the industry.

Goodwill is tested for impairment once a year and when there are indications of a fall in value. The impairment is assessed by comparing the recoverable amount per cash flow generating unit with the value recognised in the balance sheet. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If the recoverable amount per cash flow generating unit is lower than the value recognised in the balance sheet the asset is written down through profit and loss. Historic write-down amounts are not reversed.

The group's goodwill is linked to the acquisitions done in the period 2014-2017. A specification of goodwill is shown in note 6. Calculations of future cash flows take account of expected market developments and expected general price developments for the group's products in the relevant markets.

**Research and development (internally accumulated)**
Costs associated with research are recognised through profit and loss when they are incurred. Costs associated with development are recognised through profit and loss when they are incurred unless the following criteria are fully met:
- the products or process is clearly defined and the cost elements can be identified and valued reliably,
- the technical solution for the products has been demonstrated,
- the product or process will be sold or used in the business,
- the asset will generate future financial benefits, and
- sufficient technical, financial and other resources exist to complete the project.

When all the criteria are fulfilled, the costs associated with development start to be recognised in the balance sheet. Development costs recognised in the balance sheet are amortised linearly over the estimated lifetime of the finished products. The amortisation period will normally not exceed six years.

Recoverable amount of development costs recognised in the balance sheet will be estimated when there are indications of a fall in value or the need for previous periods' writedowns no longer exists.

**Other intangible assets**
The group has recognised customer contracts in the balance sheet. The customer contracts are acquired in connection with the group's establishment of a subsidiary in Switzerland. The contracts are recorded at cost and amortisation is applied using a linear method over the estimated lifetime.

**Financial instruments and loans**
Currency exposure associated with the group's operations is continuously hedged by the expected net cash flows in currency associated with operational factors being hedged through forward contracts, though only for a limited time horizon and only to the extent it is estimated that it is certain that these expected cash flows will be realised. The manner which the company utilises currency derivatives does

not qualify as hedge accounting and is financial hedging in which unrealised losses and gains by changes in value are recognised through profit and loss as losses and gains on currency and recognised in the balance sheet at fair value. The group therefore does not use hedge accounting. Realised gains or losses on forward contracts are classified as sale in the consolidated income statement.

Accounts receivable are valued at estimated fair value, which is the original invoice amount less a provision for a decrease in value. The provision is made when there is objective evidence that the group cannot collect the total outstanding amount pursuant to the original invoice amount.

Liquid funds are valued at fair value as per 31 December. For balances in foreign currency, the currency rate as per 31 December is used for the valuation. The Flokk Holding group has established a group account system (cash pool system) of which Flokk Holding AS is according to the agreement the group account holder. The bank can settle each withdrawal and the available balance against each other such that the net balance represents the outstanding balance between the bank and Flokk Holding AS. The group recognises the net balance of the accounts included in the group account system.

Loans are recognised at the original loan amount. Loan costs are activated and distributed through profit and loss in line with the loan's repayment period. Loans are recognised at amortised cost when effective interest rates are used in which the difference between net proceeds and the redemption value is recognised through profit and loss over the term of the loan. Loan costs are recognised in the balance sheet and charged to the result in line with the repayment plan.

**Stock**
Stock, including semi-fabricated products, is recognised at the lowest of cost price and net sales price. Net sales price is valued as the market price in normal operations less the cost of completion, marketing and distribution. Costs are established using the FIFO method. The processed stock includes variable costs and fixed costs that can be allocated to goods based on normal capacity. Redundant stock is written-down in its entirety.

**Obsoleteness**
The stock is assessed for obsolescence. Obsolescence arises when the stock contains faulty components or components for products which are no longer for sale, and thus do not represent any value to the group. Provisions for obsolescence are reversed in those instances when the components are nonetheless able to be used in production. In the opposite case, the components are destroyed (used provision see note 15).

**Cash flow statement**
The cash flow statement is prepared using the indirect method.

**Equity**
*Share capital*
Ordinary shares are classified as equity. Expenses directly associated with the issuing of new shares or options, less deductions for tax, are recognised as a reduction in the received remuneration in equity.

*Translation differences reserve*
Translation differences arise in connection with currency differences in the consolidation of foreign units. Currency differences in cash items (liabilities or receivables) that in reality are part of a company's net investment in a foreign unit are treated as translation differences. When foreign units are sold the accumulated translation differences associated with the unit from the same period as the gain or loss from the sale is recognised are reversed and recognised through profit and loss.

**Income tax**
The tax costs consist of payable tax and changes in deferred tax. Deferred tax/tax assets are calculated for all differences between the accounting and tax-related values of assets and liabilities with the exception of goodwill from the integration of undertakings.

Deferred tax assets are recognised when it is likely the company will have sufficient taxable profit to utilise the tax assets. On every balance sheet date the group conducts a review of the deferred tax assets and the value recognised. The companies recognise earlier unrecognised deferred tax assets to the extent it has become likely that the company can utilise the deferred tax assets. Similarly the company will reduce the deferred tax assets to the extent the company no longer believes it can utilise the deferred tax assets.



The deferred tax and deferred tax assets are valued on the basis of the expected future tax rate for the companies in the group in which temporary differences have arisen. The deferred tax and deferred tax assets are recognized independent of when the differences will be reversed. The deferred tax and deferred tax assets are recognized at nominal value and classified as financial non-current assets in the balance sheet. Payable tax and deferred tax are recognised directly against equity to the extent that these relate to matters that are recognised directly against equity.

**Provisions for obligations**
Provisions are recognised when the group has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

**Guarantee provisions**
Provisions associated with guarantee work for concluded sales are valued at the estimated cost for such work. The estimate is calculated on the basis of historic figures for service work and guarantee repairs. Recognised guarantee provisions correspond to an estimate of the future costs the group expects to incur from such repairs to already concluded sales. The liabilities based on historic data expected to be incurred within one year are classified as current liabilities, while those expected to be incurred in more than one year are classified as non-current liabilities in the balance sheet. Continuous guarantee costs associated with repairs are recognised through profit and loss as goods costs, while service work is recognised through profit and loss as other operating costs in the income statement.

**Pensions**
The group's companies have pension schemes that cover all employees. The costs associated with the pension agreements appear as personnel costs in the accounts. The group's employees are members of collective defined contribution pension schemes. Payments linked to the contribution plans are recognised as a cost in the period to which the contributions relate. Employees in Switzerland and some employees in Norway with partial disability still have a defined-benefit scheme. The costs associated with these schemes on based on a linear carrying forward of pension earnings against probable accumulated liabilities at the time of accrual. A linear accrual model distributes the future accumulated liabilities linearly over the accrual period, and regards the employees' accrued pensions' rights in the period as a pensions cost. Any introduction of a new, or changes to an existing, benefits-based pension scheme results in changes to the pension liabilities. The introduction of new schemes or changes to existing schemes that appear with retrospective effect and which result in the employees having immediately earned a paid up policy (or a changed paid up policy) are recognised through profit and loss immediately. The effect of accrued pension benefits is divided over the remaining average accrual period. In the case of contribution plans, payments have been made to the insurance company. Once the contribution has been paid there are not further payment liabilities. Payments linked to the contribution plans are recognized as a cost in the period to which the contributions relate. AFP is a benefit-based multi-employer plan in which the financing share attached to the premium is included as a defined contribution scheme. The own share linked to the scheme is booked as a cost on a current basis. The pension earning period coincides with the period of employment. An annual deviation (known as the estimate deviations) arises between estimated and actual accruals on pension funds and between estimated and actual pension liabilities. This is due to deviations and changes in the preconditions. Estimate deviations are recognised as other income and costs in the total comprehensive income for the period it occurs. Level changes are recognised in the income statement as a single event unless the change is conditional on the employees remaining in the company. In the event of the latter, the change is amortised over the remaining pension earning period.

**Operational leases**
The leasing of assets in which the lessor retains the material proportion of risk and control are classified as operational leasing. Other lease agreements are treated as financial leases. The group only has operational leases. Lease payments are classified as an operating cost and recognized through profit and loss over the term of the contract.

**Recognition of income**
Income is valued at the fair value of the remuneration, net after deductions for value added tax and discounts. Intragroup sales are eliminated. Income is recognized when the income can be reliably valued, it is likely the financial benefits associated with the transaction will flow to the group, and the particular criteria mentioned below are met. Sales are not regarded as being able to be valued reliably before all conditions associated with the sale have been met.

**Sales of goods**
The group sells seating furniture through independent retail chains, dealers and importers. Income from sales of goods are recognised through profit and loss once the risk and ownership associated with the sold goods have been transferred to the buyer and the group no longer has the right of disposal or control associated with these goods. In the vast majority of cases this happens upon delivery from production. The products are often sold with discounts and return rights in the event to defects. Sales are recognized on the basis of the agreed price less any discounts.

**Freight earnings**
The group has income from freight linked to the transportation of goods, which is recognised as income on an ongoing basis in line with the earnings from the sale of goods.

**Government grants**
Government grants are recognised at fair value when it is reasonably certain that the grant will be received and that the group will fulfil the criteria associated with the grant. Government grants associated with future costs are recognised in the balance sheet and recognized through profit and loss as a cost reduction in the period that results in the best composition of the costs they are meant to compensate for.

**Management reporting**
See annual report chapter regarding corporate governance.

**Related parties**
Consolidated companies have transactions with related parties. This is mainly purchase and sale of chairs, as well as administrative services. These transactions are priced with the same conditions as if they had been between independent parties.

**Approved IFRSS and IFRICS with future effective dates**
Standards and interpretations that are issued up to the date of issuance of the consolidated financial statements, but not yet effective are disclosed below. The Group will adopt the relevant new and amended standards and interpretations when they become effective, subject to EU approval before the consolidated financial statements are issued.

**IFRS 9 Financial Instruments: Classification and Measurement**
In July 2014 the IASB published the final element in IFRS 9 and the standard is now complete. IFRS 9 results in amendments to classification and measurement, hedge accounting and impairment. IFRS 9 will replace IAS 39 Financial Instrument: Recognition and Measurement. The parts of IAS 39 that have not been amended as part of this project has been transferred and included in IFRS 9. The standard shall be implemented retrospectively, with the exception of hedge accounting, but it is not a requirement to prepare comparative figures. The rules for hedge accounting shall mainly be implemented prospectively, with certain few exceptions. The group has no plans regarding early implementation of the standard. The amendment will not have any material impact on the Group's financial position or performance.

**IFRS 15 Revenue from Contracts with Customers**
The IASB and FASB has published a new converged standard for revenue recognition; IFRS 15 Revenue from Contracts with Customers. The standard replaces all existing standards and interpretations relating to revenue recognition. The core principle of IFRS 15 is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. With some few exceptions, the standard is applicable for all remunerative contracts and includes a model for recognition and measurement of sale of individual non-financial assets (e.g. sale of property, plant and equipment). IFRS 15 shall be implemented using either the fully retrospective or modified method. The standard is effective for annual periods beginning on or after 1 January 2018. The group does not expect IFRS 15 to have a significant impact on the Group's revenue recognition.

**IFRS Leases**
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

Implementing IFRS 16 will have an effect the Groups financial assets and – liabilities. The companies in the Group lease most of the premises and recognition of the lease right and lease commitments, will have a material impact on the Groups balance sheet. After implementation, rental cost will be classified as depreciations and interest cost. The Group's leasing cost and commitment is stated in note 22.

## NOTE 3 – ACQUISITION OF BUSINESS

**Acquisition 2017**

*Malmstolen*
On 1 January 2017, Flokk Holding AB acquired 100% of the shares in Malmstolen AB, Sweden.

Malmstolen AB had on the acquisition date the following wholly owned subsidiaries:

| Company | Country | Ownership |
|---|---|---|
| **Malmstolen Produktion AB** | **Sweden** | **100%** |

Malmstolen manufactures, markets and distributes the Malmstolen brand with a focus on ergonomics. The company's main market is Sweden.

The acquisitions were conducted against cash consideration. After the acquisition, Flokk Holding AB has 100% of the voting shares in both companies.
The fair values of identifiable assets and liabilities in Malmstolen AB and subsidiaries at the time of acquisition and corresponding recognised values at the time of acquisition were as follows:

| NOK 1000 | Fair value |
|---|---|
| Tangible assets | 7 447 |
| Financial assets | 20 |
| Inventory | 6 723 |
| Accounts receivables | 7 462 |
| Other receivables | 1 598 |
| Liquid funds | 7 434 |
| **Total assets** | **30 685** |
| Deffered tax | 2 692 |
| Long term liabilities | 4 277 |
| Current liabilities | 7 166 |
| **Total liabilities** | **14 134** |
| Net assets | 16 551 |
| Goodwill | 47 092 |
| **Acquisition sum** | **63 642** |

Cash flows from Malmstolen are in SEK, Goodwill at 31.12. is converted to the current closing rate. Booked goodwill at 31.12. amounts to TNOK 50 244.

The transaction cost of the transaction amounted to TNOK 856 and is recognized in the income statement during the period.

The acquisition had the following cash effect:

| | |
|---|---|
| Cash holding in Malmstolen | 7 434 |
| Acquisition sum paid in 2017 | (50 747) |
| **Net cash flow** | **(43 113)** |

Goodwill identified upon the acquisition was associated with the expected cash flow effect from the business that was identified in the conducted acquisition analysis. There were no events during the period that affected the value of the companies during the period 01.01.2017 - 31.12.2017. It is not expected that the goodwill will be tax deductible for the Group.

Malmstolen has contributed TNOK 55 308 to the Group's operating revenues and TNOK 6 759 to the Group's ordinary income before tax for the period 01.01.2017 - 31.12.2017.

*Offecct*
On 1 May 2017, Flokk Holding AB acquired 100% of the shares in Offecct AB, Sweden.
Offecct has its headquarters in Tibro. Production takes place in own factory premises in Tibro. The agreed purchase price was TNOK 94 971. In addition to the

purchase price, an earn-out has been agreed based on the company's financial result for the period 2017 and 2018. No provision has been made for this in the accounts as it is considered unlikely that the goals will be achieved.

Offecct AB had on the acquisition date the following wholly owned subsidiaries

| Company | Country | Ownership |
|---|---|---|
| **Facctory AB** | **Sweden** | **100%** |
| **Offecct Design AB** | **Sweden** | **100%** |

Offecct manufactures, markets and distributes the Offecct brand, which has a wide range of furniture within the open office and public meeting space segment. The company's main market is Sweden with some exports within Europe.
Facctory AB is a company that manufactures custom furniture products within the same segment, but mainly for larger projects.
Offecct Design AB is a company that owns patents and royalty on the Offecct brand.

The acquisitions were conducted against cash consideration. After the acquisition, Flokk Holding AB has 100% of the voting shares in all companies.

The fair values of identifiable assets and liabilities in Offect AB and subsidiaries at the time of acquisition and corresponding recognised values at the time of acquisition were as follows:

| NOK 1000 | Fair value |
|---|---|
| Intangible assets | 2 608 |
| Tangible assets | 38 756 |
| Inventory | 22 113 |
| Accounts receivables | 15 971 |
| Other receivables | 5 282 |
| Liquid funds | 7 422 |
| **Total assets** | **92 152** |
| Deffered tax | 4 581 |
| Long term liabilities | 23 559 |
| Current liabilities | 23 927 |
| Taxes payable | (1 813) |
| **Total liabilities** | **50 253** |
| Net assets | 41 899 |
| Goodwill | 53 072 |
| **Acquisition sum** | **94 971** |

Cash flows from Offecct are in SEK, Goodwill at 31.12. is converted to the current closing rate. Booked goodwill at 31.12. amounts to TNOK 56 557.

The transaction cost of the transaction amounted to TNOK 1 882 and is recognized in the income statement during the period.

The acquisition had the following cash effect:

| | |
|---|---|
| Cash holding in Offecct | 7 422 |
| Acquisition sum paid in 2017 | (94 971) |
| **Net cash flow** | **(87 548)** |

Goodwill identified upon the acquisition was associated with the expected cash flow effect from the business that was identified in the conducted acquisition analysis. There were no events during the period that affected the value of the companies during the period 01.05.2017 - 31.12.2017. It is not expected that the goodwill will be tax deductible for the Group.

Offecct has contributed TNOK 89 121 to the Group's operating revenues and TNOK -2 303 to the Group's ordinary income before tax for the period 01.05.2017 - 31.12.2017.



*Giroflex*
On 1 July 2017, Flokk AS acquired 100% of the shares in Giroflex Holding AG, Switzerland. Giroflex has its headquarters in Koblenz. Production takes place in own factory premises in Koblenz. The agreed purchase price was TNOK 175 130. No additional additions were made to the purchase price. Giroflex Holding AG had on the acquisition date the following wholly owned subsidiaries:

| Company | Country | Ownership |
|---|---|---|
| Stoll Giroflex AG | Switzerland | 100% |
| Espisa AG | Switzerland | 100% |
| Giroflex SA | Belgium | 100% |
| Girflex GmbH | Germany | 100% |
| Giroflex Nederland B.V. | the Netherlands | 100% |
| Giroflex France Sarl | France | 100% |

Giroflex manufactures, markets and distributes the Giroflex brand with the focus on ergonomic seating solutions. Distribution takes place through its own subsidiaries in Switzerland, Germany, Belgium and the Netherlands. The company in France is sleeping.
Espisa AG produces a varied range of plastic components, of which approx. 50% is sub delivery to Giroflex.

The acquisitions were conducted against cash consideration. After the acquisition, Flokk AS has 100% of the voting shares in all companies.

The fair values of identifiable assets and liabilities in Giroflex and subsidiaries at the time of acquisition and corresponding recognised values at the time of acquisition were as follows:

| NOK 1000 | Fair value |
|---|---|
| Intangible assets | 22 566 |
| Tangible assets | 101 822 |
| Financial assets | 37 958 |
| Inventory | 68 898 |
| Accounts receivables | 34 815 |
| Other receivables | 17 536 |
| Liquid funds | 52 943 |
| **Total assets** | **336 537** |
| Deffered tax | 14 248 |
| Long term liabilities | 101 609 |
| Current liabilities | 41 930 |
| Taxes payable | 15 695 |
| **Total liabilities** | **173 482** |
| Net assets | 163 056 |
| Goodwill | 12 074 |
| **Acquisition sum** | **175 130** |

Cash flows from Giroflex are in CHF. Goodwill at 31.12. is converted to the current closing rate. Booked goodwill at 31.12. amounts to TNOK 11 595.

The transaction cost of the transaction amounted to TNOK 8 516 and is recognized in the income statement during the period.

The acquisition had the following cash effect:

| | |
|---|---|
| Cash holding in Giroflex | 52 943 |
| Acquisition sum paid in 2017 | (175 130) |
| Deduction for loan to shareholder | 18 890 |
| **Net cash flow** | **(103 297)** |

Goodwill identified upon the acquisition was associated with the expected cash flow effect from the business that was identified in the conducted acquisition analysis. There were no events during the period that affected the value of the companies during the period 01.07.2017 - 31.12.2017. It is not expected that the goodwill will be tax deductible for the Group.
Giroflex has contributed TNOK 174 488 to the Group's operating revenues and TNOK 6 467 to the Group's ordinary income before tax for the period 01.07.2017 - 31.12.2017.

**Proforma figures**
The proforma figures show what the result would have been in 2016 and 2017 if the acquired companies had been included in the group from and including 1 January 2016. The amounts are translated at the average exchange rate.

**Operating income – Proforma – Flokk Holding Group**

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| Sales revenues | 1 959 615 | 1 897 252 |
| **Total operating revenues** | **1 959 615** | **1 897 252** |
| Cost of labour | 776 860 | 728 818 |
| Depreciation | 535 647 | 534 970 |
| Write down | 61 062 | 55 441 |
| Other operating costs | 1 846 | 1 875 |
| Total operating costs | 414 091 | 337 374 |
| **Total operating costs** | **1 789 507** | **1 658 478** |
| **Operating income** | **170 108** | **238 774** |

## NOTE 4 – ESTIMATE UNCERTAINTY
In preparing the annual financial statements, estimates and assessments have been made which affect the reported values of assets, liabilities, revenues, expenses and the disclosures of potential obligations. These estimates have been made largely on the basis of management's subjective judgements and assumption about the future. Future events can result in changes to these estimates. Changes are recognised in the financial statements when new estimates can be reliably determined. The company's critical accounting estimates relate to the following items:

**Tangible fixed assets**
By acquisition, tangible fixed assets are estimated at fair value, which corresponds to the market value. The expected useful life of the company's production equipment is largely affected by the volume of production. With an expected reduction in demand for the company's products, the lifetime of the production equipment will be somewhat longer than we have seen over the last several years. The current depreciation period is from 6 to 8 years, while sales forecasts indicate a useful economic life of 5 to 10 years. The carrying value of tangible fixed assets are MNOK 305.

**Intangible assets**
The carrying value of goodwill in the company is tested annually for impairment. Management bases its cash flow forecasts on estimated rates of growth. Estimated rates of growth are derived from judgements made by management of how macroeconomic conditions, the company's market position and its growth ambitions will affect future growth. The assumptions used to test goodwill for impairment are based on estimates that are uncertain. The company has been cautious in its projections of future cash flows in order to reduce the uncertainty in these estimates. Sensitivity analyses have been performed on projected earnings and the discount rate which show that there is a substantial margin compared with book values. Management's judgements are based on historical data and its market knowledge. The business is substantially affected by the economic cycle in its main markets. This is particularly relevant in Scandinavia and Central Europe. The carrying value of goodwill is MNOK 1 794.

**Net pension obligations**
Net pension obligations are determined using calculations by actuaries based on assumptions which include the discount rate, future salary growth, pension regulations, forecast returns on pension plan assets and demographic indicators of disability and mortality. The assumptions are made using observable market prices and historical trends for the company and society in general. Significant variability in the assumptions, particularly in the level of interest rates, can have a material effect on the calculated amounts of pension liabilities and expenses. The carrying value of net pension obligations is MNOK 79.8

**Deferred taxes**
There is uncertainty in relation to interpretations of complex tax regulations, amendments to tax legislation, and the size and timing of future taxable income. Given the extensive scope of international business conditions and the long-term nature and complexity of existing contracts, differences between actual performance and the assumptions that have been made, or future changes in these assumptions, it may be necessary to adjust tax revenues and expenses which have already been recorded. See note 14 for further information about taxes.



## NOTE 5 – SEGMENT INFORMATION
For management purposes, the Group is organized in business areas based on the industries in which the Group operates and has the following two reporting segments:

**Work chairs**
The group is a niche supplier that develops, manufactures and sells seating for working environments. A large proportion of these products consist of multifunctional work chairs with casters. The company's customer structure consists of a very large number of dealers in all the main markets. Outside the main markets, importers buy directly and sell on to dealers and end-customers. The size of our customers varies significantly.

**Soft Seating**
Through the acquisition of Offecct AB in 2017, Flokk is established in a business area with a wider range of product portfolio. Within soft seating, the Group develops, distributes and markets products for the furnishing of larger surfaces, such as sofa, sound absorbing walls, armchairs, benches and tables. The business area also delivers tailored solutions for large and small projects. The products are distributed both through retailers and directly to end customers.

| PER 31.12.17 NOK 1000 | Work chairs | Soft seating | Other/ Eliminations | Consolidated |
|---|---|---|---|---|
| Operating revenues from external customers | 1 640 820 | 89 121 | | 1 729 941 |
| Operating revenues - Group internal | | | | 0 |
| **Total revenues** | **1 640 820** | **89 121** | **0** | **1 729 941** |
| Operating costs | 1 425 975 | 89 047 | | 1 515 022 |
| **Operating income** | **214 846** | **73** | **0** | **214 919** |
| **Investment in fixed assets** | **264 567** | **39 428** | | **303 995** |
| **Total assets** | **990 935** | **96 713** | **1 810 686** | **2 898 334** |
| **Total liabilities** | **1 034 035** | **31 418** | **1 303 214** | **2 368 667** |

There are no customers big enough to make the company vulnerable should they decide to terminate the business relationship.There are no individual customers or groups of customers which account for more than ten percent of total sales within the group. Transactions between the various segments have been eliminated by consolidation. Transactions between the segments are based on market prices.Operating income of the different operating segments includes income and expenses from transactions with other operating segments in the Group. Segment assets do not include deferred tax assets (TNOK 43 432), goodwill (NOK 1 793 689) and derivatives (TNOK 54) as these assets are controlled on a group basis. These amounts are included in the other/eliminations column. Segment liabilities do not include deferred tax (TNOK 30 006), tax payable (TNOK 12 583), bank loans (TNOK 1,280 551) and derivatives (NOK 6 563) as this type of liabilities are controlled on a group basis. These amounts are included in the other/eliminations column.

Investments consist of access to property, plant and equipment, intangible assets and investment property.

**Adjustments and eliminations**
Financial items and losses / gains on financial assets are not allocated to individual segments as the underlying financial instruments are controlled at group level. The same applies to income tax expense and deferred tax.

**Reconciliation of results**

| NOK 1000 | 2017 |
|---|---|
| Segment result | 214 919 |
| Financial income | 192 212 |
| Financial expense | 345 547 |
| Income tax expense | 19 871 |
| **Group result** | **41 713** |

## Geographic segment

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| **Revenues from external customers** | | |
| Norway | 263 522 | 274 494 |
| Sweden | 425 054 | 268 608 |
| Denmark | 192 171 | 170 593 |
| Germany | 228 961 | 188 817 |
| NL | 203 803 | 172 858 |
| Belgium | 72 453 | 35 705 |
| Switzerland | 130 729 | 29 109 |
| France | 52 737 | 44 422 |
| UK | 100 014 | 88 092 |
| Singapore | 11 395 | 13 504 |
| Hong Kong | 1 467 | 2 212 |
| China | 10 083 | 5 265 |
| Australia | 8 390 | 5 801 |
| USA | 29 162 | |
| **Total revenues** | **1 729 941** | **1 299 480** |
| **Fixed assets** | | |
| Norway | 82 925 | 86 271 |
| Sweden | 106 569 | 55 177 |
| Denmark | 2 347 | 1 769 |
| Germany | 4 869 | 2 245 |
| NL | 7 788 | 7 357 |
| Belgium | 520 | 610 |
| Switzerland | 93 447 | |
| France | 1 443 | 690 |
| UK | 3 041 | 1 851 |
| Singapore | 658 | 761 |
| Hong Kong | | |
| China | 383 | 424 |
| Australia | 4 | 6 |
| USA | | |
| **Total** | **303 995** | **157 160** |

Included in fixed assets under geographic segments are property, plant and equipment and investment property. The distribution is based on the company's location.

| **Distribution of revenue per brand** | | |
|---|---|---|
| HÅG | 714 393 | 624 266 |
| RH | 392 664 | 394 360 |
| RBM | 108 043 | 114 637 |
| BMA | 193 205 | 174 848 |
| Giroflex | 174 488 | |
| Malmstolen | 55 309 | |
| Offecct | 89 121 | |
| **Total revenue from the brands** | **1 727 223** | **1 308 111** |
| Hedging contracts | 2 718 | (8 631) |
| **Total** | **1 729 941** | **1 299 480** |



## NOTE 6 – INTANGIBLE ASSETS

| NOK 1000 | Goodwill | Development | Other intangible | Total |
|---|---|---|---|---|
| **Fiscal year 2016** | | | | |
| Booked value per 01.01.16 | 1 675 293 | 64 478 | 4 894 | 1 744 665 |
| Investment | | 11 836 | 369 | 12 205 |
| Conversion differences | | (2 556) | (227) | (2 783) |
| Write down | | (526) | (1 947) | (2 473) |
| This year's depreciation | | (7 961) | | (7 961) |
| **Booked value 31.12.16** | **1 675 293** | **65 272** | **3 089** | **1 743 654** |
| **Per 31.12.2016** | | | | |
| Cost price | 1 675 293 | 131 324 | 9 676 | |
| Accumulated depreciation /write-downs | | (66 052) | (6 587) | |
| **Fiscal year 2017** | | | | |
| Booked value per 01.01.17 | 1 675 293 | 65 272 | 3 089 | 1 743 654 |
| Investment | | 8 581 | | 8 581 |
| Purchase of enterprise | 112 238 | 24 363 | 8 | 136 609 |
| Conversion differences | 6 158 | 1 895 | (29) | 8 024 |
| Write down | | | (1 846) | (1 846) |
| This year's depreciation | | (11 397) | (123) | (11 520) |
| **Booked value 31.12.17** | **1 793 689** | **88 714** | **1 099** | **1 883 502** |
| **Per 31.12.2017** | | | | |
| Cost price | 1 842 010 | 131 324 | 9 676 | |
| Accumulated depreciation /write-downs | | (66 052) | (6 587) | |
| Economic life | Indefinite | 6-10 years | 5 years | |
| Remaining economic life | | 1-9 years | 1 year | |

The Group has no other intangible assets except goodwill that have indefinite lifetime.
Depreciations on intangible assets are booked purely as depreciations.
Amortization of acquired customer contracts are recognized as impairment.

**Research and development**
The group performs its own research and development within the field of seating solutions. External parties within a number of fields are used as part of this work. The group has several external designers who work on product development. In most cases the designers are compensated for their work in the form of royalties on sales of the individual product. A not inconsiderable proportion of the total R&D costs are royalties from sales that are recognised as costs in the individual year. Costs incurred in the period and which satisfy the criteria for the product development of future seating solutions are recognised in the balance sheet. An impairment test is performed every year. The test uses the same preconditions for growth and return on investment (WACC) as for goodwill. Costs for ongoing R&D activities as per 31 December are expected to have future earnings that exceed the value recognised in the balance sheet and expected future costs. The group had at the end of the year seven major R&D projects ongoing of which three will be launched during 2018.

The group receives government grants for research and development.

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| Skattefunn (tax deduction of R&D expences) | 678 | 769 |
| Training grant | 474 | 493 |
| **Total** | **1 152** | **1 262** |
| R&D costs in the period | 51 292 | 36 323 |

**Other intangible assets**
Other intangible assets constitute customer files that are acquired by establishing a subsidiary in Switzerland. Amortisation takes place over expected lifetime, which is five years.

**Goodwill**

| Goodwill distributed per enterprise purchase | NOK 1000 |
|---|---|
| **Purchase in 2014:** | |
| Scandinavian Business Seating Holding AB | 524 928 |
| Scandinavian Business Seating Holding AS | 1 111 592 |
| **Purchase in 2015:** | |
| BMA Ergonomics BV | 38 773 |
| **Purchase in 2017:** | |
| Malmstolen AB | 50 244 |
| Offecct AB | 56 557 |
| Giroflex AG | 11 595 |
| **Total goodwill** | **1 793 689** |

The group has accumulated goodwill of TNOK 1 793 689. Goodwill is allocated in connection with purchase transactions in 2014, 2015 and 2017. Goodwill is recognised as the excess of the amount paid and the acquiring company's net fair value of the identifiable assets, liabilities and contingent liabilities at the time of acquisition.

The group has identified four cash generating units for 2017. Flokk Core consisting of the brands HÅG, RH, RBM and BMA. The Group monitors the development, production and distribution of these brands as one unit. Costs are allocated to the different product areas. In addition, the group has its own cash flows from the brands Malmstolen, Offecct and Giroflex.

Goodwill is tested for impairment. The book value of goodwill is the residual value from business combinations. Goodwill is tested by comparing the present value of the discounted stream of future cash flows and the book value. Cash flow projections are based on extrapolating figures for 2019 and 2021 from estimates in the company's and the group's senior management strategy plan for 2018. A constant growth rate has been applied throughout the time period of the cash flow projections.

**Impairment tests of goodwill**
The conducted impairment tests of goodwill show that there is no need to write-down recognised goodwill. The company is of the opinion that the assumptions used in the tests are best estimate and, besides taking account of a normal level of long-term uncertainty in relation to the company's development, also take account the uncertainty in the current financial market.

**Sensitivity**
Sensitivity calculations were conducted for the three companies with different parameters (WACC and long-term growth). The cash flows are also extrapolated using EBITA at 2017 level. These show that the conclusions, with reasonable changes to the assumptions, do not change in relation to the fact that the group can justify its recognised goodwill. The Group Management will focus on Offecct's cash flow through 2018 and assess impairment on a continuous basis based on the realized cash flow from the business.

| | 2017 | 2016 |
|---|---|---|
| **Flokk Core** | | |
| WAAC, before tax | 8,8% | 8,5% |
| WAAC after tax | 6,8% | 6,3% |
| WACC before tax + 2% | 10,8% | 10,5% |
| Impairment margin | 1 600 | 947 |
| Marginal value WACC before tax | 17,80% | 15,65% |
| Long term growth | 0% | 0% |
| Impairment margin | 1 898 | 1442 |
| **Extrapolation of this year's EBITA** | | |
| Impairment margin | 1 228 | 325 |
| **Malmstolen** | | |
| WAAC, before tax | 7,7% | |
| WAAC after tax | 6,0% | |
| WACC before tax + 2% | 9,7% | |
| Impairment margin | 92 | |
| Marginal value WACC before tax | 13,5% | |
| Long term growth | 0% | |
| Impairment margin | 56 | |
| **Extrapolation of this year's EBITA** | | |
| Impairment margin | 7 | |
| **Offecct** | | |
| WAAC, before tax | 7,7% | |
| WAAC after tax | 6,0% | |
| WACC before tax + 2% | 9,7% | |
| Impairment margin | -9 | |
| Marginal value WACC before tax | 9,2% | |
| Long term growth | 0% | |
| Impairment margin | 3 | |
| **Extrapolation of this year's EBITA** | | |
| Impairment margin | (159) | |
| **Giroflex** | | |
| WAAC, before tax | 6,6% | |
| WAAC after tax | 5,4% | |
| WACC before tax + 2% | 8,6% | |
| Impairment margin | 16,8 | |
| Marginal value WACC before tax | 8,8% | |
| Long term growth | 0% | |
| Impairment margin | 66 | |
| **Extrapolation of this year's EBITA** | | |
| Impairment margin | 281 | |

**Assumptions**
When determining the fair value of goodwill, the following assumptions are considered to be the most sensitive to fair value measurements:

**Sales**
Sales development is based on the budget for 2018 and the management's sales forecast for the period 2019-2021. Budgets and forecasts are approved by the Board. Sales estimates, which have a material effect on figures in the income statement and cash flows, have taken into account that the company is recovering from a recession with expectations of a higher growth rate over the next 2-3 years than the long-term average. The long-term growth has been fixed at two per cent, reflecting the long-term rate of inflation plus a very conservative growth rate.

**Gross margins**
The group expects sound gross margins in the years ahead. There are continuous improvement projects in procurement and logistics, as well as production optimization. The group has, over the past years, shown that these projects had an effect and it is expected that this will also apply to future

**Weighted average cost of capital (WACC)**
A low risk-free interest rate influences the WACC. The cash flow is discounted with WACC before tax. A tax rate of 24 per cent is used when calculating the WACC before tax. This is a simplification of the theoretically correct method. The group's goodwill is linked to cash flows from countries with differing tax percentages. The simplification does not result in any material effects. The WACC rate used is 6.34% after tax, corresponding to 8.45% before tax.

The group has applied the following assumptions for estimating WACC:
- The long term risk-free interest rate is equivalent to the interest rate on 10 year government bonds as this corresponds with the time horizon on the relevant cash flows.
- The risk premium is 5% based on market research undertaken by the Norwegian Society of Financial Analysts and the recommendation from its members.
- Beta is 1.5 due to the cyclical nature of the industry
- Corporate Spread is 4.0%, where 1.25% reflects the current uncertainty in the borrowing market plus the NIBOR/STIBOR spread against a long-term risk-free interest rate.

## NOTE 7 – FINANCIAL INSTRUMENTS AND RISKS

**Market risk**
The Group has centralised its financing function which has responsibility for financing, currency risk, interest rate risk, credit risk and liquidity management. The group has established guidelines for interest rates, currency and credit set out in policies.

*Effects of increase/reduction in selling prices and rebates:*
If the group's selling prices were 1% higher or lower in 2017 and other variables remained constant, it would have resulted in a higher or lower operating result of TNOK 17 299. If rebates on sales were 1% lower or higher in 2017, and other variables remained constant, it would have resulted in an increase or reduction in the operating income of TNOK 31 486.

*Foreign currency risk*
MNOK 1 493 of the Group's revenues are denominated in foreign currency. The company has an even flow of revenues, and its sales are not generally based on a few large individual orders generating a large share of the sales. The Group invoices the customer in the customer's own currency. This means that a large share of the company's financial risk is attached to changes in exchange rates, especially in SEK, DKK, GBP and EUR. The Group has foreign currency risk connected to future cash flow in foreign currency and net investments in subsidiaries abroad. In order to limit the effect of fluctuating exchange rates, the company uses foreign currency derivatives. Normally, between 50-70% of expected net foreign currency exposure is secured through use of derivates. The forward contracts are agreed with a large, recognised finance institution in Norway and any credit risk is therefore considered minimal. These contracts are treated as ordinary derivatives where the unrealised gains and losses are recognised in the income statement as currency gains/losses and are recorded at fair value. The Group has investments in subsidiaries in foreign currency where the net investments are disposed for currency risks by conversion. The currency risk from the Group's

net investments in foreign subsidiaries is not secured by drawing long-term loans with corresponding amounts.

*Effects of increase/reduction in foreign currency*
If NOK compared to other currencies was 10% weaker/stronger as per 31 December 2017 and all other variables were consistent, this would have caused the following change in income before taxes:

Sensitivity financial instruments included in hedging as per 31.12.17

| | +/- NOK 1000 |
|---|---|
| Foreign currency risk: 10% change in currency rate EUR/NOK | 1 136 |
| Foreign currency risk: 10% change in currency rate DKK/NOK | 9 781 |
| Foreign currency risk: 10% change in currency rate GBP/NOK | 1 775 |
| Foreign currency risk: 10% change in currency rate USD/NOK | 821 |

Foreign currency derivates made to secure future cash flow as per 31.12.17

| Figures in NOK 1000 | EUR | DKK | GBP | USD |
|---|---|---|---|---|
| Due in 2018 | 113 163 | 97 813 | 17 746 | 8 205 |

*Interest risk*
The Group's interest risk is primarily connected to long-term debt. As the net interest bearing debt per 31.12.17 was 42% of the total balance sheet, the net profit is considerably exposed by the interest level. The debt primarily consists of variable-rate loans. In 2017, the Group's variable-rate loans have been in NOK and EUR. With net interest-bearing debt of TNOK 1 233 099, the level of interest rates does significantly affect the financial expenses.

**Credit risk**
The credit risk represented by contracting parties not being able to meet their obligations is regarded as low. The majority of the company's sales are to Northern/Central Europe, with the company selling to dealers and importers with whom it has a long-standing business relationship. The Group has guidelines to ensure that outstanding accounts conform to fixed credit limits. The Group has no major credit risk linked to one particular contracting party or several contracting parties who can be regarded as a group by virtue of similarities in the credit risk. The Group has guidelines to ensure that sales are only made to customers who have not previously had significant problems with payment and outstanding accounts do not exceed fixed credit limits.

**Maximal exposure for credit risk as per 31.12.17 of financial instrument:**

| | |
|---|---|
| Gross accounts receivables (note 16) | 294 983 |
| Other receivables | 36 896 |
| Financial instruments | 54 |
| Liquid funds | 149 788 |
| **Total** | **481 721** |

**Liquidity risk**
The Group's activities are not capital intensive and normal annual investment represents 3-6% of the company's sales. The Group regards its liquidity as good. Active attention is given to the Group's liquidity throughout the year, in terms of both working capital elements and operational activities. Work on the working capital elements has been in focus for several years and the company has strategies, key figures and action plans that are continuously followed up on during the year. The Group carefully considers the effects on liquidity of operational activities, projects and investments before these are initiated, in order to retain predictability in liquidity development. The Group's focus on operational effectiveness in all parts of the value chain and close follow-up on working capital ensure that there is satisfactory liquidity for further investment in product development and market development and for servicing debt. No decision has been made to implement any measures that will change the liquidity risk.

**Use of actual value**
Currency derivatives are recognised in the income statement at their actual value. The book value of other financial instruments is concurrent with actual value. The value of hedging instruments is based on market value and calculated by external finance institutions. The value of cash and overdraft facility recognised in the balance sheet is approximated to actual value based on such instruments having a short repayment period. Similarly, the book value of accounts receivable and accounts payable is approximated to the actual value as they are included on 'normal' conditions. Establishment costs for borrowing are recognised in the balance sheet at historical cost and recognised as expenses over the lifetime of the loan. Royalties paid in advance are recognised in the balance sheet at historical value and balanced against ongoing royalty payments to designers.

The company does not practice hedge accounting. Financial instruments are recognised at fair value and changes in fair value are recognised in the income statement. Fair value is based on statements from credit institutions. As at 31.12.17, the fair value of forward currency exchange contracts amounted to TNOK -6 509. Value change recognised for 2017 was a loss of TNOK 6 447.

**Fair value hierarchy**

| NOK 1000 | Fair value | Nominal value | Book value | Fair value | Fair value level *) |
|---|---|---|---|---|---|
| **2016** | | | | | |
| **Non-current assets** | | | | | |
| Shares in other companies | 122 | | 122 | 122 | 3 |
| **Total** | **122** | **0** | **122** | **122** | |
| **Current assets** | | | | | |
| Accounts receivables | | 223 832 | 223 832 | 223 832 | |
| Financial instruments | 818 | | 818 | 818 | 1 |
| Liquid funds | | 127 988 | 127 988 | 127 988 | |
| **Total** | **818** | **351 820** | **352 638** | **352 638** | |
| **Long-term liabilites** | | | | | |
| Senior loans | | 1 030 475 | 1 030 475 | 1 030 475 | |
| **Total** | | **1 030 475** | **1 030 475** | **1 030 475** | |
| **Current liabilities** | | | | | |
| Senior loans | | 59 400 | 59 400 | 59 400 | |
| Accounts payable | | 117 102 | 117 102 | 117 102 | |
| Financial instruments | 882 | | 882 | 882 | 1 |
| **Total** | **882** | **176 502** | **177 384** | **177 384** | |
| **2017** | | | | | |
| **Non-current assets** | | | | | |
| Shares in other companies | 122 | | 122 | 122 | 3 |
| **Total** | **122** | **0** | **122** | **122** | |
| **Current assets** | | | | | |
| Accounts receivables | | 290 906 | 290 906 | 290 906 | |
| Financial instruments | 54 | | 54 | 54 | 1 |
| Liquid funds | | 149 788 | 149 788 | 149 788 | |
| **Total** | **54** | **440 694** | **440 748** | **440 748** | |
| **Long-term liabilites** | | | | | |
| Senior loans | | 1 244 306 | 1 244 306 | 1 244 306 | |
| **Total** | | **1 244 306** | **1 244 306** | **1 244 306** | |
| **Current liabilities** | | | | | |
| Senior loans | | 61 800 | 61 800 | 61 800 | |
| Accounts payable | | 148 108 | 148 108 | 148 108 | |
| Financial instruments | 6 563 | | 6 563 | 6 563 | 1 |
| **Total** | **6 563** | **209 908** | **216 471** | **215 471** | |

*) The following hierarchy is used for determining and disclosing the fair value of financial instruments by valuation technique:
**Level 1:** Quoted prices in active markets for identical assets or liabilities.
**Level 2:** Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
**Level 3:** Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

## NOTE 8 – MORTGAGES AND GUARANTEES

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| **Long-term debt** | | |
| Bank loans | 1 244 306 | 1 030 475 |
| Capitalised loan costs | (19 512) | (17 247) |
| **Short-term debt** | | |
| Bank loans | 61 800 | 59 400 |
| Capitalised loan costs | (6 043) | (5 101) |
| **Booked value of assets mortgaged:** | | |
| Shares in subsidiaries | 1 933 119 | 1 871 986 |
| Property in Sundveien AS and Fastighets AB Stolhuset | 149 127 | 35 137 |
| **Maturity dates amortisation, interests and loan costs** | | |
| Within 1 year | 107 148 | 97 576 |
| From 2 to 5 years | 1 352 097 | 1 131 221 |

Interest rate and currency rates as per 31.12. is used for calculating future amortisation and interests.

| **Booked value of loans per currency:** | | |
|---|---|---|
| NOK | 169 458 | 179 900 |
| EUR | 1 136 648 | 909 975 |
| **Total** | **1 306 106** | **1 089 875** |

The bank loan is in NOK and EUR from 2014, and extended in 2017 with TNOK 200 100 in connection with purchase of subsidiaries. The repayment period is eight years and the loan becomes due in its entirety in 2022. The costs of the loan will be capitalised and expensed over the lifetime of the loan. The assets pledged as security are shares which Flokk Holding AS has in its subsidiaries, properties in Sundveien AS and Fastighets AB Stolhuset, as well as Flokk Holding AS' shares recorded in the parent company Flokk Holding II AS.

The interest is variable and normally tied for three months at a time. The average interest rates in 2017 was for the NOK-loan 0.64% and the EUR-loan 0% plus margin. There are terms linked to the loan in the form of certain key figures based on the result and solvency ratio which must be fulfilled. The company fulfilled the terms in the loan agreement as at 31.12.17. Interest rates correspond to the total of relevant IBOR and an interest margin based on the key performance indicator NIBD/EBITDA. The margin is set according to an incremental scale in relation to key performance indicators achieved.

At the end of 2017, the Group had a total credit facility of TNOK 1 521 106 consisting of long-term debt of TNOK 1 306 106 and a bank overdraft limit of TNOK 300 000. Liquid resources in the form of unused credit facilities and cash at bank per 31.12.17 amounted to TNOK 364 788, which constitutes about 21.1% of the turnover. The company is currently experiencing good profitability. The external borrowing carried out in the company is based on the company continuing to be profitable and appear a solid company. One goal is therefore to maintain the group's profitability and measures are continuously implemented to adapt cost levels to the changing income picture.

Besides the company's strategy for future growth and profitability, the management specifically follows up the specific requirements stipulated in the agreement with our main banker. Those parts of the business that particularly influence the development of these requirements (covenants) are subject to special follow up. Bank covenants are valued at the end of every quarter.

### Receivables and debts with related companies

| NOK 1 000 | 2017 | 2016 |
|---|---|---|
| **Debts** | **Triton Fund IV LP's** | |
| Subordinated loan | 629 637 | 582 396 |
| Accured interest subordinated loan | 11 753 | 10 871 |
| **Total** | **641 390** | **593 268** |

The interest on the loan is 8%, and the interest is accured to the principal. The loan is due in 2022.



## NOTE 9 – CAPITAL MANAGEMENT

The Group has capital which consists of equity and a shareholder loan regarded as part of the capital upon the establishment of the Group in October 2014. Interest on the shareholder loan is primarily capitalised each year at the end of September and is thus not charged to the company's continuous liquidity. With regard to the covenants applicable to financing the company's external borrowing, the shareholder loan is deemed to be equity as it is a subordinated loan, and is subsidiary to the group's external loan financing.

### Objectives and strategy

The overall objective of the Group's capital management is to be an attractive borrower through sound liquidity planning so that the Group at all times will be offered cost-effective funding to top-market conditions for comparable borrowers and securities. The Group shall keep good relations with at least two sources of financing.

The capital management shall meet the Group's collected need of funding. Every funding decision shall be made with consideration to the Group's current need of financing, and the targets described below for debt management:

- Low funding risk
- High flexibility with reference to interest rate management and securities
- Limited administration

## NOTE 10 – COST OF LABOUR, NO. OF EMPLOYEES, COMPENSATIONS ETC.

| NOK 1000 | 01.01.-31.12.2017 | 01.01.-31.12.2016 |
|---|---|---|
| **Salary expenses** | | |
| Salaries | 391 561 | 295 602 |
| Social security contributions | 60 223 | 43 120 |
| Pension costs, see note 11 | 34 107 | 23 666 |
| Other benefits | 23 940 | 15 886 |
| **Total** | **509 830** | **378 274** |
| Average number of man-labour year | 655 | 549 |
| **Loan to employees** | | |
| No loans are made to any of the employees. | | |
| **Auditor** | | |
| NOK 1000 excl. VAT | | |
| Audit related consultancy services | 4 671 | 2 870 |
| Tax consultancy fee | 6 569 | 2 602 |
| Other services | 487 | 807 |
| **Sum** | **11 726** | **6 279** |

## NOTE 11 – PENSION COST

The group has pension agreements covering all employees. The group's Norwegian companies are required to have an occupational pension scheme in accordance with legislation on compulsory occupational pensions. The company's pension scheme fulfils the requirements of this legislation.

On 01.12.2012, the pension agreements of all Norwegian employees were changed from a defined-benefit to a contributory scheme. As of 01.12.2012, employees with partial disability still have a defined-benefit scheme, the main elements of which are 60% of final pay and a 30-year earning period. The scheme also covers survivors and full disability pension. As of 31.12.2017, this scheme had 16 members. No guarantees have been given to the employees that the pension benefits will automatically be changed as a result of a reduction in National Insurance benefits. The collective pension agreement has been funded by the accumulation of funds with an insurance company. The fund invests in shares, bonds, the capital market, real estate and hedge funds. Future return is estimated based on historical return on these investments. The future return is uncertain and is dependent of interest level, development on the stock exchange and administration of the risks. The pension liability has been calculated using a straight-line pension-earning basis. Unrealised gains and losses resulting from changes in

actuarial assumptions are distributed over the estimated remaining average pension-earning period.
The company's unsecured scheme comprises an agreement-based early retirement scheme (AFP) and a former President & CEO's pension agreement, which is financed via the company's operations. For the group's companies in other countries, defined contribution pension plans for all employees are established. Provisions have been made for the group's share of under-coverage of the old occupational pension scheme.

The Group's employees in Switzerland have a pension scheme that falls under the provisions for defined benefit pension in accordance with IAS 19. The scheme includes all employees of Stoll Giroflex AG and Espisa AG. Pension funds are managed by a private pension fund which is independent of the companies. The Pension Fund has an independent board that is responsible for the sound management of the pension funds. The Pension Fund guarantees under Swiss law, a minimum return on funds.

| NOK 1000 | 2017 | | 2016 | |
|---|---|---|---|---|
| | Covered | Not covered | Covered | Not covered |
| **Components of pension costs** | | | | |
| Pension costs defined-contribution plan | 25 487 | | 19 637 | |
| Pension costs defined benefit plan | 8 802 | 26 | 354 | 113 |
| **Net pension costs** | **34 289** | **26** | **19 991** | **113** |
| **Pension assets and obligations** | | | | |
| Estimated obligations | (512 818) | (120) | (6 932) | |
| Assets of the plan at fair value | 433 265 | | 7 027 | |
| Effect of changes in actuarial assumption | | | | |
| Employer's contribution | (82) | | | |
| **Net pension plan assets/(-obligations)** | **(79 635)** | **(120)** | **95** | |

| **Actuary calculation is made annually using the following assumption (p.a.)** | 2017 | | 2016 |
|---|---|---|---|
| | Switzerland | Norway | Norway |
| Discount rate | 0,65% | 2,60% | 2,60% |
| Expected increase in salaries | 1,00% | 2,50% | 2,50% |
| Expected G-increase | 0,50% | 2,25% | 2,25% |
| Expected growth in running pensions | 0,00% | 0,00% | 0,00% |
| Expected return on pension plan assets | 0,00% | 2,60% | 2,60% |

Actuarial assumptions for demographic factors and retirements are based on current assumptions NRS (V). The standardised assumptions with regard to mortality and disability trends were prepared by the Association of Norwegian Insurance Companies. The estimates are based on K2013 with enhanced disability tariff IR73 and enhanced life expectancy. For employees in Switzerland, the BVG2015 GT is used. AFP is a benefit-based multi-employer plan in which the financing share attached to the premium is included as a defined contribution scheme. The own share linked to the scheme is booked as a cost on a current basis. The pension earning period coincides with the period of employment. The discount rate tracks the interest rate for government bonds. The financial rate of return on the funds in 2017 was 2.57% (5.41%).

Return on pension funds are expected to stay unchanged in 2018. Future returns are uncertain and dependent on interest rates, stock market fluctuations and risk management. Contributions to the pension scheme for 2018 are calculated to TNOK 200.

The pension funds have the following investment profile:

| | |
|---|---|
| Cash | 12% |
| Debt Instruments | 40% |
| Equity instruments | 41% |
| Real Estate | 7% |
| Other | 0% |
| **Total** | **100%** |



## NOTE 12 – DEPRECIABLE ASSETS AND FIXED PROPERTY

| NOK 1000 | Buildings and other fixed property | Machinery and equipment | Furniture and fittings[1] | Construction in progress | Total |
|---|---|---|---|---|---|
| **Fiscal year 2016** | | | | | |
| Booked value 01.01.16 | 37 917 | 31 543 | 74 426 | 11 669 | 155 555 |
| Conversion differences | (2 095) | (1 458) | (2 471) | (603) | (6 626) |
| Additions | 3 291 | 3 450 | 4 372 | 27 224 | 38 338 |
| Transfer from construction in progress | | 6 164 | 12 890 | (19 054) | 0 |
| Reclassification | 703 | (7) | (696) | | 0 |
| Reclassification to cost | | | | (131) | (131) |
| Sales | | (668) | (68) | | (737) |
| This year's ordinary depreciation | (4 679) | (5 386) | (19 174) | | (29 239) |
| **Booked value 31.12.16** | **35 137** | **33 637** | **69 280** | **19 105** | **157 160** |
| **Per 31.12.16** | | | | | |
| Cost | 126 266 | 142 791 | 387 167 | 19 105 | 675 329 |
| Accumulated depreciations | (91 130) | (109 154) | (317 887) | | (518 169) |
| **Fiscal year 2017** | | | | | |
| Booked value 01.01.17 | 35 137 | 33 637 | 69 280 | 19 105 | 157 160 |
| Conversion differences | 427 | (128) | 1 235 | 672 | 2 207 |
| Purchase of enterprices | 113 817 | 14 808 | 9 692 | 9 362 | 147 679 |
| Additions | 234 | 3 668 | 13 961 | 16 741 | 34 603 |
| Transfer from construction in progress | 8 232 | 497 | 14 627 | (23 357) | 0 |
| Reclassification [2] | | | 13 185 | | 13 185 |
| Reclassification to cost | | | (2 720) | (1 808) | (4 528) |
| Sales | (308) | (44) | (3 936) | | (4 288) |
| This year's ordinary depreciation | (8 412) | (9 957) | (23 653) | | (42 022) |
| **Booked value 31.12.17** | **149 127** | **42 482** | **91 671** | **20 716** | **303 995** |
| **Per 31.12.17** | | | | | |
| Cost | 251 703 | 167 308 | 439 778 | 20 716 | 879 505 |
| Accumulated depreciations | (102 577) | (124 827) | (348 107) | | (575 511) |
| Economic life | 10-25 years | 6-8 years | 3-10 years | | |

The Group has tangible fixed assets in use that are fully depreciated.
[1] In furniture and fittings, tools and fixtures for the production of the Group's products are included.
[2] Reclassification of sales tools from inventory to assets.

## NOTE 13 – OTHER OPERATING COSTS

| NOK 1000 | 01.01.-31.12.2017 | 01.01.-31.12.2016 |
|---|---|---|
| Premises costs | 55 916 | 41 727 |
| Marketing costs | 42 037 | 35 540 |
| Travelling costs | 20 930 | 16 859 |
| Fees | 48 412 | 37 481 |
| Purchase of enterprices costs | 11 254 | |
| Freight | 67 331 | 51 075 |
| Royalty | 24 961 | 17 914 |
| Car expenses | 20 605 | 19 001 |
| IT-expenses | 25 865 | 22 033 |
| Other operating costs | 34 388 | 17 868 |
| **Total other operating costs** | **351 698** | **259 497** |

## NOTE 14 – TAXES

The major components of income tax expense are:

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| Taxes payable on this years result | 25 591 | 14 455 |
| Changes in deferred taxes and deferred tax benefit (Norway) | (9 555) | 28 420 |
| Changes in deferred taxes and deferred tax benefit (Group and other countries) | 2 092 | (7 792) |
| Taxes previos years | 1 743 | 185 |
| **Income tax expense reported in the income statement** | **19 871** | **35 268** |

By using the Norwegian tax rate, the taxes differ from booked figures as a result of the following:

| | | |
|---|---|---|
| Income before taxes | 61 583 | 118 871 |
| Taxes 24% | 14 780 | 29 718 |
| Taxes due to: | | |
| Change in assessment previous years | 1 743 | 184 |
| Permanent differences | 3 565 | 4 426 |
| Changed tax rate Norway [1)] | 459 | (105) |
| Other: differences in tax rates, currency etc. | (676) | 1 045 |
| **Income tax expense reported in the income statement** | **19 871** | **35 268** |

[1)] The tax rate in Norway changed from 25% to 24% per 01.01.2017 and from 24% to 23% per 01.01.2018.

| | | |
|---|---|---|
| **Specification of the basis of deferred taxes:** | | |
| Temporary differences included in the provision for deferred taxes: | | |
| Fixed assets | (25 319) | 11 729 |
| Intangible assets | (57 294) | (22 998) |
| Current assets | (9 117) | (3 696) |
| Obligations and other differences | (46 323) | (12 977) |
| Carry forward losses | 119 478 | 69 842 |
| Pension obligations not covered | 78 027 | 233 |
| **Total temporary differences** | **59 452** | **42 133** |
| **Net deferred tax** | **13 426** | **10 150** |

Deferred tax and deferred tax benefit are booked as gross value in the balance sheet statement.

| | | |
|---|---|---|
| Deferred tax benefit | 43 432 | 21 435 |
| Deferred tax | (30 006) | (11 285) |
| **Total** | **13 426** | **10 150** |

Deferred tax assets are mainly linked to temporary differences in non-current assets, intangible assets and carry forward losses. There is a high degree of probability that the group will generate taxable profits in subsequent periods against which these deferred tax assets can be utilised. The benefits of the deferred tax assets will flow to the company and have therefore been recorded at their full value.

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| **Reconciliation of deferred tax** | | |
| Opening net balance as of 01.01. | 10 150 | 29 937 |
| Purchase of enterprises | (231) | |
| Tax expense during the period recognised in profit or loss | 7 407 | (20 813) |
| Change in deferred tax assets against equity | (1 196) | |
| Other: differences in tax rates, currency etc. | (2 704) | 1 026 |
| **Closing net balance 31.12.** | **13 426** | **10 150** |
| **Reconciliation of current income tax for the year ended 31.12.** | | |
| Current income tax charge | 25 591 | 14 455 |
| Purchase of enterprice | (37) | |
| Tax payment, not settled | 4 585 | 7 295 |
| Prepaid income tax | (17 031) | (9 616) |
| Other changes | (525) | (38) |
| **Closing balance 31.12.** | **12 583** | **12 096** |

## NOTE 15 – INVENTORIES

Inventories consist of the following items:

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| Raw materials | 120 206 | 55 414 |
| Work in progress | 19 019 | 19 218 |
| Finished goods | 49 287 | 38 382 |
| **Total inventories** | **188 512** | **113 014** |
| Change in inventories | 75 498 | 20 243 |
| Dead stock allocation | 6 564 | 3 477 |

Write-down of inventory booked as cost amounts to TNOK 5 450 (TNOK 2 256).
The amount is classified as cost of goods sold.

## NOTE 16 – ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| **Accounts receivables** | | |
| Gross outstanding | 294 983 | 224 154 |
| Allowance for doubtful accounts | 4 077 | 322 |
| **Total accounts receivables** | **290 906** | **223 832** |
| | | |
| Realized losses | 3 512 | 2 106 |
| Reversed allowance doubtful accounts | 217 | 0 |
| Used allowance | 239 | 0 |
| | | |
| **Age distribution accounts receivables per 31.12.** | | |
| Not due | 227 758 | 192 684 |
| Due 0-30 days | 49 003 | 23 229 |
| Due 30-60 days | 4 408 | 5 035 |
| Due more than 60 days | 9 737 | 2 884 |
| | | |
| **Other short-term receivables** | | |
| Prepaid expenses | 17 956 | 13 204 |
| Deposit | 1 034 | 1 087 |
| Other receivables | 17 906 | 5 274 |
| **Total** | **36 896** | **19 565** |

## NOTE 17 – AGGREGATED FINANCIAL INCOME/EXPENSE

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| | | |
| **Financial income** | | |
| Interest income | 696 | 723 |
| Net foreign exchange gain | 191 507 | 173 172 |
| Other financial income | 9 | 41 |
| **Total** | **192 212** | **173 936** |
| | | |
| **Financial expense** | | |
| Interest expense bank loan etc. | 89 587 | 88 347 |
| Net foreign exchange loss | 247 576 | 171 387 |
| Other financial expenses | 8 384 | 6 837 |
| **Total** | **345 547** | **266 572** |

The Group has foreign currency translation reserve booked against other comprehensive income. A reconciliation of this is shown in the consolidated statement of changes in equity. A reconciliation of this is stated in the statement of changes in equity.



## NOTE 18 –COMPANIES IN THE GROUP

**The following companies are included in the Group:**

| NOK 1000 | Business location | Ownership | Company's share |
|---|---|---|---|
| Flokk Holding AS | Oslo | | |
| Trispin Acquico AB | Nässjö | 100% | 100% |
| Flokk Holding AB | Nässjö | 100% | 100% |
| Flokk AB | Nässjö | 100% | 100% |
| Ergonomiprodukter i Bodafors AB | Nässjö | 100% | 100% |
| Fastighets AB Stolhuset | Nässjö | 100% | 100% |
| Flokk AS | Oslo | 100% | 100% |
| Sundveien AS | Oslo | 100% | 100% |
| Flokk GmbH | Düsseldorf | 100% | 100% |
| Flokk BV | Rotterdam | 100% | 100% |
| Flokk Sarl | Paris | 100% | 100% |
| Flokk A/S | Copenhagen | 100% | 100% |
| Flokk LTD. | London | 100% | 100% |
| Flokk Asia PTE LTD. | Singapore | 100% | 100% |
| Flokk AG | Koblenz | 100% | 100% |
| Flokk Trading (Shanghai) Co., Ltd | Shanghai | 100% | 100% |
| Flokk Australia PTY LTD. | Sydney | 100% | 100% |
| BMA Ergonomics B.V. | Zwolle | 100% | 100% |
| BMA Sales B.V. | Zwolle | 25% | 100% |
| Flokk N.V. | Roosdaal | 100% | 100% |
| Flokk USA, Inc. | Palo Alto, CA | 100% | 100% |
| Malmstolen AB | Stenungsund | 100% | 100% |
| Malmstolen Produktion AB | Hunnebostrand | 100% | 100% |
| Offecct AB | Tibro | 100% | 100% |
| Offecct Design AB | Tibro | 100% | 100% |
| Facctory AB | Tibro | 100% | 100% |
| Giroflex Holding AG | Koblenz | 100% | 100% |
| Stoll Giroflex AG | Koblenz | 100% | 100% |
| Espisa AG | Koblenz | 100% | 100% |
| Giroflex SA | Woluwe-Saint-Lambert | 100% | 100% |
| Giroflex GmbH | Geisingen | 100% | 100% |
| Giroflex Nederland B.V. | Hedel | 100% | 100% |
| Giroflex France Sarl | Paris | 100% | 100% |

## NOTE 19 – SHARE CAPITAL

Flokk Holding AS has a total of 30 shares each with a face value of NOK 2 000 per share. The share capital is NOK 60 000.

Flokk Holding AS has one share class in which each share has one vote. There are no restrictions connected to trade with the shares in Flokk Holding AS.

Major shareholders in Flokk Holding AS at year-end:

| Shareholder | Share capital | No. of shares |
|---|---|---|
| Flokk Holding II AS | NOK 60 000 | 30 |
| No. of outstanding shares per 31.12.16 | | 30 |
| No. of outstanding shares per 31.12.17 | | 30 |

The shares in Flokk Holding II AS (mother company) are owned by Triton with 88% through the company Spinnaker Bidco S.à.r.l and indirectly through the company Spinnaker Norway MipCo AS. The remaining 12% are owned by management and board in the Group throuth the company Spinnaker Norway MipCo AS. There are no restrictions connected to trade with the shares in Flokk Holding II AS. With the exception of the rights in § 7 in the articles of association, the preference shares and the ordinary shares give equal rights in the company.

Major shareholders in Flokk Holding II AS at year-end:

| | No. of shares | | |
|---|---|---|---|
| Shareholder | Ordinary | Preference | Portion |
| Spinnaker Bidco S.à.r.l. | 17 069 787 | | 83% |
| Spinnaker Norway MipCo AS | 3 439 924 | 84 000 | 17% |
| **Total** | **20 509 711** | **84 000** | **100%** |

## NOTE 20 – EARNINGS PER SHARE

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| Earnings per share | 1 390 | 2 787 |
| Fuly diuted earnings per share | 1 390 | 2 787 |
| Net income | 41 712 | 83 603 |
| Median number of outstanding shares | 30 | 30 |
| Median number of outstanding shares (fully diluted) | 30 | 30 |



## NOTE 21 – RELATED PARTIES

The Group's related parties consist of members of the board and the management

| Payments to executives (NOK 1000) | CEO | Rest of Group Management | Board |
|---|---|---|---|
| Board of Directors fee | | | 922 |
| Salaries | 4 450 | 11 284 | |
| Bonuses | 818 | 2 006 | |
| Other benefits | 219 | 832 | |
| Pension costs | 111 | 989 | |

Shares owned by management and board members in the mother company Flokk Holding II AS through the company Spinnaker Norway MipCo AS pr. 31.12.17:

| Group Management | Ordinary shares | Preference shares |
|---|---|---|
| Lars Ivar Røiri (Røiri Invest AS) | 400 000 | 10 000 |
| Lillevi Ivarson (Tunset AS) | 160 000 | 4 000 |
| Eirik Kronkvist | 80 000 | 2 000 |
| Patrik Röstlund | 80 000 | 2 000 |
| Ketil Årdal (Årdal Invest Holding Aps) | 60 000 | 1 500 |
| Christian Lodgaard | 48 000 | 1 200 |
| Frederik Fogstad | 16 000 | 400 |

The parent company, Flokk Holding II AS, owns shares in Flokk Holding AS which have been pledged as security for financing relating to Flokk Holding AS.

The CEO has an agreement for full pay for up to 24 months in the event of termination of employment by the company. There is no agreement for any remuneration in the event of the chair of the board leaving the position. No loans have been given to any employees of the company or closely related parties as of year end. Neither does the company have any other transactions with closely related parties.

In accordance with the current bonus scheme for management and senior employees, the group has allocated TNOK 3 570 as of 31.12.17. The bonus will be due for payment in 2018. There are no option programmes or agreements of share-based payment in the company.

## NOTE 22 – OPERATIONAL LEASING AGREEMENTS

The Group has entered into leasing agreements for cars, offices and IT-equipment, where office rental are the major part. Most of the leasing agreements have an option to renew. There exist no condition to take up these options. The rental agreements do not contain restrictions of the company's dividend policy or financing opportunity. The rental costs of 2017 comprise TNOK 38 024 (TNOK 34 408). Future minimum rental for non-terminable leasing agreements falls due as follows:

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| Within 1 year | 24 198 | 28 996 |
| 1 to 5 years | 31 993 | 48 490 |
| **Total** | **56 190** | **77 486** |

## NOTE 23 – GUARANTEES PROVISION

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| Balance 01.01. | 6 216 | 5 072 |
| Purchase of company | 2 498 | |
| Provisions | (511) | 3 497 |
| Provision used | (2 155) | (2 353) |
| **Balance 31.12.** | **6 048** | **6 216** |

The company has made a provision of TNOK 6 048 for warranty claims for chairs sold in the past five years. The provision has not been discounted, as the effect of such discounting is insignificant. The warranty costs are estimated to be paid out over the next five years with the main emphasis being early on in the five-year period. Approximately 40% of the amount is expected to be used within one year. The provision has been calculated on the basis of historical figures and the age distribution of complaints costs. The level of the provision has been adjusted to the turnover for the past five years. In addition, an evaluation has been made of whether there are other specific events that are of importance to the size of the provision.

On parts there are a 10 years guarantee on HÅG, RH and BMA products, and RBM products give six years guarantee. The group has some products that are intended for 24/7 use with a 3-year warranty. RBM-products also gives a half year guarantee on service work.

## NOTE 24 – OTHER SHORT-TERM DEBT

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| Accrued salary expenses | 56 363 | 36 253 |
| Other accrued expenses | 53 835 | 43 648 |
| **Total other short-term debt** | **110 198** | **79 901** |

## NOTE 25 – EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred after the balance sheet date, with or without accounting consequences, which are of such significance they could affect the presented accounts.

31 December 2017

9 April 2018

Mikael Aro
Chairman of the Board

Thomas Hofvenstam

Pernille Stafford-Bugge

Joachim Espen

Lars I. Røiri
CEO

## INCOME STATEMENT – FLOKK HOLDING AS

| NOK 1000 | Notes | 01.01.-31.12.2017 | 01.01.-31.12.2016 |
|---|---|---|---|
| Cost of labour | 2 | 1 190 | 864 |
| Other operating costs | 2 | 4 587 | 1 526 |
| **Total operating costs** | | **5 777** | **2 389** |
| **Operating income** | | **(5 777)** | **(2 389)** |
| Financial income | 3 | 223 132 | 370 916 |
| Financial expense | 3 | 197 860 | 102 864 |
| **Net financial income/(expense)** | | **25 272** | **268 052** |
| **Income before taxes** | | **19 495** | **265 663** |
| Income tax expense | 4 | (9 423) | 14 815 |
| **Net income** | | **28 918** | **250 847** |
| **Information concerning:** | | | |
| Transferred to other equity | | 28 918 | 250 847 |
| Total distribution | | 28 918 | 250 847 |

## BALANCE SHEET – FLOKK HOLDING AS

| NOK 1000 | Notes | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| ASSETS | | | |
| Deferred tax benefit | 4 | 6 452 | (2 971) |
| Shares in subsidiaries | 5 | 1 528 274 | 1 467 141 |
| Loan to subsidiaries | 6 | 360 889 | 82 603 |
| **Total fixed assets** | | **1 895 615** | **1 546 773** |
| Group receivables | 6 | 90 641 | 55 459 |
| Other receivables | | 25 555 | 22 348 |
| Cash and liquid funds | | 68 801 | 62 177 |
| **Total current assets** | | **184 997** | **139 984** |
| **Total assets** | | **2 080 611** | **1 686 757** |
| EQUITY AND LIABILITIES | | | |
| Share capital | 7 | 60 | 60 |
| Other paid-up equity | 7 | 404 770 | 404 770 |
| **Total paid-up equity** | | **404 830** | **404 830** |
| Retained earnings | 7 | 207 734 | 178 816 |
| **Total equity** | | **612 564** | **583 646** |
| Senior loans | 8 | 1 244 306 | 1 030 475 |
| **Total long-term liabilities** | | **1 244 306** | **1 030 475** |
| Short-term debt to credit institutions | 9 | 221 321 | 63 788 |
| Accounts payable | | 1 129 | 11 |
| Group payable | 6,9 | 247 | 189 |
| Other short-term debt | 9 | 1 046 | 8 647 |
| **Total current liabilities** | | **223 742** | **72 635** |
| **Total liabilities** | | **1 468 048** | **1 103 111** |
| **Total equity and liabilities** | | **2 080 611** | **1 686 757** |

## CASH FLOW STATEMENT – FLOKK HOLDING AS

| NOK 1000 | 01.01.-31.12.2017 | 01.01.-31.12.2016 |
|---|---|---|
| Income before tax | 19 495 | 265 663 |
| Group contribution | (83 500) | (54 800) |
| Sale subsidiary | | (12 459) |
| Change receivables | (6 895) | (659) |
| Change in payables | 929 | 154 |
| Change in other provisions | 69 715 | (42 208) |
| **Cash flow from operating activities** | **(256)** | **155 691** |
| Acquisition of subsidiaries | (94 971) | |
| Investment in subsidiary | (61 133) | (17 000) |
| **Cash flow from investing activities** | **(156 103)** | **(17 000)** |
| Short or longterm borrowing | 191 400 | |
| Loan to subsidiary | (175 300) | |
| Repayment of amount borrowed | (63 050) | (67 162) |
| Net change in bank overdraft | 155 133 | (98 584) |
| Group contribution received | 54 800 | 88 000 |
| **Cash flow from financing activities** | **162 983** | **(77 746)** |
| Cash flow for the year | 6 624 | 60 945 |
| Opening balance - Cash and liquid funds | 62 177 | 1 232 |
| **Closing balance - Cash and liquid funds** | **68 801** | **62 177** |

## NOTES – FLOKK HOLDING AS

### NOTE 1 – ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the provisions of the Accounting Act and good accounting practice in Norway. The company was founded on 28.04.2014.

**Use of estimates**

The management has used estimates and assumptions that have affected the income statement and the valuation of assets and liabilities, as well as assets and liabilities that are uncertain on the balance sheet date, in the preparation of the annual accounts pursuant to good accounting practice.

**Currency**

Transactions in foreign currencies are translated at the exchange rate at the time of the transaction. Monetary items in foreign currencies are translated to NOK at the exchange rate on the balance sheet date. Non-monetary items measured at the historic exchange rate expressed in foreign currency are translated to NOK using the exchange rate at the time of the transaction. Non-monetary items that are measured at fair value expressed in foreign currency are translated at the exchange rate set on the balance sheet date. Foreign currency changes are recognised through profit and loss during the accounting period.

**Tax**

Tax consists of payable tax and changes in deferred tax. Deferred tax/tax assets are calculated for all differences between the accounting and tax related values of assets and liabilities. Deferred tax is calculated using 23% of the basis of the temporary differences that exist between accounting and tax related values, as well as the tax related deficit that can be carried forward at the end of the accounting year. Net deferred tax assets are recognised to the extent it is probable they can be used in the future.

Payable tax and deferred tax are recognised directly against equity to the extent that the tax items relate to equity transactions.



**Classification and stating of balance sheet items**

Current assets and current liabilities encompass items that fall due for payment within one year of the acquisition date, and items linked to the product cycle. Other items are classified as non-current assets/non-current liabilities.

Current assets are stated at the lower of cost and fair value. Current liabilities are recognised at their nominal amount on the date they were established.

Non-current assets are stated at acquisition cost less depreciation and write-downs. Non-current liabilities are recognised in the balance sheet at their nominal amount on the date they were established.

**Subsidiaries/associated companies**

Subsidiaries and associated companies are valued in accordance with the cost method in the financial statements. Investments are stated at the cost of the shares unless they have had to be written down. They are written down to fair value when the fall in value is due to causes that it cannot be assumed will be transient and this is regarded as necessary pursuant to good accounting practice. Impairment charges are reversed when the basis for impairment not longer exists.

Dividends, group contributions and other contributions are recognised in the same year they are allocated in the subsidiary. If dividends/group contributions exceed the post-acquisition detained share of earnings, the excess amount represents repaid invested capital and distributions are deducted from the value of the investment recognised in the balance sheet of the parent company.

**Receivables**

Trade and other receivables are stated in the balance sheet at their nominal value less provisions for expected bad debts. Bad debt provisions are made on the basis of individual assessments of the individual receivables. In addition to this an unspecified provision is made to cover expected bad debts from other trade receivables.

**Cash flow statement**

The cash flow statement was prepared using the indirect method. Cash and cash equivalents include cash, bank deposits and other short-term, liquid placements.

**Consolidation**

Flokk Holding AS is 100% owned by Flokk Holding II AS. The group's supreme parent company is Triton IV No. 10 S.á.r.l. (88 %), an investment company registered in Luxembourg. Flokk Holding presents the consolidated financial statements for the group. The consolidated financial statements can be obtained upon request to Flokk Holding, P.O.Box 5055 Majorstuen, 0301 Oslo.

### NOTE 2 – OPERATING COSTS

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| Fees | 4 587 | 1 526 |
| Provision directors' fee | 1 190 | 864 |
| **Total operating costs** | **5 777** | **2 389** |

### NOTE 3 – AGGREGATED FINANCIAL INCOME/EXPENSE

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| **Financial income** | | |
| Interest income | 5 971 | 883 |
| Foreign exchange gain | 73 736 | 107 804 |
| Group contribution | 83 500 | 54 800 |
| Other financial income | 59 925 | 207 429 |
| **Total** | **223 132** | **370 916** |
| **Financial expense** | | |
| Interest expense | 40 427 | 41 830 |
| Foreign exchange loss | 150 147 | 54 788 |
| Other financial expenses | 7 287 | 6 246 |
| **Total** | **197 860** | **102 864** |

## NOTE 4 – TAX

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| Taxes payable this years result | 0 | 0 |
| Change deferred tax | (9 423) | 14 435 |
| Change previous years | | 381 |
| **Income tax expense** | **(9 423)** | **14 815** |
| | | |
| Income before taxes | (64 005) | 210 863 |
| Group contribution | 83 500 | 54 800 |
| Permanent differences | | (12 459) |
| Received dividend | (59 925) | (194 970) |
| Carry forward losses | 43 637 | (63 335) |
| Change temporary differences | (3 207) | 5 101 |
| Basis taxes payable | (351) | 0 |
| **24% taxes payable** | **0** | **0** |
| | | |
| Income before taxes | 19 495 | 265 663 |
| 24% taxes | 4 679 | 66 416 |
| | | |
| *Taxes due to:* | | |
| Permanent differences | (14 382) | (51 857) |
| Change previous years | | 381 |
| Change in tax rate | 281 | (124) |
| **Income tax expense reported in the income statement** | **(9 423)** | **14 815** |
| | | |
| **Specification of the basis of deferred taxes** | | |
| Temporary differences included in the provision for deferred taxes: | | |
| Loan costs | (25 555) | (22 348) |
| Carry forward losses | 53 606 | 9 969 |
| **Total temporary differences** | **28 051** | **(12 379)** |
| | | |
| **Net deferred tax** | **6 452** | **(2 971)** |
| | | |
| Deferred tax and deferred tax benefit are booked as gross value in the balance sheet statement. | | |
| | | |
| Deferred tax benefit | 12 329 | 2 393 |
| Deferred tax | (5 878) | (5 364) |
| **Total** | **6 452** | **(2 971)** |

Flokk Holding AS AS is a holding company that receives group contribution.
Deferred tax benefit is capitalized and will be utilized against future group contributions.

## NOTE 5 – SHARES IN SUBSIDIARIES

| NOK 1000 | Business location | Time of acquisition | Ownership | Company's share | Currency | Equity | Net income |
|---|---|---|---|---|---|---|---|
| Trispin Acquico AB | Stockholm | 2014 | 100% | 100% | TSEK | 232 164 | (21 343) |
| Flokk AS | Oslo | 2016 | 100% | 100% | TNOK | 137 076 | 59 303 |

## NOTE 6 – RECEIVABLES AND DEBTS WITH COMPANIES WITHIN THE SAME GROUP AND WITH RELATED COMPANIES

| | Flokk AS | | Sundveien AS | | Flokk Holding AB | | Total | |
|---|---|---|---|---|---|---|---|---|
| **NOK 1000** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| **Receivables** | | | | | | | | |
| Loan to subsidiaries | 262 828 | 82 603 | | | 98 061 | | 360 889 | 82 603 |
| Accrued interest loan | 4 038 | 659 | | | 1 758 | | 5 796 | 659 |
| Group receivables | 246 | | | | | | 246 | |
| Group contribution | 80 100 | 51 500 | 3 400 | 3 300 | | | 83 500 | 54 800 |
| **Total** | **347 213** | **134 762** | **3 400** | **3 300** | **99 818** | | **450 431** | **138 062** |
| | | | | | | | | |
| **Debts** | | | | | | | | |
| Group payable | 247 | 189 | | | | | 247 | 189 |
| **Total** | **247** | **189** | | | | | **247** | **189** |

## NOTE 7 – EQUITY

| NOK 1000 | Share capital | Other paid-up equity | Total paid-up equity | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Equity per 31.12.15** | **60** | **404 770** | **404 830** | **(72 031)** | **332 799** |
| Net income | | | | 250 847 | 250 847 |
| **Equity per 31.12.16** | **60** | **404 770** | **404 830** | **178 816** | **583 646** |
| Net income | | | | 28 918 | 28 918 |
| **Equity per 31.12.17** | **60** | **404 770** | **404 830** | **207 734** | **612 564** |

The share capital is NOK 60 000, divided into 30 shares with a nominal value of NOK 2 000.
Flokk Holding AS has one class of shares and each share carries one vote.

| Shareholders in Flokk Holding AS at year end | No. of shares |
|---|---|
| Flokk Holding II AS | 30 |

## NOTE 8 – RECEIVABLES AND DEBTS

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| **Long-term debt due later than 1 year** | | |
| Bank loan | 1 244 306 | 1 030 475 |
| **Total** | **1 244 306** | **1 030 475** |
| Loans secured by mortgage | 1 306 106 | 1 089 875 |
| **Assets mortgaged:** | | |
| Shares | 1 528 274 | 1 467 141 |

The senior loan entered into 2014 with an extention in 2017. The loan is in NOK and EUR. The down payment period is eight years and is due in 2022. The cost of the loan will be capitalised and expensed over the lifetime of the loan.

The interest is variable and normally tied for three months at a time. The average interest rates in 2017 was for the NOK-loan 0.64% and the EUR-loan 0% plus margin. There are terms linked to the loan in the form of certain key figures based on the result and solvency ratio which must be fulfilled. The company fulfilled the covenants in the loan agreement as at 31.12.2017. Interest rates correspond to the total of relevant IBOR and an interest margin based on the key performance indicator NIBD/EBITDA. The margin is set according to an incremental scale in relation to dey performance indicatros achieved.

At the end of 2017, the company had a total credit line of TNOK 1 521 106, consisting of long-term debt of TNOK 1 306 106 and an unused bank overdraft limit of TNOK 215 000.

## NOTE 9 – OTHER SHORT-TERM DEBT

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| Senior loan | 221 321 | 63 788 |
| Group payable | 247 | 189 |
| Accounts payable | 1 129 | 11 |
| Other short-term debt | 1 046 | 8 647 |
| **Total other short-term debt** | **223 742** | **72 635** |

## NOTE 10 – COMPENSATIONS TO EXECUTIVES

There are no employees in Flokk Holding AS.
The company is not obliged to have compulsory collective pension plans according to the Norwegian law of compulsory collective pension.

| AUDITOR – NOK 1000 EXCL. VAT | 2017 | 2016 |
|---|---|---|
| Audit fee | 30 | 30 |

| PAYMENTS TO EXECUTIVES – NOK 1000 | 2017 | 2016 |
|---|---|---|
| Board fee | 922 | 999 |

## NOTE 11 – EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred after the balance sheet date, with or without accounting consequences, which are of such significance they could affect the presented accounts.

The annual financial statements were approved by the Board of Flokk Holding AS on the 9 April 2018.

31 December 2017

9 April 2018

Mikael Aro
Chairman of the Board

Thomas Hofvenstam

Pernille Stafford-Bugge

Joachim Espen

Lars I. Røiri
CEO

Statsautoriserte revisorer
Ernst & Young AS

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**INDEPENDENT AUDITOR'S REPORT**

To the Annual Shareholders' Meeting of Flokk Holding AS

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of Flokk Holding AS comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2017, the income statement, and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2017, the statements of other comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

### Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



### Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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## Report on other legal and regulatory requirements

### Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements and the going concern assumption , and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

### Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 13 April 2018
ERNST & YOUNG AS

Asbjørn Ler
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)



# Corporate Sustainability Report 2017


JÄRNIA

# The Environment and Corporate Social Responsibility

**With 'Sustainability' as one of four dedicated cornerstones, Flokk has a long history on constantly striving to reduce its global environmental impact. With nearly 40 years of structured focus on the environment, we have succeeded to be an industry leader in the development of sustainable products, and hold this position as we grow. We are deeply conscious of our producer responsibility beyond earning money from selling smart seating solutions: We want to preserve nature and the people involved – by helping to protect people's health and wellbeing, taking care of our shared environment and practicing corporate social responsibility.**

**Flokk** aspires to be an environmentally conscious market player whose products, services and processes generate minimal greenhouse gas emissions, do not present a risk to health or the environment, and result in minimal waste. We are equally concerned about social responsibility as the environment, and therefore at the same time aspire to be a responsible social actor. We urge our employees to be good ambassadors for the company, who conduct themselves in an ethical and responsible manner, and take external stakeholders and the society in which we operate into consideration. These attitudes must be visible in everything we do, throughout our entire value chain, from sourcing of raw materials and product development to production, sales and end-of-use.

Flokk wants to have a clear corporate identity and a positive reputation.

**We want to be known for our three core values:**

1. Costumer focus
2. Innovation
3. Focus on results

This requires that we are able to create a culture of innovation with massive focus on our customers and goal-oriented work to achieve results. Our corporate culture must encourage commitment and provide motivation, understanding and direction for all our employees. It must contribute to a good working environment that generates added value for our employees, customers and owners, as well as all of the other stakeholders who are involved in our work, either directly or indirectly.

**The Corporate Sustainability Report – GRI Report**

Flokk published its first environmental report in 1996. In addition to its formal annual report, Flokk has since 2010 reported sustainability in accordance with the guidelines issued by the Global Reporting Initiative (GRI) on significant aspects of finance, the environment and corporate social responsibility. Among several reporting standards, we believe that GRI is the standard that best seeks effective integration of triple bottom line reporting – "People, Planet and Profit".

GRI is an international format that enables comparisons to be made between different companies within the same and different industries. Flokk's Corporate Sustainability Report is an expression of our desire for transparency on how we continuously work to improve our environmental and social performance, the results we have achieved, and how, through dialogue, we handle our corporate social responsibilities where we operate, in relation to internal and external stakeholders. We report according to GRI G4 format.

In 2017, Flokk acquired the Swedish companies Malmstolen and Offecct, and the Swiss company Giroflex. Altogether adding three new brands to Flokk Core brands HÅG, RH, BMA and RBM. Malmstolen, Offecct and Giroflex are not covered by this year's corporate sustainability report.

# Stakeholders - Dialogue

**Flokk manages to be profitable and makes its living by offering people sustainable products with a focus on innovation, ergonomics, design, high quality and good health and wellbeing. We have systematically accumulated important knowledge of what it takes to be a market leader, what is expected of us and our deliveries, and the impact our production and operations have on external stakeholders. At the same time, we also constantly have to adapt to our growing organisation's impact, and to a rapidly changing society where requirements and expectations are increasing in line with greater public awareness in every market. In order to be successful in sustainable business, we depend on a constructive two-way dialogue with everyone involved, internally and externally, throughout the value chain.**



Our communication strategy emphasises high ethical standards, as well as transparent relationships and regular dialogue with our most important stakeholders throughout the year. As we see higher expectations in general on how to deal with stakeholder responsibility, we continuously work on improving our dialogue. In 2017 we released our new Environmental Communication Procedure, refining Flokk's communication plan towards internal and external stakeholders, with clear and systematic routines on how to identify and follow up stakeholders with relation to our significant environmental aspects.

Our stakeholders are entities or people who have an impact on our business and operations, or who are affected by our activities, products and services, with the risks and opportunities inherent in these:

- Owners
- The Board and Group Management
- Colleagues and New employees
- Trade unions
- Consultants
- Customers, Importers and Dealers
- Local communities
- Suppliers and Transporters
- NGOs and Organisations
- Authorities
- Industry associations
- Academia

A more detailed overview of our dialogue with priority target groups is provided in the Stakeholder Matrix, page 102.
In Flokk we have a basic principle to be holistic in our sustainability efforts. That's why we take basis in our products' life cycle when we uncover stakeholders, so that the entire value chain and its surroundings are represented.

Well aware that more than 95% of the total environmental impact of our products is generated before parts and components even arrive at our factories, we make sure we pay particular attention to stakeholders in these phases: our designers and product developers, suppliers of raw materials and components, transporters, etc.

We also make a conscious effort to involve key stakeholders in order to define the most important factors that this report should cover.

**Involvement In Organisations**
Flokk participates in various trade-related associations and organisations. Through these participations we maintain a good overview as to national and international trade framework and continue to exercise influence in the industry (see also page 102 – Stakeholder Matrix).

We are active members of the Confederation of Norwegian Enterprises (NHO) through the trade association the Federation of Norwegian Industries, Furniture & Interiors – Furniture Committee, where our chief executive, Lars I. Røiri, is a deputy member of the Board. We are heavily involved in the Norwegian Rooms furniture cluster where our SVP HR, Lillevi E. Øglænd Ivarson, is a board member.

**Involvement In Projects**
As a pioneer in sustainability we have to stay ahead of the industry and participate in a number of projects of a strategic nature. A summary of these is provided below:

The project “Leading in Environment and Quality” – a project under the umbrella of the Federation of Norwegian Industries, Furniture & Interiors, initiated in 2016 and continues through 2018. Flokk is one of 22 participating companies. The goal of the project is to improve the competitiveness of the companies and industry through increasing efforts to counter the challenges of today and tomorrow within the environment and quality.

“Business Model Innovation for Circular Furniture Flow” – a major Swedish research project aimed at developing circular business models for the furniture industry. The first stage of this project is completed, providing valuable insights and confirmed our leadership in the field of sustainability in terms of actual performance, as well as in transparency. The second stage was initiated in 2017. We see it imperative to prepare ourselves for a more circular future, and our continued participation here, is one of several measures.

Following the study completed by Swerea in 2016 (described in our GRI report 2016) our research focus on improving our capabilities for using post-consumer recycled material in our products - rather than turning to bio-based plastics - is strengthened. Further research and innovation effort has been initiated in 2017 within the Floke program (see fact box/right). In addition, the project From 50% recycled to 100% Circular product development for sustainable furniture applied for external funding in 2017, at writing of this report we are informed that funding is granted from Norwegian Research Council, effort will pick up in Q2 2018.

**Floke by Æra** – a seasonal innovation program, with the aim to demonstrate how today’s societal challenges can be tomorrow’s innovation opportunities.

**Floke 2018 - Plastic in the whale**
A dead whale with 30 plastic bags in the stomach landed on the Norwegian coast in the winter of 2017.

Marine littering is one of the world’s fastest growing environmental problems, and today there are more than 150 million tonnes of plastic in the sea. If we continue in the same way as now, there will be more plastic than fish in the sea in the year 2050. To have a living ocean in the future it is critical that we find solutions today to prevent more plastic from finding their way to the sea, and while cleaning up what is already there.

**Floke** brings together actors from the entire value chain, multiple sectors and communities. The aim of the innovation program is to develop a portfolio of concepts that can be realized in alliances - and create value for both business
and society.

Throughout this season, we will explore how we can reduce low-value plastic use, get better control of the products throughout the lifetime, and meet consumer needs in new ways without generating waste.

**Æra** is a Norwegian strategic innovation studio, transforming insight into ideas and ideas into business.

# Stakeholders Matrix

## Internal

| STAKEHOLDERS | MUTUAL INFLUENCE / IMPACT | FORUM FOR DIALOGUE - FREQUENCY | KEY TOPICS 2017 | RESPONSE |
|---|---|---|---|---|
| **Owners** | The private equity investment firm Triton AB acquired Flokk in October 2014. Triton's purpose is to achieve the greatest possible profitability by focusing on companies with the potential to create sustainable, long-term value through changing economic cycles. | Triton maintains a clear, structured dialogue with Flokk in the form of monthly telephone conferences and an annual ESG forum (ESG - Environmental, Social and Governance) for professional and strategic exchanges between its various portfolio companies. Flokk reports to Triton on key ESG KPI's bi-annually. | Triton generally focuses heavily on the environment, corporate social responsibility and governance (ESG). Two focus areas worth mentioning: A - Compliance with EED – EU Energy Efficiency Directive, and follow up on identified energy efficiency measures on relevant sites. B - Systemizing our supplier evaluation on sustainability and social responsibility topics, integrated in the contracting and Supplier Performance tracking and follow-up. | A – Flokk has completed energy audits according to EN 16247 in all EED qualified countries, plus Norway. With this benchmark established, focus is now on following up actual energy efficiency improvements. B – Final choice of management tool for transparent & navigable access to sustainability and social responsibility practices throughout the value chain has been on hold in 2017 due to other prioritisations, will be done in 2018. |
| **The Board and Group Management** | The Board strives to ensure that the company acts ethically in all parts of the organisation and throughout the value chain, and thus safeguards its leading position vis-à-vis the environment. | Bi-monthly board meetings: in addition to the CEO and CFO, these are attended by respective members of Group Management on a rolling basis. The Board only works with the company via Group Management. The company has established a risk, environment, and quality (REQ) forum which meets two to four times a year. ISO Management Review is integrated in the REQ agenda, in which the VP Environment reports on status of ESG work and environmental goals to Group Management. | Development of digital tools and marketing practices. Portfolio development. Development of internal and external value chain.<br><br>Follow up on the integration of Zwolle into Flokk Environmental Management System - ISO 14001:2015. | Raised level of innovation in portfolio development, including key sustainability topics. Continued migration of post-consumer recycled plastics in component production |
| **Employees and Trade Unions** | 79% of our employees are located in Norway, Sweden and The Netherlands. The employees exercise significant influence on Flokk through their productivity, creativity, competence, involvement and general efforts as company employees.<br><br>The company exercises significant influence on the employees through compensation & benefits, general working conditions as well as the company culture. In addition to this the company influences the employees' immediate environment: family, friends etc.. | The employees are heard via various formal bodies linked to the trade unions, board work, working environment committees, Corporate Executive Council etc. In Sweden the employees have two representatives on the Board. In Norway they have three. 35% of our employees are members of a trade union.<br><br>Our corporate culture is characterized by dialogue, transparency, trust and mutual respect. All employees have an annual scheduled appraisal talk where objectives are agreed in relation to the company's overall strategy and the department's action plan. In addition Personal Development Goals are set. | Communication, dialogue and follow-up. A working environment survey involving all of the company's employees is conducted every two years. The surveys are followed up by a wide-ranging process that involves participation in order to improve the working environment further through specific measures. In 2017 a 360 evaluation of all managers was conducted, giving valuable information in order to continuously develop our Managers. The company has an extensive induction program for new employees. | In 2017 we have continued the monthly newsletters for all employees at the factories at Røros and Nässjö. The goal is to keep the employees up-to-date on business status, important decisions and progress in relation to goals. Regular General Meetings take place four times a year and departmental meetings are held at least every second month. Monthly Highlights giving a short overview of Company activities throughout the value chain is published monthly to all employees and posted on the intranet. |

## External

| | | | | |
|---|---|---|---|---|
| **Customers, Importers and Dealers** | Flokk has three customer groups: dealers, importers and end users. Dealers represent the public face of the company vis-à-vis end customers and users, and exercise considerable influence over the company's reputation. We also depend on the individual dealer's efforts to achieve our goals. In turn, dealers are dependent on good processes and products to achieve their own targets. | Due to implementing an additional brand BMA in 2016, we did not distribute a common customer survey to all markets in 2017. This will be done during February 2018. | Response time improved by implementing the Customer Service Module of Super Office to be the tool for e-mails / requests. Measurements on response time will be available during 2018. Order registration from screen is ok, and EDI solution from the main dealers will be ready from 2018. | We will include environmental and CSR topics/ questions in next survey 2018. |

## External

| STAKEHOLDERS | MUTUAL INFLUENCE / IMPACT | FORUM FOR DIALOGUE - FREQUENCY | KEY TOPICS 2017 | RESPONSE |
|---|---|---|---|---|
| **Suppliers and Their Workers** | Flokk supplier portfolio are divided into two main categories: direct materials (DM) and indirect materials and services (IM&S – including transport). Suppliers have significant influence over Flokk on a general basis. The main focus has been on DM suppliers and how we can develop suppliers and value chains to increase our competitiveness and performance vis-à-vis customers and markets. The focus is on ensuring that we work on measuring and improving performance with those who need this, and increasing the activities/business and involvement of suppliers who prove that they can maintain a high and predictable level of performance. Supplier Performance is considered to include Quality, Delivery, Risk (including environment and CSR) and Cost, and is key element of strategic planning and execution (Sourcing/Contracting). | Key suppliers should receive a minimum of follow-up and structure, where together we can look at performance status, improvements and opportunities. This is done via structured meetings. Such meetings are also held with low performing suppliers, to maintain the desired level of performance to ensure adequate corrective measures are implemented.<br><br>For internal coordination of the Supplier Performance and actions, we have a monthly status meeting (Supplier Performance Status). Performances are documented and analyzed. As soon as a supplier is identified as low performing, we coordinate temporary deviation of the supplier, and new contracts are put on hold (New Business on Hold). This way we manage to focus the resources where it is most needed. | 2017 has been influenced a lot by integrating the BMA brand and its suppliers to our material supply. Many new suppliers with a various level of performance and commercial commitment. Focus has been to secure a high level of contracted supply, based on the well-performing BMA suppliers. To do this, we focused on the most critical suppliers and value chains first, and made specific plans and actions for maximizing the total Supplier Performance, by implementing the "Flokk sourcing process".<br><br>By moving manufacturing of BMA from Zwolle to Nässjö, we had some suppliers struggling to adopt to the new set-up, but most suppliers are now well performing and adopting to the new situation. Even with a lot of extraordinary efforts and support, we did not succeed in getting the main plastic supplier to Røros back on track on performance, and a controlled phase-out was required, and final delivery made during Q2 2017. | To develop and strengthen the focus, dedication and the positive development of the Supplier Performance, we have made further process development towards the team and the suppliers, not only to work more with improving «Low-Performers», but also to strengthen the opportunities and further development of the cooperation with the high performing suppliers.<br><br>Visit and evaluation of China suppliers show that the long-term cooperation with a small number of suppliers in a limited area is giving a steady and well performing supply base. We only had one supplier we considered to need more specific actions, and such action was made during 2017. |
| **Local Communities** | The main local communities are defined as Røros in Norway and Nässjö in Sweden. Even though Zwolle is regarded as a production site, the influence of the company as an employer in Zwolle is limited. In Nässjö the company is an important employer in the municipality and participates in the development of the business sector in the region. At Røros the company is a cornerstone company and an important contributor to the local community. As one of the largest employers in these communities, Flokk has long been an important actor. For more information about local communities, see also page 156. | There is no formal forum for dialogue between the local communities and the company, but there is close cooperation on matters that affect both parties. The company holds important positions and actively participates in municipal and local business sector projects. The factories at Røros and in Nässjö enjoy good partnerships with local schools and accept pupils on work experience placements and apprentices for longer periods of time. At Røros the company is a member of the local trainee program and employs trainees. At Røros we are also a member of the business forum in the Mountain Region and Røros Business Park. In Nässjö the company is a member of the municipality's business forum Nässjö Näringsliv AB, in which our Managing Director is Chairman of the Board. | Flokk has contributed financially to culture and sports projects in the local communities, in addition to the statutory taxes and duties. At Røros the company has continued to participate in the 'Growth 2020' project which aims to contribute to business growth in the region. In Nässjö the focus has been on the 'Reshoring Swedish Industry - Driving Forces and Obstacles' project, and on projects/cooperations working with integrating refugees and persons with impaired functionality in both Swedish culture and industry (see page 156). | The 'Growth 2020' project at Røros focuses on the challenges associated with falling population numbers and the need for jobs in the region.<br><br>In Nässjö, sustainability and social development have been focused in several projects. |
| **NGOs and Organisations** | Flokk is a member of the Norwegian Organisation Ethical Trading Initiative Norway (IEH / ETIN) and collaborates with other environmental organisations as needed. | Representatives of the purchasing and environment departments are invited in some seminars and courses run by IEH . We actively participate in the environmental foundation ZERO's Fossil Free plastics forum. | IEH is generally interested in increasing the focus on responsible supply chains. In 2017, we continued to work with, and financially support, ZERO on surveying potential and possible producers of fossil free plastics. | Our annual reporting to IEH is integrated in this corporate social responsibility report. We contributed input about our increasing use of recycled plastics to the ZERO Fossil Free forum. |
| **Industry Associations** | A - Federation of Norwegian Industries, Furniture & Interiors (NHO - Confederation of Norwegian Enterprise).<br>B - Norwegian Rooms furniture cluster.<br>C - Confederation of Swedish Enterprise. | A - Annual General Meetings, board meetings. Member of the steering committee of EPD Generator project. Member of the Technical Committee, the industry's highest organ for environmental and quality issues.<br>B - Board member in the cluster, quarterly board meetings.<br>C - Involved in research projects cross Swedish players in our market. | A - Pilot member of "Leading on Environment and Quality" project (see page 100). Various work on improving the EPD generator, research agenda, advice in individual cases, networking and skills enhancement.<br>B - Downstream innovation, circular economy.<br>C - Research project on circular business models for furniture industry. | A - Strengthening collections and models documented with complete environmental product declaration. We influence the EPD regime in a positive direction<br>B - Academic training on MBA level established in collaboration with the Norwegian School of Economics and the Norwegian University of Science and Technology, 5 employees participating.<br>C - Second stage was kicked off late 2017. |

# Materiality and Boundaries

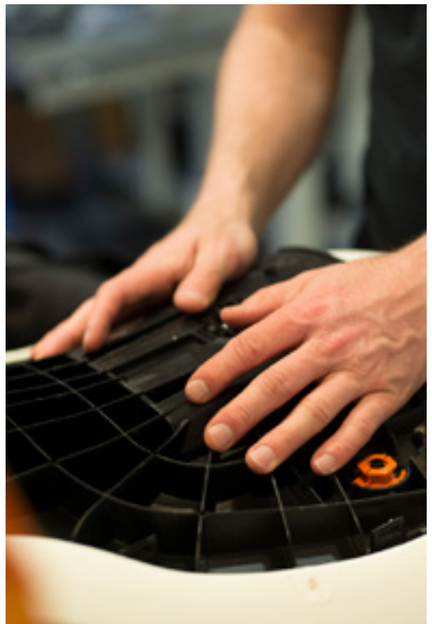
**One important element of a corporate sustainability report is to assess which aspects it is relevant to report on. According to GRI G4 this means ”defining material aspects that reflect an organisation’s significant economic, environmental or social impacts or which substantially influence the assessments and decisions of stakeholders.”**

Based on a total assessment of materiality, we have decided to report on the following:

**10 Important Topics For The Report:**

- Finance
- The environment - philosophy, management and strategy
- Climate - energy and GHG (‘CO2‘) emissions
- Resources - materials and waste
- Circular economy
- Health and safety - chemicals
- Responsible supply chain
- Attractive workplace
- Local communities
- Product liability and certification

In the matrix on the next page we have listed detailed aspects covering all topics, and highlighted which of these aspects that cover the requirements in GRI G4.



In this work, we benefit from our long tradition as a pioneer in sustainability in which, through years of experience, we have established a solid and future-oriented foundation in the form of our own environmental philosophy and strategy. Based on this, we have over many years identified internal and external aspects by involving key stakeholders through various forums for dialogue (see Stakeholder Matrix page 102) and in-depth interviews. This has enabled us to acquire fundamental insights into which aspects that are important for both the company and external stakeholders.

**Sustainability Survey**

Few years ago Flokk conducted a survey on attitudes towards sustainability, which covered all of our stakeholders, internal and external. As global awareness on the environment, climate and ethical principles has increased tremendously last years, we took a broad approach in order to capture possible merging trends among the people involved in our value chain.

This confirmed, among other things, that our focus areas are still important to our stakeholders. The circular economy was highlighted in particular. Our comprehensive efforts throughout our value chain are more important than ever, especially with respect to suppliers. At the same time, we saw indications of higher expectations concerning our reporting on human aspects such as customer health, human rights, local communities, and how we internally can contribute to a healthy and attractive workplace.

This year’s report contains primary data on 79% of the workforce in Flokk Core, i.e. full-time employees in Norway, Sweden and the Netherlands.

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**Contents of the Report**
We have given weight to ensuring that the report addresses those areas where we have access to data and can influence the result. However, this does not mean that our actual corporate social responsibilities are limited to just these factors.

One fundamental aspect for any company is ensuring that it generates profitability and always complies with the current laws and regulations of each country in which it operates.

Embedding and control in Group Management and their approach to the selected aspects are covered on an ongoing basis in the report and in their proper context.

Flokk believes it is especially important to report on the focus areas:

- **Climate** – the energy consumption and GHG emissions associated with our products and factories in Norway, Sweden and the Netherlands.
- **Resources** – the consumption of materials and waste associated with products and packaging, as well as waste from the three factories.
- **Health** – the use of chemicals in products and production, as well as HSE in our factories.

Environmental aspects associated with



| CATEGORY | | Total overview of chosen aspects (bold: aspects reported according to GRI G4) | 1-4 influence degree for Flokk | Stake Holders |
|---|---|---|---|---|
| FINANCE | | **Results** | **4** | **2** |
| | | Market Presence | 3 | 2 |
| | | **Use of local suppliers** | **4** | **3** |
| ENVIRONMENT | | Use of materials | 4 | 2 |
| | | Circular Economy (closed life cycle) | 4 | 3 |
| | | **Energy consumption** | **4** | **3** |
| | | Water consumption | 1 | 1 |
| | | Biodiversity | 1 | 1 |
| | | Emissions ($CO_2$) | 4 | 3 |
| | | **Waste** | **4** | **3** |
| | | **Environmental impact of products and services** | **4** | **2** |
| | | Compliance with laws and regulations | 4 | 4 |
| | | Transport | 3 | 3 |
| | | Chemicals | 4 | 2 |
| CORPORATE SOCIAL RESPONSIBILITY | Workplace | Attractive workplace | 3 | 4 |
| | | Labor/Management relations | 3 | 4 |
| | | Health and safety | 4 | 3 |
| | | Training and education | 4 | 3 |
| | | Diversity and equality | 4 | 3 |
| | | **Supplier assessment for labor practices** | **4** | **2** |
| | Human Rights | Discrimination | 4 | 3 |
| | | Child labor | 3 | 4 |
| | | Forced or compulsory work | 3 | 4 |
| | | **Freedom of association and collective bargaining** | 3 | 4 |
| | | Indigenous rights | 3 | 4 |
| | | Supplier human rights assessment | 4 | 4 |
| | Society | **Local community – involvement** | **3** | 4 |
| | | Anti-corruption | 4 | 3 |
| | | Anti-competitive behavior | 3 | 3 |
| | Product Liability | Customer health and safety | 4 | 3 |
| | | Information and transparency on products and services | 3 | 4 |

In the Materiality matrix we have listed all important aspects chosen for this year's report, as formulated and categorized by the GRI format. We have also highlighted the so-called materiality aspects we report directly according to GRI G4, where at least one among several indicators should be answered for each selected aspect. In the right columns we present the degree of influence on the selected aspects for both our company and our external stakeholders.

# Finance

**Flokk believes a company's most important corporate social responsibility is to be profitable. Being profitable enables us to protect jobs, contribute to society through taxes and duties, invest for a sustainable future and otherwise be a good member of the community. However, how we achieve this profitability is not unimportant. The way in which we follow up our suppliers, our employees, our customers and society as a whole entails a mutual and binding influence that means we bear not inconsiderable responsibilities.**

**Flokk** creates long-term value for owners and society as a whole through efficient commercial activities based on the principle of sustainable development.

We want to be a positive contributor to society for the employees and the company's partners and subcontractors. Our heavy focus on research and development makes an important contribution to this value creation. Profitable operations enable the company to create jobs both directly in the company and indirectly at the company's partners and subcontractors who deliver goods and services to the company's value chain. The company is a significant employer in the municipality of Nässjö in Sweden and participates in the development of the business sector in this region, while at Røros in Norway the company is a cornerstone company and an important contributor to the local community.



| Figures in MNOK | 2011 | 2012 | 2013 | 2014*) | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|
| Revenues | 1 091,0 | 1 010,5 | 1 002,6 | 1 037,0 | 1 180,0 | 1 299,5 | 1 730,0 |
| Operating costs | 872,0 | 806,8 | 798,1 | 881,0 | 985,1 | 1 088,0 | 1 515,0 |
| Employee wages and benefits | 228,3 | 228,8 | 239,0 | 260,8 | 297,0 | 335,2 | 449,6 |
| Interest to lenders | 33,4 | 46,3 | 35,3 | 46,1 | 52,2 | 43,0 | 41,8 |
| Interest to shareholders | 63,1 | 70,5 | 76,2 | 12,5 | 40,3 | 45,4 | 47,9 |
| Taxes | 32,9 | 9,6 | 23,2 | 14,5 | 20,0 | 35,3 | 19,9 |
| Social security contributions | 29,7 | 30,7 | 31,3 | 34,5 | 38,2 | 43,1 | 60,2 |

**Income and Costs**
Flokk achieved operating revenues of MNOK 1 730 in 2017. Operating costs amounted to MNOK 1 515; payroll costs and social benefits for employees accounted for MNOK 510 of this. This represents 34% of operating costs.

**Return For Owners And Lenders**
The return for owners was MNOK 47.9 in 2017, which is interest on shareholder loans that is not paid out but accrues to the shareholder loan. The interest paid to lenders amounted to MNOK 41.8 in 2017.

**Payments To Public Authorities**
Distribution of the group's tax costs by country:

**Taxes**

**Costs by country**

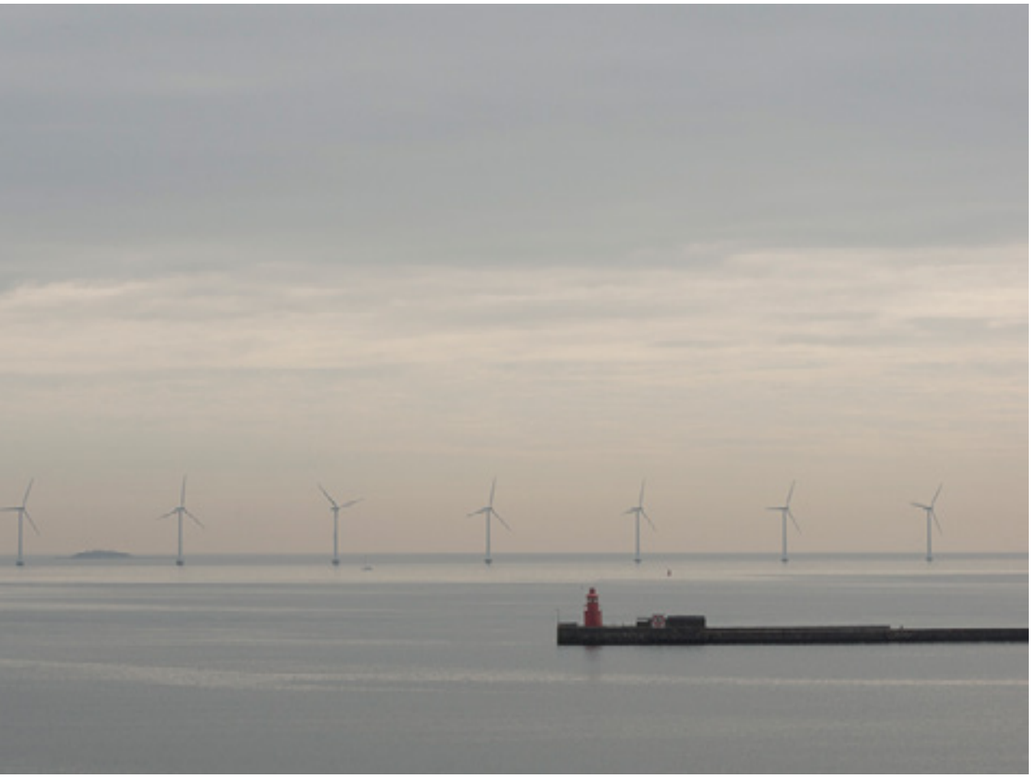
| Figures in MNOK | 2011 | 2012 | 2013 | 2014*) | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|
| Norway | 20,2 | 1,6 | 14,3 | (13,5) | (7,8) | 29,0 | (9,9) |
| Sweden | 8,9 | 8,6 | 6,6 | 20,4 | 17,7 | (3,0) | 19,8 |
| Denmark | 3,3 | (1,2) | 3,2 | 5,4 | 6,0 | 5,2 | 5,9 |
| The Netherlands | (0,9) | | (0,2) | 0,6 | 2,1 | 0,8 | 1,5 |
| Belgium | | | | | 1,3 | 0,8 | (1,9) |
| Germany | 0,7 | | (0,3) | 0,6 | 1,3 | 4,0 | 2,6 |
| UK | (0,3) | 0,5 | (0,9) | 2,0 | 1,3 | 0,4 | 1,4 |
| France | 1,0 | 0,3 | 1,2 | 0,6 | 0,8 | 0,5 | 1,3 |
| Switzerland | | | (0,3) | (0,6) | (1,0) | (0,5) | (1,6) |
| Singapore | | (0,2) | (0,4) | (0,4) | (0,4) | (0,5) | 0,1 |
| China | | | | (0,5) | (0,9) | (1,2) | (1,3) |
| USA | | | | | | | 1,9 |
| Australia | | | | (0,1) | (0,4) | (0,1) | 0,1 |
| **TOTAL** | **32,9** | **9,6** | **23,2** | **14,5** | **20,0** | **35,3** | **19,9** |

*) Pro forma figures. Reflects the figures for 2014 if the acquired companies had entered into the Group from 1.1.14.

**Retained Earnings**
In the short and long term, free liquidity will be used to invest and repay debt rather than pay dividends. This will result in flexibility to invest further in research and development, as well as in growth-promoting measures in the markets in which the company operates.

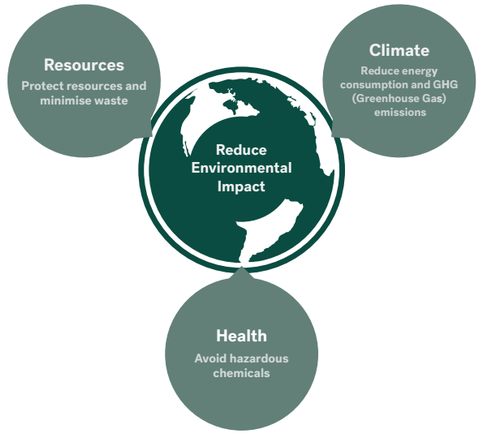
# The Environment – Background

**Flokk is an environmentally conscious producer of sustainable furniture solutions for the contract market. The environment has been a high priority for almost 40 years, and already in 1990 we employed a 100% dedicated environmental manager (HÅG) – way before customers and the general public showed interest in the environmental performance of our company and our products in general.**



We have a long history with high focus on energy efficiency, reducing carbon emissions and reducing our use of non-renewable materials, and in recent years we have intensified our work on avoiding chemicals that are hazardous to health and the environment. We have accumulated extensive knowledge about solutions, materials and processes that have less impact on the environment throughout the value chain. Flokk's products are thus resource-efficient with a low carbon footprint, a high share of recycled and recyclable materials, and a minimum content of chemicals. Flokk's products are sustainable, with circular design for easy disassembly, source separation and recovery – to keep materials in a closed loop.

**Minimising Environmental Impact – Three Focus Areas**
A global joint effort is needed to minimise the environmental impact on our planet. In Flokk we are dedicated to contribute! We structurise and communicate this complex work by breaking down our environmental efforts into three equally important focus areas: Climate, Resources and Health. The entire value chain counts, that's why we consider how we can reduce the environmental impact throughout the whole life cycle of our products (see figure page 114).



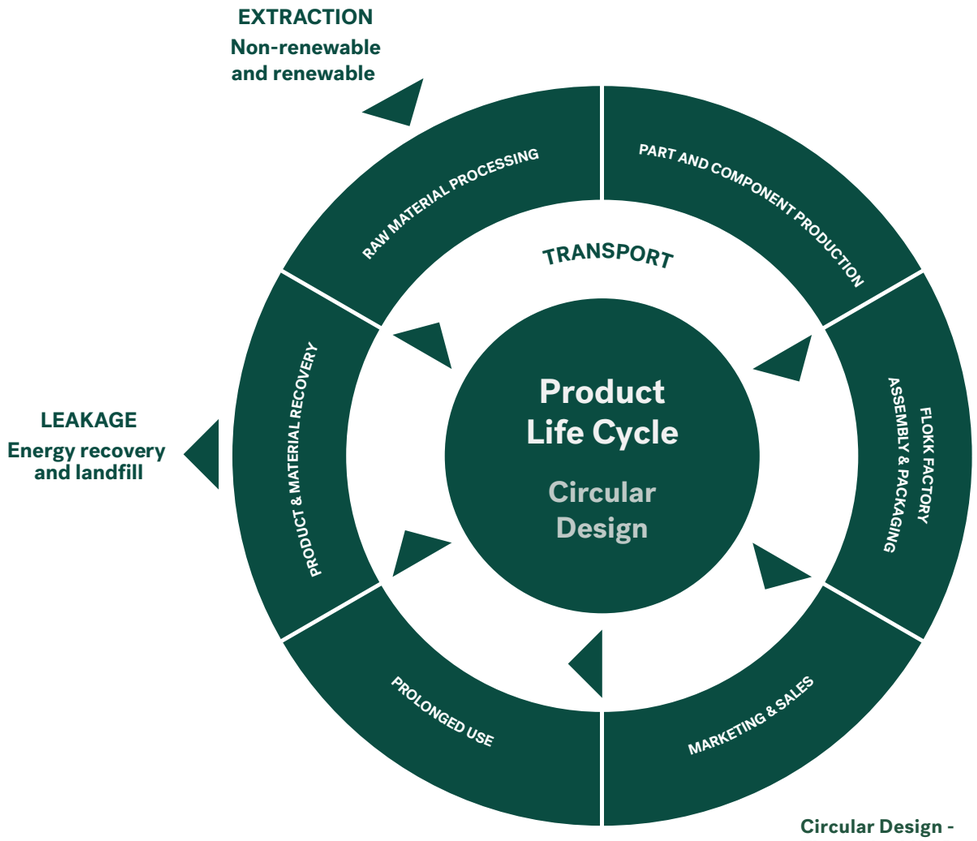

**Climate – GHG ($CO_2$) Emissions and Energy**
Climate change is seen as the largest global environmental challenge today. Human-related emissions of greenhouse gases (GHG) are contributing to general temperature increase and extreme weather such as flood, draught and hurricanes, leading to melting of glaciers, augmentation of ocean level and desertification. Carbon dioxide ($CO_2$) is the primary GHG emitted, mainly from combustion of fossil fuels for energy and transportation. Flokk's impact on the Earth's climate can be measured by the quantity of GHG emissions generated by our global operations. How we run our factories and offices has a significant impact on the environment. This is reported on in more detail on page 122. In 2017, we completed a series of energy audits on our main sites, identifying important measures to be even more energy efficient.

Flokk's GHG emissions are closely linked to the energy consumed in production processes at our suppliers, and to our transporters. In order to determine and communicate our products' climate impact, we measure and report our product's environmental performance through a Environmental Product Declaration (EPD), see page 159. EPD is a life cycle analysis that quantifies the energy consumption and the associated GHG emissions caused by a product throughout its life time: from extraction of raw materials, via processing, transport and production, to use and disposal. All our EPD's are available on our website.

**Resources – Materials and Waste**
The Earth's resources are limited, and our generation's consumption of non-renewable resources is far from sustainable. The 2nd of August 2017 marked the Earth Overshoot Day – the date when humanity's demand for ecological resources and services exceeds what the Earth can regenerate that year. From that date we are living on resources intended our coming generations for the rest of that year, and in 2017 it would take 1.7 Earths to globally support humanity's demand on nature. The problem is obvious, we only have one globe!

At Flokk we continuously strive to develop products with reduced weight, fewer number of parts, and increased share of recycled materials, see page 120. Our products' weight per cent of recycled materials are also declared in the EPDs. Our best chairs today contain about 50-60%: HÅG SoFi - 58%, BMA Axia 2.2 - 56%, HÅG Capisco - 50%, RH Logic - 47%.

It is important to minimise waste from both processes and products, and waste should



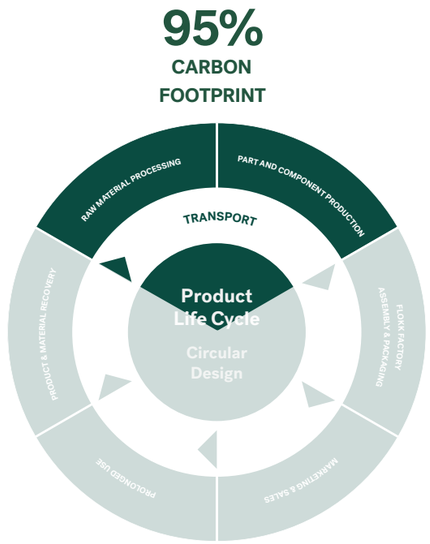

**Circular Design - The Entire Life Cycle Counts**
Our total environmental impact is linked to all the people and entities in the handling of the products. It is our responsibility to maintain the efficiency of the entire value chain.

be considered a resource. Our products are easy to disassemble, and materials are marked to enable sorting for recycling. This way we contribute to increase the share of materials being recycled or recovered in a closed loop. We are continuing our efforts in developing a circular business model to facilitate systematic return and take-back system of our products, see page 134.

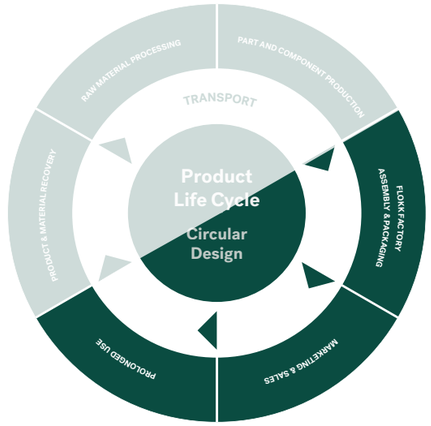
**Health – Chemicals**
As we produce 'body close' products, health is for us closely linked to the effect that the use of chemicals in products and processes has on all people involved and on the environment throughout the value chain. Today, chemicals are used in almost all contexts. The furniture industry uses chemicals as fire retardants, in paints and glue, and in the production of textiles, foam and other plastics. The problem is, that some of the chemicals that ensures the best results for products are also harmful. 60 years ago you could find traces of six or seven synthetic chemicals in the blood, today however you can find traces of between 200–400 synthetic chemicals.

We continuously strive to uncover and substitute unwanted chemicals in our products, in our production, and at our suppliers, without diminishing the properties of our products. We set the industry's most strict requirements, both for ourselves, our partners and our suppliers. Our most important chair collections are GREENGUARD certified; a guarantee that the products contribute to a healthy indoor






**From Raw Materials To Factory – Design And Construction**
Flokk published its first EPDs in 2004 – as the first office chair producer in the world! From a life cycle perspective – now with experience from EPDs on more than 30 chairs and tables – we know that more than 95% of our products' carbon footprint is generated in the phases before parts and components even arrive at our factories for final assembly. We have thus a great responsibility as designers on the environmental impact through our choice of product architecture and solutions, through our choice of suppliers, considering their raw material extraction, their energy-intensive processing and part manufacturing – and the transportation of in-bound goods.




**From Production To Use**
The remaining 5% of our products' carbon footprint is generated by our production, sales and distribution phases, as well as during use by customers prior to recycling. These activities are the most exposed to customers and the market, and is a high priority. The environmental impact during the use of our office chairs is relatively small, however major gains can still be achieved within sustainability in the form of healthier employees and reduced sick leave.

5%
CARBON FOOTPRINT

# The Environment - Management and Strategy

**Environmental Management**
Flokk has a proud legacy in environmental improvements & innovation. Our current philosophy builds on a solid foundation of the best from what the various previous companies of our 4 brands and 3 subsidiaries have represented and performed. Thus building up a common sustainability thinking for all brands.
The environmental and corporate social responsibility work is performed by a dedicated unit of the company's product development department in Products & Brands. The Environment Department has a support function, is responsible for, and collaborates on, a defined set of sustainability efforts across all departments and locations. The Environment Manager reports to the Development Director, who represents the area in Group Management. The group's owners focus heavily on environmental, social and governance (ESG), have a good dialogue with the Environment Department, and require bi-annual status reporting (see Stakeholder Matrix, page 102).

The Environment Department maintains a strategic overview of the group's environmental impact and actively helps integrate sustainability into the group's three-year strategy plans. The strategy sets out a framework and provides guidance on our overall ambitions for the environment and corporate social responsibilities.
The strategy is revised every year by the Environment Manager in cooperation with Group Management before an updated version is presented to the Board.

**Our Vision, Mission And Core Values**
The company's vision, mission and core values are anchored in Group Management. HR & Organisational Development is responsible for developing the company's corporate culture in which the vision, mission, and values are key. In connection with the change of company name and identity to Flokk in 2017, new vision, mission and core values were established, that better capture the ambitions and aspirations of the company. A value identity program is planned for 2018, a companywide process to make this framework actionable for all employees.

**Annual Environmental Targets**
The group's environmental management system is ISO 14001:2015 certified. As part of this work, the Environment Department is responsible for defining the group's most important environmental aspects and conducting an annual review of which operational factors impact the external environment. Annual environmental goals are drawn up for the various sites through this process, in close cooperation with the local employees and people in charge. The environmental aspects and goals are followed up each quarter by Group Management.

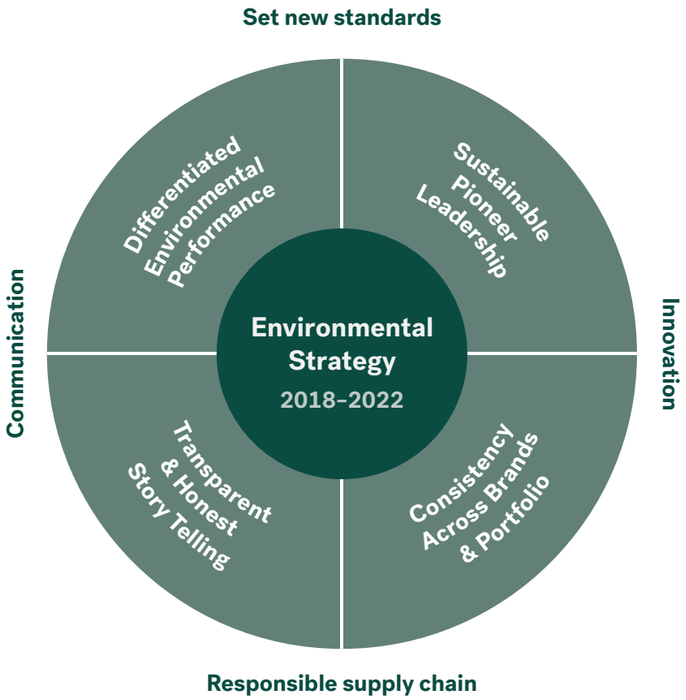
The environmental goals for 2017 were based on environmental aspect analysis of the factories at Røros, in Nässjö and Zwolle, as well as the head office in Oslo, and are presented on an ongoing basis in this report in its proper context.

**Long-Term Environmental Goals**
Given our three focus areas – climate, resources and health – the annual environmental goals are intended to help ensure the group's long-term goals are realised. See next page.



We operate according to the following set of strategic environmental goals where the emphasis is on ensuring the greatest possible correspondence with the current global strategy, goals, and action plans:

| | LONG-TERM ENVIRONMENTAL GOALS |
|---|---|
| **CLIMATE – GHG ($CO_2$) EMISSIONS AND ENERGY** | Reduce average energy consumption per produced product by 20% within 2020 (based on 2010 figures) |
| | 100% renewable energy within 2020 |
| | Flokk will contribute to achieving:<br>• The UN's Sustainable Development Goals (SDG) no. 7 and 13<br>• The EU's long-term goal of cutting greenhouse gas (GHG) emissions by 40% by 2030 in order to reach the 2-degree target |
| **RESOURCES – MATERIALS AND WASTE** | Increase share of recycled materials/plastic waste used in the products to an average of 60% by 2020 |
| | 100% certified or reused wood, paper & cardboard within 2022 |
| | Facilitate that our products end their life cycles being disassembled, and that over 90% of the components undergo recycling or material recovery |
| | Flokk will contribute to achieving:<br>• The UN's Sustainable Development Goals no. 12, 14 and 15<br>• The EU Plastics Strategy launched in Jan'2018, utilizing Flokk's year-long experience on circularity efforts (see page 134). |
| **HEALTH – CHEMICALS** | The products and their manufacture should be free of chemicals that are hazardous to the environment and/or health |
| | • Flokk will contribute to achieving the UN's SDG no. 3<br>• Together, the EU countries are the largest producers of chemical products in the world and the EU also leads the way in regulating chemicals through the REACH framework. We apply the REACH rules when we set the strictest demands in the industry for ourselves, our partners and our suppliers. |
| **COMPETENCE – COMMITMENT** | We will reach our long-term goals through professional and multi-stakeholder partnerships and initiatives - UN's SDG no.17 |
| | Our employees should be ambassadors for, and have in-depth knowledge of, our Environmental Policy, performance and goals |




The choice between new virgin & fossil based material, laying hands on fertile farmland through use of bio-plastics, and clearing the planet of even more plastic waste, to us appears very clear: We will continue our efforts to clean the planet. A third material mix of post-consumer recycled polypropylene was developed and introduced in 2017, the introduction enabled further growth in consumption of actual waste in our value chain from an already substantial level. Extensive ongoing product development builds on our latest knowledge in this field, and will provide a leap in consumption through 2018.

**Environmental Strategy**
Flokk's general environmental strategy has for years been to push borders and set standards by executing significant and tangible improvements in our environmental performance. We believe we outperform the industry in general, would be surprised but inspired if someone achieved even better results. We aim to constantly reduce our carbon footprint, increase the proportion of recycled materials, and completely avoid chemicals that are hazardous to health and the environment. In order for our strategy to succeed, we have to address our environmental goals throughout the value chain.

**Design Philosophy**
The company's vision and mission provide the strategic basis for "The Design Philosophy", which is maintained as a platform for any development of products and communication materials. The design philosophy serves as a guide for the company in relation to everything to do with the values we bring to our customers and is the responsibility of "Design Management"/ "Products & Brands". The editor function is performed here, while the content is contributed by the foremost in-house expertise in the respective areas covered by the philosophy.

**Risk and Opportunities**
Flokk Group is an expanding Group. This expansion is resulting in numerous positive effects such as the acquisitions of the Swedish entities Malmstolen AB and Offecct AB, together with Giroflex AG in Switzerland has been finalized during 2017. Together with the earlier acquisition 2015 of BMA in Benelux market has Flokk Group strengthened the market position and the effectiveness of our work on mastering the circular economy.

Nonetheless, a global structure and the expansion of production, sales and distribution, in which the entire value chain and all of our suppliers are addressed, entails some risks, as well as opportunities, when it comes to maintaining our role as a pioneer in sustainability:

- Extended supply chain, choice and follow-up of suppliers in relation to the environment, and corporate social responsibility.
- Building up and developing a sustainable supply chain and transport that at the same time ensures profitable lead and delivery times.
- Challenges relating to choosing long-term solutions for reuse and recycling. Our products are already designed for recycling, but our processes are not. Spreading our products internationally across different countries and cultures will not make things less complex.
- Locating sales offices and showrooms, containing technical equipment for video conferences as a good alternative to travelling. When travelling is still necessary Flokk tries to offer smart travel alternatives for employees and customers with the Showrooms where ever they are facilitated.

# Environmentally Efficient Products

**FIVE (5) CIRCULAR DESIGN CRITERIA**

**1. Low weight**
Fewer materials – weight optimization

**2. Few components**
Integrated functions – resource efficient solutions – fewer tools – less processes – less packaging and transportation

**3. Right choice of materials**
Avoid harmful substances – increased use of renewable and recycled materials

**4. Long life span**
Reduce need to replace our chairs – timeless design – high quality – flexible adjustments – changeable wearing parts

**5. Design for disassembly**
Keep materials in closed loop – easy to dismantle – easy to sort for recycling with marked parts

**THREE (III) FOCUS AREAS**

**I. Climate**
Lowest possible carbon footprint

**II. Resources**
Reduced use of resources and minimised waste

**III. Health**
Reduced use of hazardous chemicals

**5-III Principles For Sustainable Design**
At Flokk we want our products to have a leading environmental performance, taking into account environmental consequences in a life cycle perspective, from extraction of raw materials, to end-of-use and material recovery. Already in 1993 we defined our five (5) circular design criteria, the framework for our product development, still valid today! By designing properly and choosing the best solutions for each of these criteria, we achieve a sustainable product with improved performance on our three (III) focus areas; climate, resources and health; 5-III!

**1. Low Weight**
One major factor is to use less materials and resources through weight optimization and smart dimensioning of parts and components. Low weight also has a health aspect, in the sense that products are handled and carried by people during a long life time.

**2. Few Components**
The best solutions are often the simplest. We thoroughly rework new ideas before they are put into production, and we strive to integrate functions into fewer components. This in turn results in fewer tools and processes, simpler assembly, less packaging and transportation. We want our solutions to be more resource-efficient than traditional products we are competing with in the market.



**3. Right Choice Of Materials**
We strive to increase our use of recycled and renewable material. They have the lowest impact on the environment, by keeping materials in closed loop, with low carbon footprint due to less energy consumption during processing. We want to avoid materials that are hazardous to health and the environment in products, production and at our suppliers.

**4. Long Life Span**
One of the most important things we can do is to reduce the need to replace our products. The longer they last, the longer it takes before they have to be replaced by new ones. Long life time contributes to reduce global resource and energy consumption. We want all our products to have long and worthy lives through high quality, timeless design, flexible adjustment options, and replaceable wearing parts (see figure). We are one of few manufacturers that offer products with a 10-year guarantee.

**5. Design For Disassembly**
We rather think 'cradle to cradle' about a product, instead of the traditionally 'cradle to grave'. Materials must be kept within a closed life cycle at end-of-use in order to be made available for a new life in new products. This is why our products are designed easy to dismantle without the need for special tools. Plastic parts are marked to facilitate sorting and recycling.

**Product Improvement Programs**
The environmental performance of our existing products can always be improved. One way is to exchange materials and suppliers, another way is to increase the share of recycled materials in order to lower the carbon footprint from more energy efficient processes. We work on removing glue and staples to fasten textiles in older products, by implementing clever changeable solutions from our newer products.

**Eco-Design Tools**
With the aid of our own developed eco-design tools, we manage to maintain our focus on the environment in our work on improving existing models and developing new products. In addition to in-depth expertise in materials and processes, the tools are largely based on mapping our EPDs' carbon footprint analyses.
We have developed a $CO_2$-calculator which enables us to estimate realistic carbon footprint of a product, even in early concept stages. This tool provides an important basis for making decisions concerning our choice of (new) materials and solutions.

With our Modular EPD tool, we keep an overview of the carbon footprint per module in most of our chairs. This enables us to break down into a particular chair, and visually analyse how the carbon footprint contribution is distributed throughout the chair. This is a great help to identify which parts and components we should focus our efforts in order to improve the environmental performance of a specific chair.

**Removable cushions in RH portfolio**

**Back cushion**
Pull the handle up and push the cushion upwards

**Seat**
Place your knees in the cushion, grab the fabric on the cushion and pull loose the corner from the chair

1

1

2

2

3

3


Circular design - Most RH chairs have removable seat and back cushions - 'click on / click off' - to enable easy replacement of wearing parts, thus prolong the lifetime. This feature allows easy dismantling and sorting as well - enabling reuse, refurbishment or recycling at end-of-use.

# Climate - GHG ($CO_2$) Emissions and Energy

**Climate change is seen as one of the largest global environmental challenges today, with human-related emissions of greenhouse gases (GHG) contributing to general temperature increase and extreme weather. Flokk's impact on the Earth's climate is measured several ways.**

We keep records of GHG emissions generated from operations at our factories and sales offices, including business travel and transport to customers. These represent the emissions we can directly influence and control, and are reported in this very chapter. In addition we measure the quantity of GHG emissions generated throughout the entire life cycles of our products, including raw material extraction and component production at suppliers, however this is reported through our EPDs (Environmental Product Declarations) and not covered in this chapter.

**FLOKK 2017**

**2 560 $tCO_2e$**
**Total GHG emission**

**12 109 MWh**
**Total energy consumption**

**496 598**
**Number of products produced**



Flokk's total GHG emissions have remained stable for a period, however in the last two years we see an increase due to acquisitions with additional production sites and increased travelling due to merging processes, and growing activity in general.

We see a slight increase in our total energy consumption as well, however, we do see a satisfying decrease of 6% in Flokk's total energy consumption per produced unit. This is a result of our continuous focus on how we can be more energy efficient despite our growing footprint, balancing energy consumption versus number of produced products.

We report our GHG emissions in accordance with the global standard in the Greenhouse Gas Protocol Initiative. All collected data is converted into tonnes of $CO_2$ equivalents ($tCO_2e$) to enable comparisons, divided into three well-defined scopes. We include energy consumption (MWh) as well.

**Scope 1**

Covers our direct GHG emissions associated with fuel consumed by our own and leased vehicles - service & sales operations, as well as our consumption of oil and natural gas for heating our offices and factories. This represents **37%** of Flokk's total emissions in 2017.

**Scope 2**

Represents our indirect GHG emissions generated by the purchased energy - electricity and district heating - used at all of our sites. This area accounts for a modest **9%** of the company's total emissions since 94% of all purchased electricity comes from renewable sources. (1 kWh hydroelectric power = 0 $tCO_2e$).

**Scope 3**

Shows our other indirect GHG emissions associated with transporting products to customers from the factories at Røros, in Nässjö and in Zwolle, as well as our employees' business travel by air. This area accounts for **53%** of the company's total emissions, which clearly shows where we have the greatest impact on the climate. For future reports we will aim at including upstream value chain as well in Scope 3 (as reported in our EPDs). Employees' travels to and from work are not represented either.

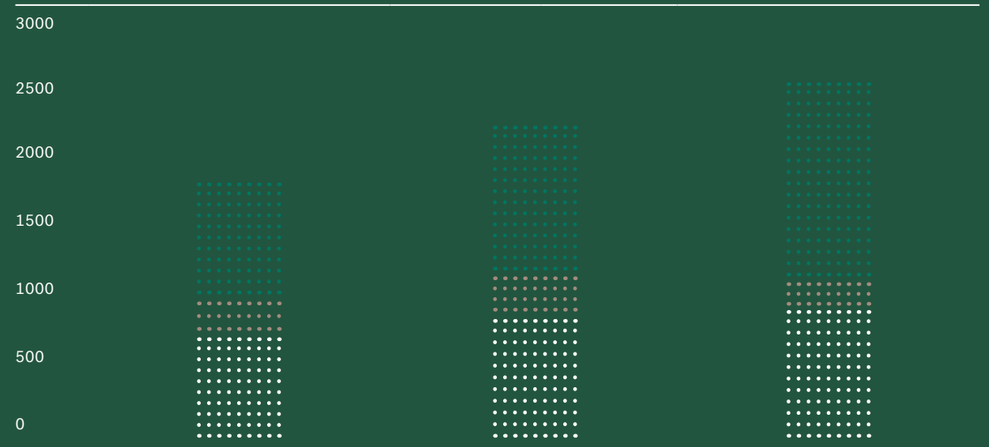
Carbon dioxide ($CO_2$) is the primary GHG emitted from human activity, mainly from the combustion of fossil fuels for energy and transportation. The greenhouse gas emissions are measured in $CO_2$- equivalents. $CO_2$-equivalents are the amount of all climate gases such as $CO_2$, $N_2O$, $CH_4$, $CF_4$/ $C_2F_6$ emitted from a system, weighted in relation to $CO_2$. The amount will give an indicator on how much the system will contribute to climate change.

**RENEWABLE SHARE OF TOTAL PURCHASED ELECTRICITY**

| | |
|---|---|
| 2015 | 94% |
| 2016 | 92% |
| 2017 | 94% |
| Goal 2020 | 100% |

## FLOKK'S TOTAL GHG EMISSIONS [$tCO_2e$] - MARKET BASED

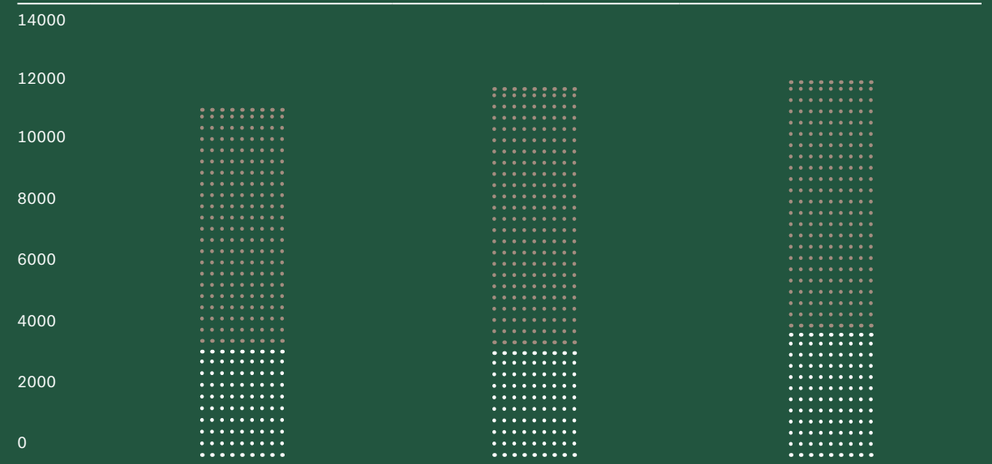
SCOPE 1
SCOPE 2
SCOPE 3




| | 2015 | 2016 | 2017 |
|---|---|---|---|
| **TOTAL** | **1796** | **2295** | **2560** |

## FLOKK'S ANNUAL ENERGY CONSUMPTION [MWh] - Scope 1 & 2

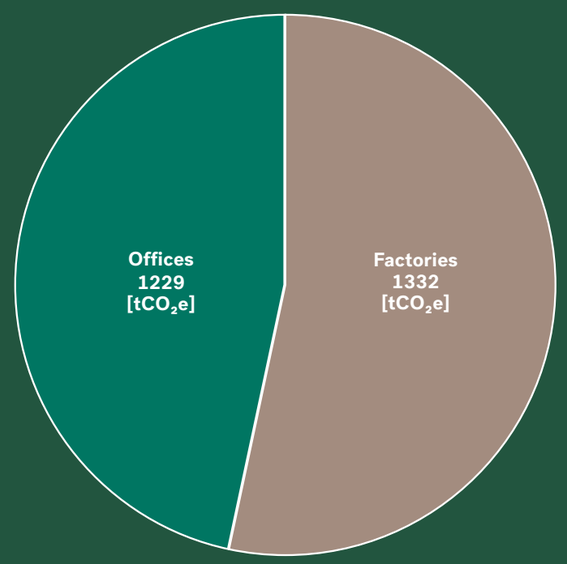
SCOPE 1
SCOPE 2




| | 2015 | 2016 | 2017 |
|---|---|---|---|
| **TOTAL** | **10879** | **12091** | **12109** |

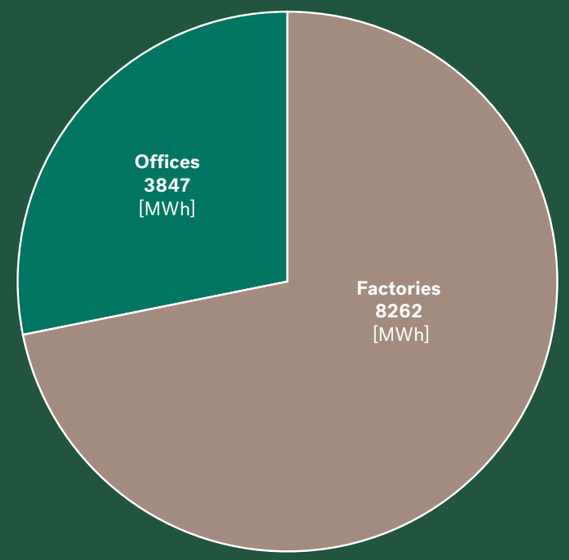
## 2017 GHG EMISSIONS [$tCO_2e$] - MARKET BASED

| | Offices | Factories |
|---|---|---|
| **SCOPE 1** | | |
| **Burning oil, natural gas** | 15 | 174 |
| **Transportation** | 678 | 90 |
| **SCOPE 2** | | |
| **District heating** | 9 | 38 |
| **Electricity** | 193 | 0 |
| **SCOPE 3** | | |
| **Employees air travel** | 334 | 0 |
| **Goods transportation** | 0 | 1 030 |
| **TOTAL** | **1229** | **1332** |

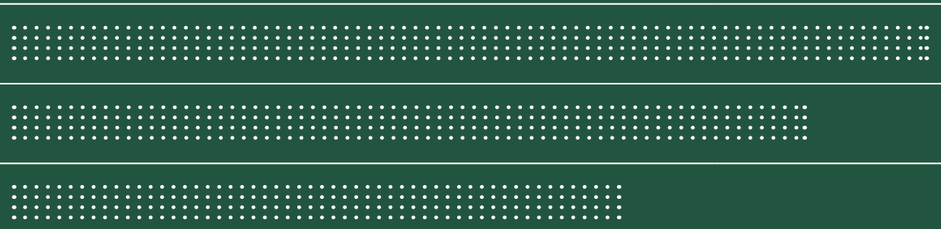



## 2017 ENERGY CONSUMPTION [MWh]

| | Offices | Factories |
|---|---|---|
| **SCOPE 1** | | |
| **Burning oil, natural gas** | 80 | 917 |
| **Transportation** | 2 703 | 361 |
| **SCOPE 2** | | |
| **District heating** | 87 | 1 196 |
| **Electricity** | 976 | 5 788 |
| **TOTAL** | **3847** | **8262** |

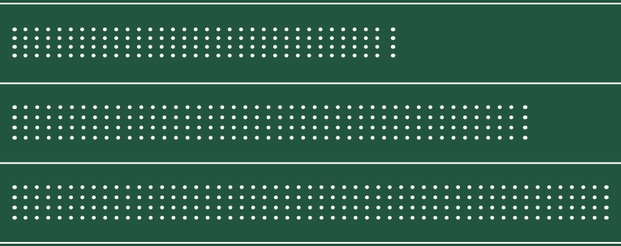



## GHG EMITTED PER PRODUCED PRODUCT [$kgCO_2e$/Unit] - MARKET BASED, Scope 1, 2 & 3



| | |
|---|---|
| **2017** | **5,2** |
| **2016** | **4,9** |
| **2015** | **4,3** |

## ENERGY CONSUMPTION PER PRODUCED PRODUCT [kWh/Unit] - Scope 1 & 2



| | |
|---|---|
| **2017** | **24,4** |
| **2016** | **25,8** |
| **2015** | **26,1** |

## Travel and Transportation

Business travel by air accounted for **13%** of Flokk's total emissions, almost **14%** increase from last year

In order to reduce business travel, we continuously expand our videoconferencing capacity, such as integrating voice and video into one common platform. We focus on training and communicating the environmental benefits, and share user guidelines on our new intranet site.
We encourage our employees to travel eco-friendly to and from work as well, through various local programs at each site, such as car-pooling, bicycle to work etc. Employees' travel to and from work are not included in Flokk's total emissions.

Sales & Service travels by car accounted for **30%** of Flokk's total emissions, about **20%** increase since 2016.

We see a potential in improving the fuel efficiency of our company car fleet, and will explore opportunities here in 2018.

Goods transportation by trucks with trailers 33 t+ accounted for **40%** of Flokk's total emissions, around **23%** increase from last year.

For outbound transportation of products to customers, we focus on a high degree of flat packing. We also transport fully assembled chairs, assuming that we can deliver full lorry loads to the same customer. In other cases where we cannot completely fill vehicles, we chose to be environmentally efficient by filling up the unused space with other flat packed products that can be delivered along the same route.

We want our transportation partners to have a strong commitment to the environment. The choice of Schenker for delivering products to our customers is partly due to their deliberate approach to lower their impact on climate and the environment. In 2017 we enhanced our dialogue with Schenker, with the aim to take more control on specific results related to Flokk, focusing on Euro emission standards on vehicles, emission, pollution and eco-driving, and to explore possibilities for increasing share of railway transport. We will continue this work in 2018 with Schenker, and kick off with our largest transportation partners Transbaltika and Jan Krediet.

## Energy Efficiency

Flokk adheres to the EU's EED - Energy Efficiency Directive. In 2017 we followed up measures on our qualified EU locations, based on findings from energy audits according to EN 16247. In December 2017 we also completed an energy audit in Norway in order to be at the forefront of future EEA directives, with measures to follow up in 2018.

| | |
|---|---|
| **GOALS 2017** | Reduce annual average energy consumption per produced product by 2% (20% by 2020) |
| | Perform Energy Audit EN16247 in Norway, to be up front EEA (EØS) directives (EED) |
| | Roll out global corporate energy efficiency action plan based on EED measures |
| | Follow up new transportation contracts - identify improvement areas |
| **RESULTS 2017** | Flokk's total energy consumption per produced product reduced with 6% (since 2016) |
| | Energy Audit done in Norway - Final report received with relevant measures |
| | Røros - energy consumption per produced product reduced with 8,9% (since 2016)<br>• New windows in office wing / Lower temperature during nights & weekends<br>• New paint shop |
| | Nässjö - energy consumption per produced product reduced with 9,6% (since 2016)<br>• New door (remote controlled) to reach our waste handling outdoor, saves lots of energy<br>• New LED lights to the main office instead of regular fluorescent lightning |
| | Kicked-off environmental dialogue with transportation partner Schenker – needs more close follow up |
| **GOALS 2018** | Roll out corporate energy efficiency action plan based on EED measures (not done in 2017) |
| | Røros - evaluate and implement measures from Energy Audit 2017 - Light, ventilation & compressor control |
| | Nässjö - investigate business case on major energy efficiency measure: roof insulation on building |
| | Establish dialogue with all major transportation partners - KPI tracking & improvement areas |

# Resources - Materials

**Each year we produce almost half a million new products, counting 496 598 products in 2017. With an average weight of 15–20 kg, our operations obviously require large quantities of raw materials and components. Despite the increased global awareness of the planet's limited resources, our generation consume far more than our share of the Earth's non-renewable resources, in a way we are stealing from future generations. In Flokk we therefore continuously strive to increase our use of renewable and recycled materials, as well as reduce the weight and number of components.**

**Renewable And Recycled Materials**
Renewable and recycled materials have the least impact on the environment. Not only do they contribute to keep materials within a closed loop, the processing of recycled materials requires significantly less energy as well. With one of our visitor chairs as an example; by replacing the plastic material used in the back and seat from virgin polyamide (9,2 kg $CO_2$e) to recycled polypropylene (1,23 kg $CO_2$e), we managed to reduce the carbon footprint with 87% for each kg material we replaced!

This is why we develop a product to contain as high a share of recycled materials as possible. There are a few challenges though! Cosmetic and technical properties of recycled plastic are poorer than those of virgin plastics, and in visual or critical components that require colour range or great strength we sometimes need to use virgin plastics. Given this, we must at the very least ensure that these are recyclable.

**Recycled Versus Recyclable Content**
In Flokk we find it important to differentiate between the terms 'recycled' and 'recyclable' materials, which has two different meanings. Paper, metals and plastics are all recyclable materials since they can be reused. It is easy to achieve a large proportion of recyclable content – actually most furniture producers can claim that their chairs are more than 95% recyclable. In our case PUR foam and wool textiles are the only materials that are not 100% recyclable.



However, it is the share of already 'recycled' materials used in a product that gives the ultimate environmental benefit. When it comes to recycled plastics, the larger share of post-consumer plastics we use, the more we contribute creating a need for returning waste from the market after actual use. Some post-industrial plastics - recovered from production scrap - is still needed though, to ensure required strength properties.

**Reinforced Recycled Plastics**
As we stay firm with our strategy to increase the share of recycled polypropylene, we want to explore development of reinforced recycled waste plastics, collected from land and the ocean. This will create great potential of replacing virgin with recycled material in critical strength components. After applying for external funding in 2017, we have now been granted funding from Norwegian Research Council. In Q2 2018 we will kick off a new research project From 50% recycled to 100% Circular product development for sustainable furniture, in collaboration with our research partner SINTEF.

**Chemicals**
Choosing the right materials also involves avoiding materials with a chemical composition that are hazardous to health and the environment in our products, and in our own and our suppliers' production processes. Flokk takes the responsibility to maintain strict control of the use of chemicals throughout the value chain.
We set among the strictest environmental requirements in the industry, the so-called 'negative list', and all of our suppliers must commit to fulfilling our requirements in order to become a supplier to Flokk. We strive to avoid directly toxic chemicals and chemicals that are carcinogenic, toxic for reproduction or mutagenic, i.e. result in birth deformities.

We have for many years stopped using what we call 'banned' materials in all our new products, such as glue, PVC and chrome surface treatment of chair and table legs. Instead we put great effort into developing attractive alternatives, such as our new Polyethylene powder coatings with metal look – matching the shiny and tough surface obtained from chroming. For our older portfolio we set strict requirements concerning the components of glue and paint, which otherwise could contain substances such as formaldehyde and bisphenol.

| | |
|---|---|
| Plastics | **21,4%** |
| Aluminum | **17,6%** |
| Steel | **16,4%** |
| Traded Products | **16,0%** |
| Fabrics & Leather | **8,9%** |
| Foam & Chemicals | **7,4%** |
| Assembly | **7,3%** |
| Packaging | **3,2%** |
| Wood | **1,7%** |
| Electronics | **0,2%** |

Distribution of material categories, purchased by Flokk in 2017.

## Plastics

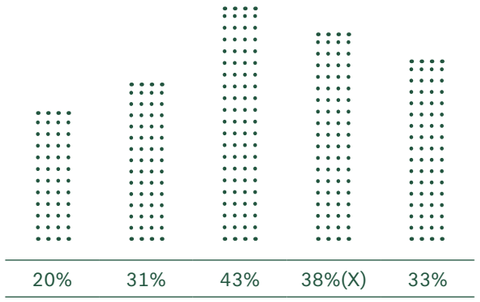
Plastics are primarily fossil-based, produced from oil, and thus to a large extent, regarded as non-renewable materials. In addition to the extraction of limited resources, the production and processes involved contribute to GHG (greenhouse gas) emissions.

In 2017, Flokk purchased 1 840 tonnes of plastics, which accounted for 21% of our total purchases of materials.

Most of our plastic parts and components are made of polypropylene (PP), polyamide (PA) and polyoxymethylene (POM). All parts that weigh more than 50 g are type marked to simplify sorting of parts for recycling.

**607 tonnes**
of recycled plastic waste purchased by Flokk in **2017**
(517 tonnes in 2016)

**RECYCLED SHARE OF TOTAL PURCHASED PLASTICS**




(X) – last year we reported 42% and not 38% by mistake, due to wrong calculations on purchased recycled PA.

We introduced recycled plastics into our products as early as 1995. Today, these account for 33% of all the plastics we purchase. The majority is recycled polypropylene (PP) – with 592 tonnes purchased in 2017 (484 tonnes in 2016). Our use of recycled plastics went up by weight, partly due to increased sales of RH Logic and BMA Axia series. However, new product mixes from acquisitions, combined with increased sales on products containing virgin, can explain why the share of recycled plastic was higher in 2015 and 2016. In order to reverse that trend, we will boost the migration of recycled plastics into our best selling products in a near future.

None of our new product collections contain PVC parts. All of our largest plastics suppliers must comply with our environmental requirements, and commit to not using any hazardous chemicals in plastic materials.

We have great focus on strengthening our ongoing efforts on recycled plastics further. After applying for external funding in 2017, we have now been granted funding from Norwegian Research Council. In Q2 2018 we will kick off a new research project in which we will investigate the feasibility of reinforcing recycled post-consumer plastics, collected from land and the ocean.

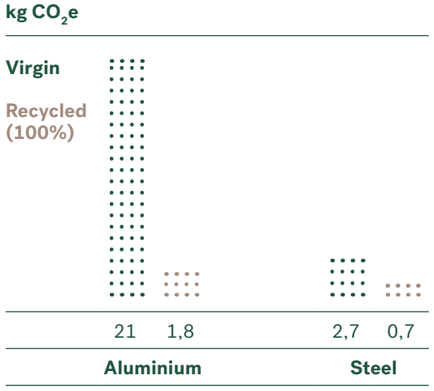
## Metals

The production of virgin metals is a highly energy intensive process from a life cycle perspective, and contributes significantly to GHG emissions. In 2017, purchases of metals (mostly steel and aluminium) accounted for 34% of Flokk's total purchases of materials.

In order to limit environmental impact, our die-cast aluminium parts contain an average of 95% of recycled aluminium. We can thus mould a footbase to one of our chairs using less than 10% of the energy required for processing virgin materials. And the quality, durability and finish is just as good.

Our steel parts consist of around 30% recycled materials.

**GHG emissions per 1 kg raw material**




No solvents are used in our finishing processes, which are based on powder coating. We have stopped using chrome surface treatment in all new projects, and our ambition is to remove chroming entirely from our older core portfolio within 2020.

## Padding

The padding materials we use are largely based on polyurethane foam. The furniture industry is facing the challenge that polyurethane (PUR) is not 100% recyclable. However, some down-cycling possibilities do exist, like transforming the used foam into carpets or insulation materials, although most of the used PUR foam is burned in industrial incinerators. We have carried out a few research and pilot projects on finding alternatives to PUR over the years, but still there are no 100% perfect alternatives available, with no compromise on comfort or sustainability. We will closely monitor the promising ongoing commercialisation of $CO_2$-based PUR.

Our standard PUR foam articles comply with the strict requirements of the Nordic Swan Ecolabel, and do not contain any harmful flame-retardant substances.

## Fabrics & Leather

Our standard collection consists of durable textiles and leather with good environmental properties.

We offer wool and synthetic textiles, and one of our bestsellers Xtreme is made of 100% recycled polyester. The structure of polyester fibres provides good flame-retardant properties without chemical additives.

We have strict chemical requirements ensuring that no hazardous substances are used in the production of our standard upholstery. Chrome is not accepted in the tanning of the leather we use for our products, and BMA adapted to this from August 2017.

8 out of our 10 standard upholsteries are certified with various eco labels, such as the EU Ecolabel ('Flower'), Oeko-tex® or The Blue Angel.

## Water

Our only direct production process that requires water is the cleaning of metal parts in surface treatment at the factory at Røros.

**3 964 m³**
water consumption in three main factories in 2017

Water from the cleaning process at Røros is cleaned in-house, and discharged into the municipal sewage plant. In 2017 the discharged amount was 397 m3.

Every other month, water samples are taken to verify that the discharge is in accordance with national legal requirements. For 2017 no deviations were observed in these analyzes.

All our facilities (factories, HQ and sales offices) are connected to the municipal drainage system.

## Wood

Even though wood is one of the few materials that is 100% renewable, poor management of this resource can result in environmental destruction such as deforestation, the eradication of flora and fauna, and large GHG (Greenhouse Gas) emissions.

We carefully select our suppliers of wood, and choose to work exclusively with European companies delivering wood issued from forests in Europe. Some of our suppliers own their own forests, while some purchase wood from nearby areas; however all wood used in Flokk's products is from traceable European, sustainably driven forestry. Certain products use FSC certified wood.

The glue, lacquer and stain applied to our wood products do not emit harmful substances into the indoor climate, due to low levels of volatile organic compounds (VOC).

## Packaging

Our products are delivered to customers flat packed in cardboard boxes. In 2017, our two factories in Scandinavia sent a total of 1 035 tonnes of packaging out into the market. This consisted of 70% cardboard, 20% plastics, 2% expanded polystyrene (EPS) and 9% other materials such as tape, bubble wrap, etc. Numbers for Zwolle are still not available in needed fraction details.

In 2017 we continued a project aimed at achieving better transport effectiveness. Target is to define measures to reduce damage sustained during transport, and at the same time achieve a balance between recycled materials and adequate quality. We are also looking into possibilities to eliminate expanded polystyrene from all packaging.

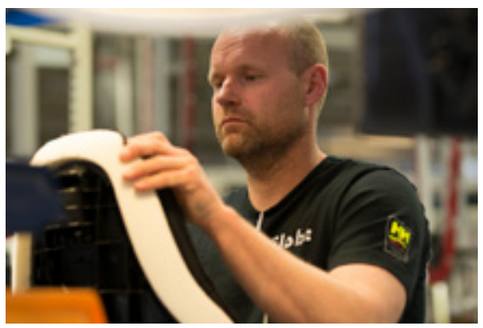
As a temporary solution, the cardboard packaging we use in Nässjö now contains 88% recycled fiber, against a former 97%. We see challenges in using a high proportion of recycled cardboard due to lower quality, thus the risk of poorer product protection. In fact, damage sustained during transport due to a higher share of recycled cardboard is responsible for some proportion of the complaints we receive.

Flokk is a member of several national take-back schemes such as "Grønt Punkt" in Norway and FTI in Sweden.

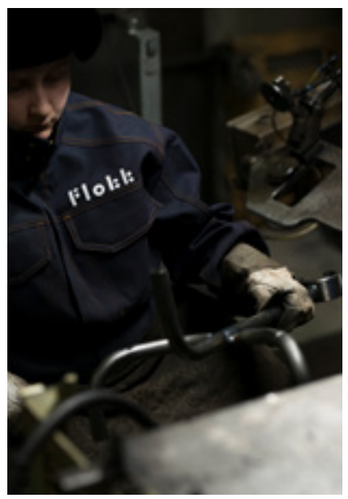
Each year we report how much packaging we send out into the market and pay a charge in relation to this. The charge ensures old packaging is collected and recycled.

| | |
|---|---|
| **GOALS 2017** | Increase share of recycled PP from 51% to 57% |
| | Investigate recycled PP reinforced with recycled / renewable fibres |
| | Nässjö – continue packaging efficiency project + reduce material use and eliminate EPS |
| **RESULTS 2017** | Introduced new developed third material mix of post-consumer recycled PP - will increase total share |
| | Increased amount of recycled PP from 484 to 592 tonnes - due to sales of RH Logic and BMA Axia |
| | Reduced share of recycled PP from 51% to 43% - due to new product mix and sales of RBM Noor (virgin PP) |
| | Applied for (and granted in 2018!) major research funding to develop sustainable reinforced recycled PP mix |
| **GOALS 2018** | Roll out aggressive plan for migration of recycled PP - increase annual amount to 700 tonnes |
| | Kick-off & drive 3-year research program together with SINTEF with aim to boost use of recycled materials |
| | Carry on packaging efficiency project (postponed from 2017), and aim to reduce material use and eliminate EPS |

# Circular Economy



Flokk has a long experience with circular economy. At our disassembly line, returned chairs are taken apart, parts and components undergo recovery and refurbishment for reuse into "Second life" chairs, or if no good, returned to suppliers and partners for recycling.




Although the circular economy has existed for many years, it has gained massive global attention over the last few years, in line with the rising awareness that the Earth's resources are limited, and that we are surrounded by plastic waste, at land and in the ocean. As an alternative to the traditional linear economy (take, make, waste), a circular economy aims to do more with less. To keep resources in use for as long as possible, to keep materials in a closed loop at the end of their service lives – through controlled take-back schemes, reuse and recovery – in order to make them available for second life products. Circular economy is very much about design for controlled recovery of products, and considering waste as a valuable resource.

As part of their ambitious work for a sustainable future, the EU adopted in January 2018 the first-ever Europe-wide strategy on plastics. This foundation for a new circular plastics economy is part of EU's action plan for circular economy, launched late 2016. It is hoped that the plastic strategy will transform the way products are designed, produced and used, as well as pointing out needed directions on infrastructure for collection, sorting & recycling, material traceability and development of quality standards for sorted plastic waste and recycled plastics.

Already in 1993 Flokk launched its circular design criteria ('5-III principles for sustainable design' - see page 120), way ahead of the industry. Since that time we have focused our work accordingly on minimising our environmental impacts, and we have pioneered on many of the circular economy principles. Today, we buy over thousand tonnes of recycled plastics and metals each year. Our products have a 10-year guarantee and a long life time beyond this. They have changeable wearing parts, are easy to disassemble with standard tools, and parts are marked for easy sorting for recycling. The materials of our products are more than 95% recyclable, and our long-term goal is to facilitate that more than 90% of the components are actually being reused or recycled.

**Closing The Circle**

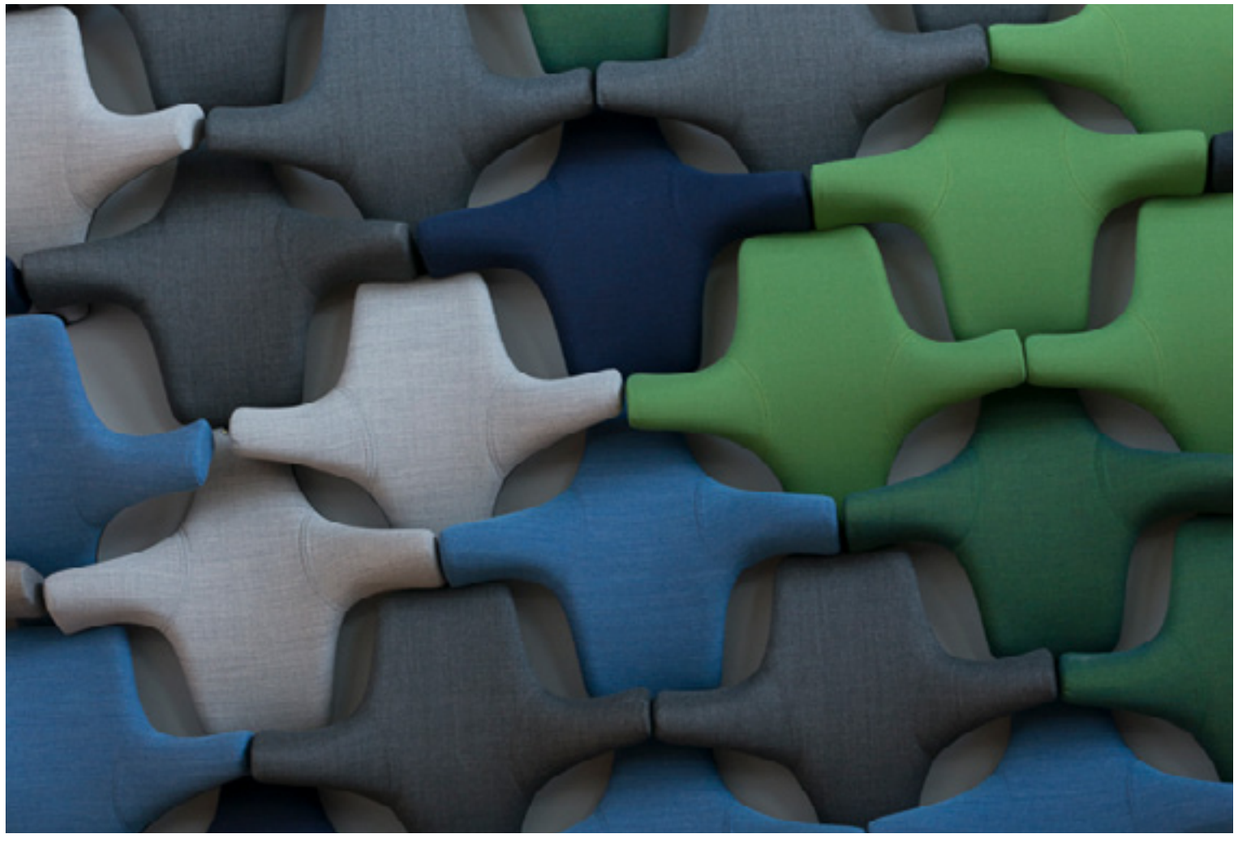
In order to better meet current and future market demands for increasingly fully circular solutions, Flokk is working on solutions to ensure our products are actually being returned, by taking control of the chairs and tables in the usage phase, and by facilitating systematic reuse and recovery of our 'recycle ready' products.

We have participated in a major Swedish research project since 2015 – "Business Model Innovation for Circular Furniture Flow", aimed at developing circular business models for the furniture industry. This project was finalized early 2017. Stage 2 of the project received funding from Swedish Vinnova and kicked-off early 2018, with a mix of old and new participants, aimed at generating scaled market pilots. Our largest dealer in the Swedish market, as well as all the major public procurers in Sweden are part of the project, as such we see it as an absolute necessity to co-develop some of our circular offerings in this setting.

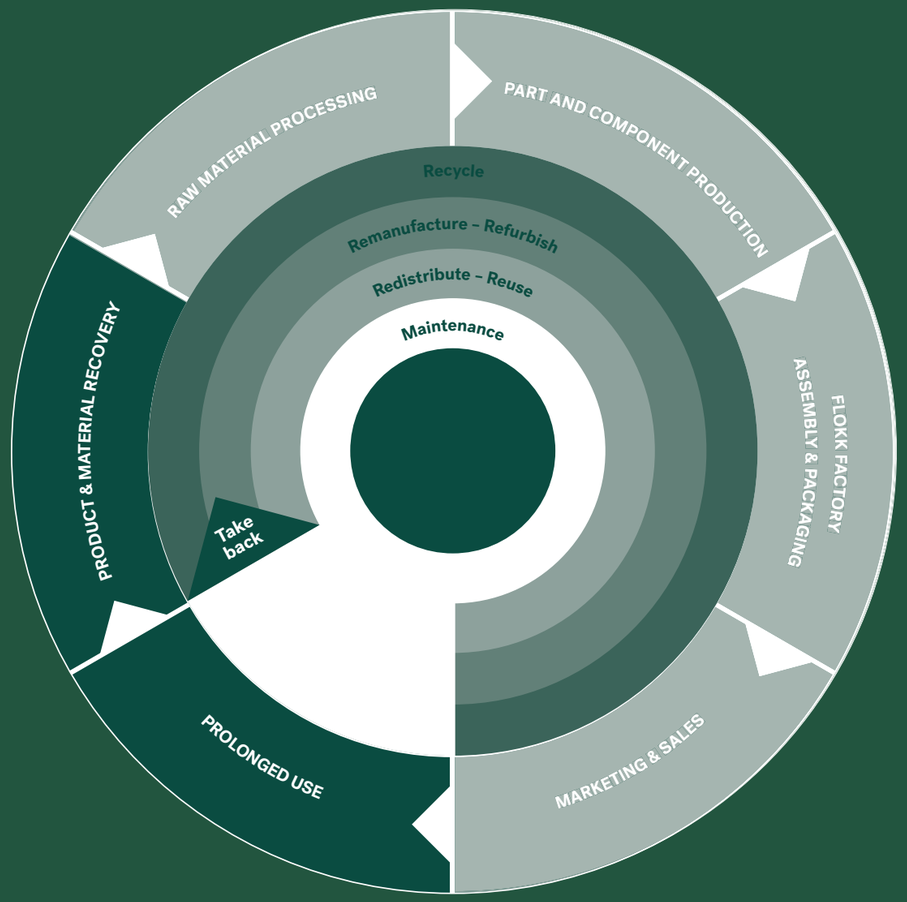
The 'Seating as a service' pilot, which commenced Q4 2016 has continued throughout the year generating valuable insights and a healthy revenue stream. We are currently looking into widening this pilot to include more customers and a more standardized offering.

We now also include a circular business model test as a principle in new product development, ensuring that future products are feasible for future circular needs, as well as optimized within the existing business logic. We are also exploring how to ensure full traceability of our chairs and secure a circular value chain.

In the Netherlands we have practiced circular economy for many years and built up a functioning system for taking back chairs. Our factory in Zwolle has a dedicated disassembly line where returned chairs are taken apart. Parts and components are controlled and cleaned, and either reused in 'second life' chairs, or defective parts are sent back to suppliers for recycling into new raw material. In 2017 we have met some challenges on finding partners that are willing to receive material for recycling, mainly due to lack of profitability. We will continue our work to solve this in 2018 and the years to come.



| | |
|---|---|
| **GOALS 2017** | Complete 2nd stage of Scandinavian research project – follow up Pilot projects |
| | Expand circular deal in the Netherlands / take-back to include Axia 24/7 chairs |
| | Find and initiate return flow solutions for upholstery and PUR foam |
| **RESULTS 2016** | Completed 2nd stage of Scandinavian research project |
| | Launched several efforts encompassing circular economy adaptation |
| | Built generic business model testing capability |
| | Not managed to include Axia 24/7 chairs in our take-back in the Netherlands yet |
| **GOALS 2018** | Successfully engage in new industry collaborations for new circular offerings |
| | Launch next stage of seating-as-a-service pilot solution |
| | Find and initiate new return flow solutions |
| | Continue exploring potential take-back expansion |




# Resources - Waste

The waste generated by Flokk comes from two sources. Firstly, we have the waste that is directly linked to products, in the form of packaging, transportation protection and used products. We fulfil our responsibilities for packaging as described on page 132, and are constantly striving to ensure that our products are reused, recycled and recovered at the end of their service lives, as described on page 134.

In our work on reducing the waste quantities, we use a take-back scheme for the cardboard packaging our suppliers use to pack their components in. This way we ensure that the packaging is reused several times instead of being recycled after one use. However, in 2017 we had a significant increase in cardboard waste (Nässjö +40 tonnes and Røros +70 tonnes), mainly due to a new supplier of plastic components with no routines for returning cardboard, but also as an effect of increased production volume. We will focus to solve this issue in 2018.

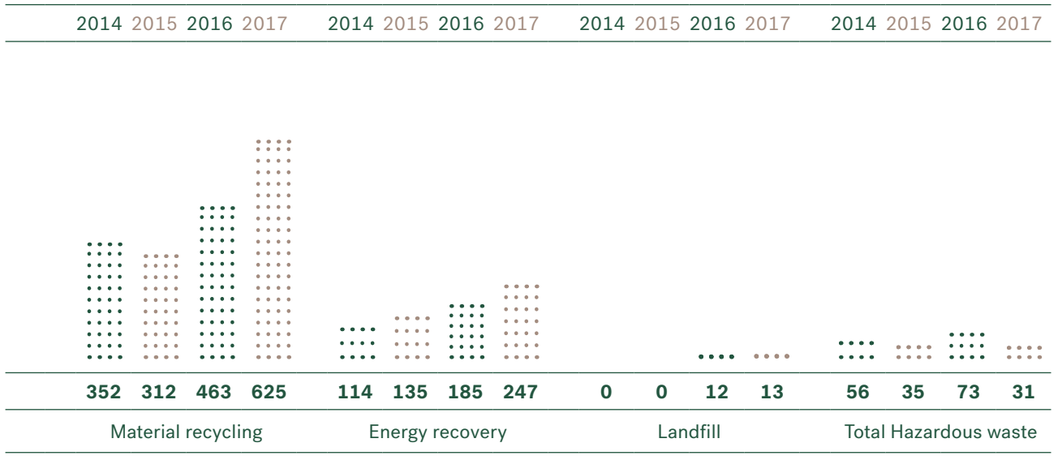
When we transport fully assembled chairs, we avoid using packaging. However, due to high risk of damage we need to protect our chairs with various types of protective covers. In 2018 we will continue establishing a reliable and effective re-collection system for all protective materials used.

Secondly, there is the waste generated during the production process. As part of our environmental requirements we request that suppliers have a plan for how they will minimise their waste quantities. As far as our own factories are concerned, we have established an efficient waste management plan in order to improve the systems for both collecting and sorting waste.

In 2017 we expanded our info whiteboards at each production site with environmental data, including sorting instructions, and we introduced sorting of 'hard plastic' at Røros. Waste sorting can always improve, and will be focus area in 2018 as well. In 2017 we had a significant reduction in hazardous waste. At Røros, the amount of oil-containing mass was reduced from 4 tonnes to 400 kg, and the amount of process water was reduced from 66 to 28.5 tonnes.

Today, 68% of our production waste (mostly metals and cardboard) is recycled, while 27% is incinerated in energy recovery. The remaining percentage of hazardous waste is declared pursuant to the requirements of the Waste Regulations and delivered to an approved reception facility. In 2016 we wrongly reported 73% production waste recycled due to wrong figures used for Nässjö, this should have been 63%.

**WASTE FRACTIONS (tonnes)**







| | |
|---|---|
| **GOALS 2017** | Re-collect 80% protective materials used during transportation of fully assembled chairs |
| | Improve waste sorting in all facilities - office, canteen and production sites |
| | Eliminate disposable trays in some of our canteens |
| **RESULTS 2017** | Cardboard waste increased with 70 tonnes at Røros and 40 tonnes in Nässjö due to missing routine for returning packaging at new plastic part supplier |
| | Røros - reduced amount of oil-containing mass from 4 tonnes to 400 kg |
| | Røros - reduced amount of process water from 66 000 to 28 500 litres |
| | Røros - project ongoing to remove disposable plastic cups/plates in canteen |
| | Better waste handling in production sites due to improved marking of sorting fractions |
| | Some re-collection of transport protective material put in place - starbase plastic covers |
| **GOALS 2018** | Reduce cardboard waste with 50% - work with new plastic part supplier on reuse packaging |
| | Continue re-collection of transport protective material - gather overview, set KPI's and initiate |
| | Continue improve waste sorting in all facilities - office, canteen and production sites |
| | Nässjö - increase share of returned and recycled soft plastics to 10 tonnes (1.46 tonnes in 2017) |

# Responsible Supply Chain

**With more than** 95% of our products' environmental impact related to the phases before parts and components even arrive at our factories, there is no doubt that the choice of suppliers is crucial in our work on minimizing environmental impact. In Flokk we know that performance and attitudes are closely related, and therefore work hard to choose suppliers with the same values as us in order to create long-term, sustainable relationships.

**Localisation**
Flokk has a certain number of suppliers in low-cost countries (Eastern Europe and China). We have a particular focus on these suppliers meeting the requirements in international regulations concerning human rights and working conditions.

Our suppliers, from whom we make purchases exceeding more than NOK 100 000, are largely located in Scandinavia (52% of APV (turnover)), Western Europe (18% of APV), and the Eastern Europe (24% of APV).

Asia is still home to a small proportion of our suppliers, with eight suppliers with whom we have worked for a long time. Our practice of recent years, involving more thorough follow-up of suppliers in Asia, is administered by our Senior Purchase and Operation Manager in China, who is responsible for evaluating the suppliers in the region. This is done through introductory visits to suppliers and their factories prior to signing new contracts, and through regular subsequent follow-up visits to the facilities.

**Supplier Selection**
Since 2011, we have systemically worked on concentrating our purchasing from fewer suppliers, and we see the number of suppliers is decreasing. We now place new business and products with Key suppliers who account for a steadily increasing proportion of the total.

**Ten principles of UN's global compact**

**Human rights (HR)**
(Indigenous rights included)
1. Support and respect the protection of HR
2. Make sure not to be complicit in HR abuses

**Working life**
3. Freedom of association and collective bargaining
4. Eliminate all forms of forced labor
5. Effective abolition of child labor
6. Eliminate discrimination

**Environment**
7. Precautionary approach to environmental challenges
8. Undertake initiatives to promote greater environmental responsibility
9. Encourage development of environmentally friendly technologies

**Corruption**
10. Work against corruption in all its forms

We work actively towards both existing and new suppliers and sub-suppliers for all tiers on having a green profile. Before we sign an agreement with a new supplier, we will assure ourselves that we have a shared respect for human rights. We want our suppliers to exercise environmental responsibility, to offer good working conditions, and we have zero tolerance for corruption. All new suppliers must commit to complying with our Code of Conduct, which is based on the ten principles of the UN's Global Compact. We also require signed contracts on our own strict "Environmental Requirements" (covering use of raw material and use of chemicals, process control and energy consumption).

There has been many changes to our supply chain in 2017. Further information concerning this can be found in the GRI-index on page 162.

**Supply chain control – Follow-up and assessments**
In 2017, we continued progressing in our ongoing work on strengthening our control of the supply chain.

Supplier Performance Status – SPS
We run monthly SPS meeting to monitor and evaluate supplier results, to coordinate actions and make sure to highlight issues regarding Quality, Delivery, Risk and Cost. Environmental and corporate social responsibility factors that have a negative impact on society, labour market practices, and human rights are covered by the Risk category. This meeting focus on monitoring the status, any actions needed will be made into the relevant fora (Category Review, Quality meeting etc).

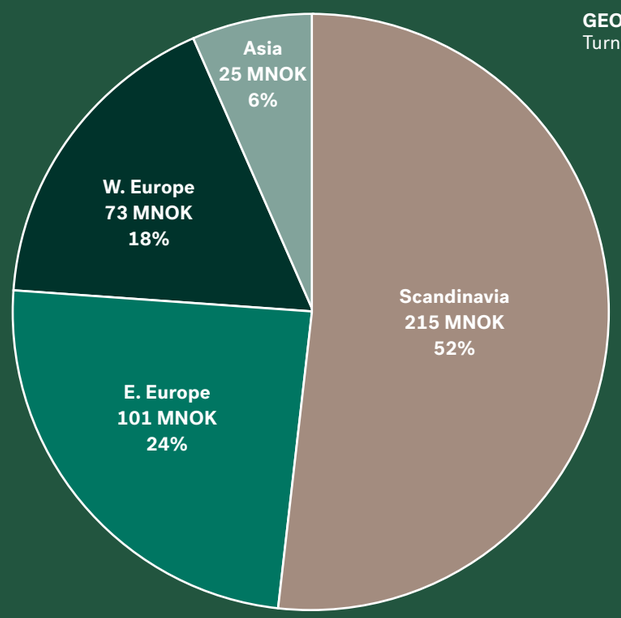
Supplier performances are documented, analysed and discussed. As soon as a supplier is identified as low performing, we coordinate temporary deviation of the supplier, and new contracts are put on hold (New Business on Hold). This way we manage to focus the resources where it is most needed.

In 2016 we visited 5 suppliers in Asia, to understand their performance and situation related to Social Responsibility/ environment. Main takeaway was that the running suppliers are on a good level, with adequate performance. Based on the visit, one supplier was showing some deviation from our expectations, and we have terminated this supply, and included this into an existing supplier relationship.

Supply Chain Management Tool
We see a growing need to implement a supply chain management tool for transparent & navigable access to sustainability and social responsibility practices throughout the value chain. As we grow as a company, with 4 recent acquisitions, we need further alignment of supply chain until we make a final choice. Our target is to land this decision in 2018.

## THE NUMBER OF SUPPLIERS BY REGION AND COUNTRY

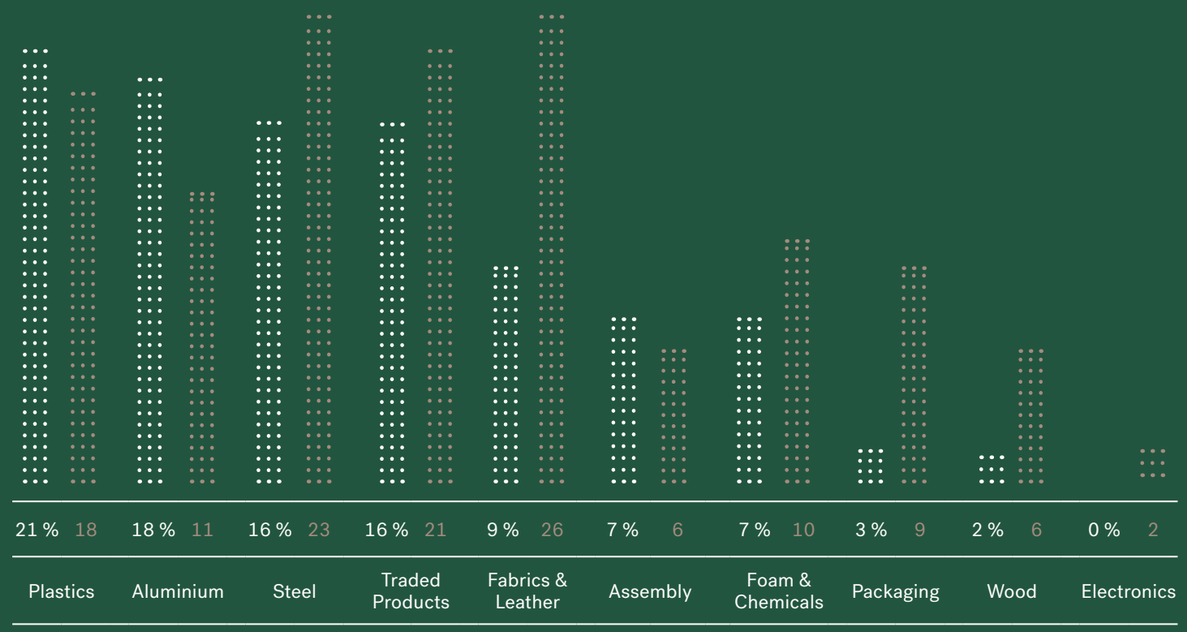
| Region | Country | No. Suppliers | Total |
|---|---|---|---|
| Scandinavia | Denmark | 9 | 62 |
| | Norway | 16 | |
| | Sweden | 37 | |
| W. Europe | Austria | 1 | 42 |
| | Germany | 12 | |
| | The Netherlands | 23 | |
| | Italy | 4 | |
| | Uk | 2 | |
| E. Europe | Estonia | 1 | 19 |
| | Latvia | 2 | |
| | Lithuania | 11 | |
| | Poland | 2 | |
| | Romania | 3 | |
| Asia | China | 7 | 8 |
| | Taiwan | 1 | |
| | Thailand | 0 | |
| Other | Canada | 1 | 1 |
| **TOTAL** | | **132** | **132** |




**GEOGRAPHICAL DISTRIBUTION OF OUR PURCHASES**
Turnover MNOK per region from suppliers

**SHARE OF TOTAL APV (Turnover)**
**+ Number of suppliers per material category**

% Share of APV
Number of suppliers




# Workplace – Workforce

**Flokk** wants to create a safe, fair working environment for its employees and acts responsibly with respect to our customers and society in general. We support and follow the principles of the UN's Global Compact.

**Code of Conduct**
We apply a Code of Conduct towards our suppliers. In relation to our employees we have gathered the company's principles, values, standards and rules of behavior in a Code of Conduct – Employees. With this Code of Conduct we expect our employees to act as good ambassadors and treat colleagues, relations, the environment and surroundings with respect and courtesy. We clearly distance ourselves from corruption and bribes, and we support the work for free competition and fair trade.

The processes related to follow-up of employees, workplaces, human rights, corporate social responsibility and product liability are shared between the company's HR department and the department for Environment & Corporate Social Responsibility. The HR department is represented in Group Management by the Senior Vice President for HR & Organisational Development, while Environment & Corporate Social Responsibility is represented by the Senior Vice President for Products & Brands.

**The Overall Workforce**
As of December 2017, the company had 833 employees. The percentage of women remains stable at 34%. 14% of Group Management are women and in the board 14% are women.

All our employees are directly employed by Flokk. We experience some seasonal fluctuations in production during the year, which means that we need to increase our workforce with temporary employees to meet market demands. We experience this especially during the months of November and December.

Our four largest workplaces are the factories at Røros, in Nässjö and in Zwolle, as well as the head office in Oslo.

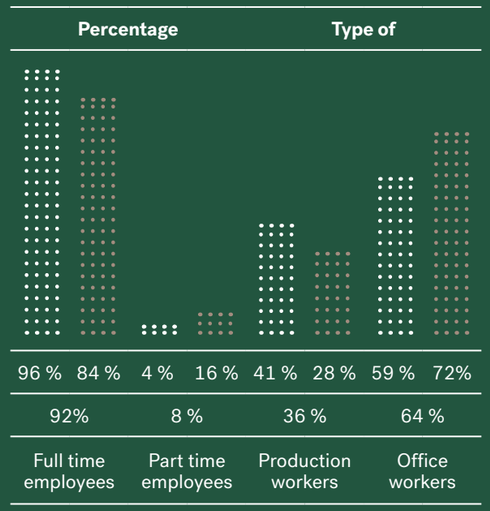
**Employee Turnover**
The overall turnover rate for employees decreased from 13,2 % in 2016 to 9,,2% in 2017. The main difference is related to an increasing workforce with low turnover.

**Remuneration and Incentives**
The Board of Flokk consists of representatives of the owners, of the company and external members. External board members receive a fixed annual director's fee for their board work. Group Management receive annual fixed salaries and they also have a bonus agreement, which is approved by the Board annually. The CEO has a severance agreement that provides entitlement to 24 months' salary in the event the CEO leaves the company involuntarily. Group Management's pension agreements are equal to that of the employees.

| EMPLOYEE LOCATION | Men | Women | TOTAL |
|---|---|---|---|
| Australia | 1 | 1 | **2** |
| Belgium | 7 | 3 | **10** |
| China | 4 | 4 | **8** |
| Denmark | 10 | 8 | **18** |
| France | 6 | 4 | **10** |
| Germany | 31 | 10 | **41** |
| The Netherlands | 35 | 23 | **58** |
| Norway | 165 | 83 | **248** |
| Singapore | 2 | 1 | **3** |
| Sweden | 86 | 45 | **131** |
| Switzerland | 4 | 3 | **7** |
| Britain | 12 | 6 | **18** |
| United Arab Emirates | 0 | 0 | **0** |
| **TOTAL NUMBER OF EMPLOYEES** | **363** | **191** | **554** |

| WORK CONTRACT | | AGE | | | | |
|---|---|---|---|---|---|---|
| | | Under 30 | | Between 30-50 | | Over 50 |
| | | Men | Women | Men | Women | Men | Women |
| Consultants | **6** | 1 | 0 | 1 | 2 | 1 | 1 |
| Apprentices/Trainees | **9** | 7 | 2 | 0 | 0 | 0 | 0 |
| Temporary employees | **12** | 2 | 1 | 2 | 5 | 0 | 2 |
| Regular employees | **527** | 45 | 14 | 184 | 100 | 120 | 64 |
| **TOTAL NUMBER OF EMPLOYEES** | **554** | | | | | | |

**PERCENTAGE AND TYPE OF EMPLOYMENT**




| NEW EMPLOYEES 2017 | Men | Women |
|---|---|---|
| Under 30 years old | 23 | 8 |
| Between 30-50 years old | 23 | 17 |
| Over 50 years old | 4 | 4 |
| **TOTAL** | **50** | **29** |

| EMPLOYEES THAT LEFT THE COMPANY | Men | Women |
|---|---|---|
| Under 30 years old | 5 | 5 |
| Between 30-50 years old | 19 | 11 |
| Over 50 years old | 7 | 3 |
| **TOTAL** | **31** | **19** |

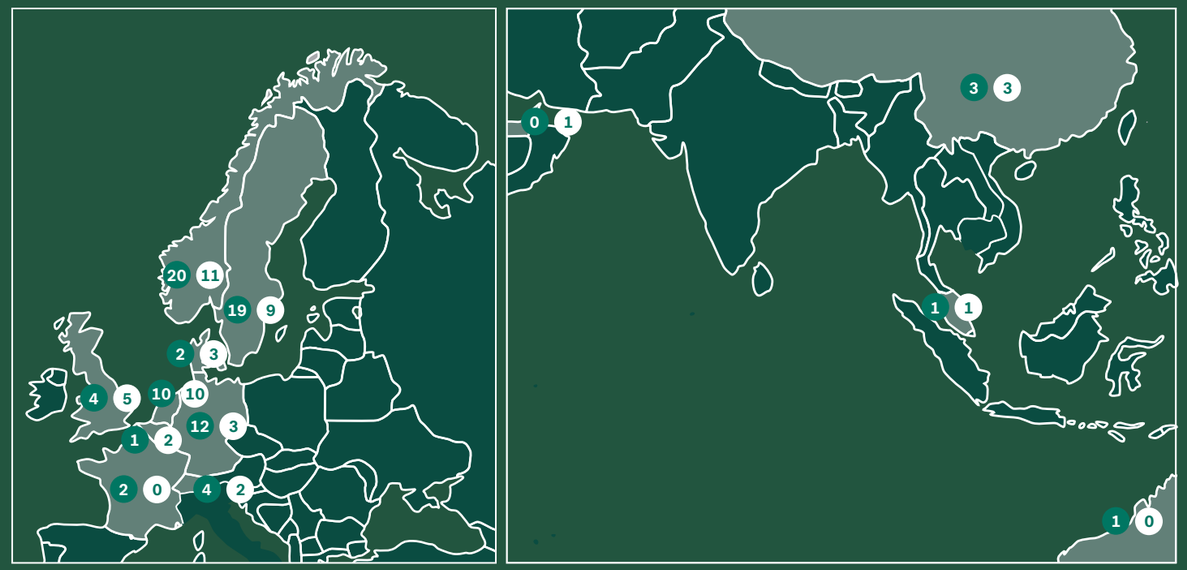
**NEW EMPLOYEES IN 2017**

| | Men | Women | Total |
|---|---|---|---|
| Australia | 0 | 1 | **1** |
| Belgium | 1 | 0 | **1** |
| China | 2 | 1 | **3** |
| Denmark | 0 | 2 | **2** |
| France | 1 | 1 | **2** |
| Germany | 10 | 2 | **12** |
| The Netherlands | 2 | 8 | **10** |
| Norway | 15 | 5 | **20** |
| Singapore | 0 | 1 | **1** |
| Sweden | 14 | 5 | **19** |
| Switzerland | 3 | 1 | **4** |
| UK | 2 | 2 | **4** |
| United Arab Emirates | 0 | 0 | **0** |
| **TOTAL** | **50** | **29** | **79** |

**EMPLOYEES THAT LEFT THE COMPANY IN 2017**

| | Men | Women | Total |
|---|---|---|---|
| Australia | 0 | 0 | **0** |
| Belgium | 1 | 1 | **2** |
| China | 1 | 2 | **3** |
| Denmark | 3 | 0 | **3** |
| France | 0 | 0 | **0** |
| Germany | 1 | 2 | **3** |
| The Netherlands | 5 | 5 | **10** |
| Norway | 9 | 2 | **11** |
| Singapore | 0 | 1 | **1** |
| Sweden | 7 | 2 | **9** |
| Switzerland | 1 | 1 | **2** |
| UK | 3 | 2 | **5** |
| United Arab Emirates | 0 | 1 | **1** |
| **TOTAL** | **31** | **19** | **50** |

New employees in 2017 Employees that left in 2017



# Workplace – Decent Work

In Flokk, the importance of a solid working relationship between the company and employee representatives is well-anchored in our corporate culture. This cooperation is based on a close dialogue over many years, which has resulted in a high degree of trust. The employee representatives are considered an important resource for the company.

**Trade Union Work**
In Norway and Sweden (Flokk Core), 51% of our employees are organised in trade unions, which is a minor decrease compared to previous years. A total of 194 employees were trade union members in 2017. In the Netherlands a Works Council represents all employees. The Works Council is in regular dialogue with the company regarding company policies, organizational development and other relevant matters.

**WORKERS ORGANISED IN TRADE UNIONS IN NORWAY AND SWEDEN**

| | Total Organised | Precentage organized of total employees |
|---|---|---|
| 2013 | 198 | 52% |
| 2014 | 199 | 53% |
| 2015 | 190 | 52% |
| 2016 | 178 | 56% |
| **2017** | 194 | 35% |

**TRADE UNIONS WITH COLLECTIVE PAY AGREEMENTS**

| | |
|---|---|
| Fellesforbundet (Norway) | 85 members |
| Handel & Kontor (Norway) | 13 members |
| FLT (Forbund for Ledelse og Teknikk) | 8 members |
| IF Metall (Sweden) | 53 members |
| Unionen (Sweden) | 29 members |
| ECONA | 1 members |
| Tekna | 5 members |

**Collective Pay Agreements And Collective Bargaining**
At Røros and in Nässjö the company and the employee's representatives meet on a regular monthly basis. In Zwolle a Working Council was established in 2016. Company representatives and employee selected Works Council members meet on a regular basis. Cooperation meetings between line representatives and immediate supervisors take place regularly to ensure two-way information and to resolve day-to-day challenges as quickly as possible.

Flokk's success depends on the performance of its employees. We believe that the best way of creating motivation is through active involvement. In areas with a collective pay agreement, the participation of employee representatives is stipulated by the agreements, which state that employees must be involved and information provided as early as possible in the decision-making processes, giving employee representatives a genuine opportunity to influence decisions. The factory at Røros has one part-time employee representative in 70% of a full-time position.

**Freedom Of Association And The Right To Collective Bargaining**
Freedom of association and collective bargaining rights apply to all of the company's units regardless of country. Freedom of association is described in our Code of Conduct – Employees and in our People Policy, which states: "Our employees have the right to join or establish trade unions according to their own wishes and bargain collectively. Employee representatives must not be discriminated against and must have an opportunity to perform their trade union duties in the workplace in accordance with current laws and regulations."

**Anti-Competitive Behavior**
In 2017, Flokk was not involved in any court case concerning intellectual property rights or any other anti-competitive behavior.

**Corruption**
Flokk expects all of its employees to avoid situations which may cause a conflict between the company and their personal interests. All forms of corruption and bribes are unacceptable. These attitudes are set out in the group's Code of Conduct. Work against corruption specifically focuses on the units that are most vulnerable (sales and purchasing). Flokk did not record any breach of the corruption rules in 2017. Nor were any recorded in previous years. For this reason, the group has not been involved in any forms of sanctions associated with corruption.

The topic of corruption is described in our Code of Conduct – Employees, Ethical Guidelines and our Whistle-Blower routines, which describe how employees should provide notification if they discover internal corruption.

**Discrimination**
Flokk aims to be a workplace with full equality between women and men. Everyone, regardless of gender, age, religion, ethnicity and background, has the same opportunities for employment and development. Further, women and men performing the same work will initially be paid the same salary, prior to assessing work performance.

In the case of new appointments and composition of teams/departments, the gender distribution in the department is taken into account and all managers strive for a working environment with variations in gender, age and background. The company actively works to prevent discrimination due to age, gender, disability, ethnicity, national origin, skin colour or personal beliefs.

**Equal Pay Policy**
Flokk has a clear compensation policy on which the remuneration of our employees is based. The company practices two different pay principles:

1. Collective Pay Agreements
Flokk has collective agreements in Norway and Sweden for union employees. In The Netherlands the company is following the indexation of the IF Meuble collective agreement. Each agreement governs pay based on the basic principle of equality, with differentiation in terms of seniority and qualifications. Within this area women and men receive the same pay, since the only differences made are in relation to seniority and qualifications. The remuneration level is above the minimum rates in the various collective pay agreements.

2. Individual Pay Assessments
Individual pay assessments are based on each employee's job description. This means that each position is treated individually. At the same time the pay for a position must be assessed and compared to the pay of comparable positions (HR is responsible for this process).

After reviewing the content of the position, the manager must evaluate the employee's performance. This assessment must be based on:

- Qualifications
- Initiative
- Results achieved in relation to set goals
- Ability to work together, attitudes and positive contribution to the work environment
- Compliance with the company's core values

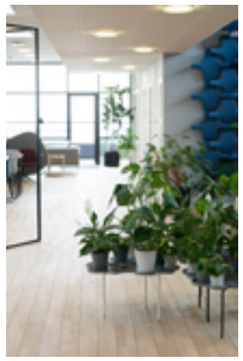
Individual differences in pay must be objective, justifiable and non-discriminatory in relation to:

- Gender
- Age
- Ethnic heritage
- Religion
- Sexual orientation
- Disability

There must be a clear correlation between pay and development on the job, performance, ability to collaborate and attitudes. Differences can occur in pay between women and men since they may have been assessed differently in relation to the above principles. HR steers the remuneration process and ensures that no unfair pay differences occur between women and men, based on the elements outlined above.

# Workplace - Training and Education

**Competence and the further development of this is essential for the success and progress of the company. Competence is an important means of developing our employees and the company. We therefore systematically map the competence and skills of the employees, analyse gaps and implement actions to close these.**





**Knowledge and Skills**
In 2017, Flokk spent NOK 2.100 000 on enhancing the skills of our 554 employees (ex Malmstolen, Offecct and Giroflex). Skills requirements are determined on the basis of the following:

- Group Management has defined the organisation's future skills requirements based on the company's strategic plan.
- Each part of the value chain must determine skills requirements based on the company's strategy goals .
- Department Managers are responsible for defining the required skills for the various job roles in their department.
- General skills requirements for all employees are addressed through induction programs for new employees (introduction/injection), General Meetings, department meetings and individually adapted training.

One important element of skills enhancement is carried out in the Individual Development Talk (IDT) which takes place annually in addition to a Mid-Year review where competence is especially in focus. In the IDT each Manager and employee agree a number of Personal Development Goals which must be updated at least twice a year through the IDT tool in the People@Flokk (an electronic Employee Management System – EMS). Each Manager is responsible for an earmarked budget for employee development and training.

Competence development and training are also an integral part of change processes and strategic efforts, whether these involve the launch of new products or changes to the actual sales process. In cases where internal programs do not meet the needs, external provision is used and paid for by Flokk.

**Training of New Employees – "Induction Plan"**
Flokk is very conscious of the importance of solid training when new employees are being onboarded. All new employees receive an induction plan which defines training activities during their initial period of employment. Their line Manager is responsible for drawing up the training plan. The content of this plan will differ depending on job role. For example, employees working in sales and supplier development will receive more anti-corruption training than employees in production. However, all employees receive training in key topics such as HSE and our vision, mission, values, and products, as well as environment and corporate social responsibility. New employees also receive a policy package containing the most important Group Policies such as the People Policy, Environmental Policy, Code of Conduct, and procedures relating to aspects such as human rights and anti-corruption.

# Workplace - Health and Safety

**Systematised HSE**
The health, safety and welfare of our employees are fundamental priorities for Flokk The company carries out systematic and preventive HSE work. The work is organised through formal cooperation bodies between the representatives of the employees and management. Local Working Environment Committees are in place in Oslo, Nässjö, Røros and Zwolle.

The safety deputies and other employees are important contributors to promoting a safe and responsible working environment and are involved in the planning and implementation of measures relevant to this. Regular meetings are held with the safety deputies. Two safety rounds are conducted per year in relation to the internal and external environment, fire prevention and electrical installations, respectively. Findings from these safety rounds are reported in the company's incident system (TQM – Total Quality Management) and followed up with dedicated caseworkers and deadlines.

Risk assessments are carried out in connection with new processes, new equipment and changes to work assignments in order to eliminate factors that have a negative impact on health, safety and the environment. Over the years we have implemented various preventive measures based on the so-called PDCA cycle (Plan, Do, Check, Act), also known as the 'quality wheel', in order to register and prevent incidents, as well as to implement suggested improvements.

In our office environments we offer ergonomic workstations that can be customised to meet individual needs.

At Røros, we have run a campaign to register hazardous conditions where the aim was to avoid accidents. A new forklift is acquired to the surface treatment department to reduce stress and improve the safety. Company Health Service has conducted a targeted health and safety survey amongst our upholstery employees where the aim is to reduce stress disorder for the employees. A physical therapist from the Company Health Service started in 2017 to conduct ergonomic inspection rounds on a monthly basis. Employees can ask questions about their workings situation and they get guidance on how to work smartly. In 2017 we continued upgrading the security systems on one of the larger mechanical presses and built a new lifting aid for fully assembled chairs to reduce manual lifting.

In Nässjö, we have continued the focus on increased safety concerning forklifts in the factory. Focus has been pedestrian segregation and installation of rack barriers. We have installed several protection cages surrounding machines. In addition, we have initiated regular audits regarding machine safety. Height adjustable tables have been installed on all workstations to ensure ergonomic working conditions. Finally, a new safer chemical storage has been installed.

In 2017, the production of office chairs moved from Zwolle, the Netherlands to Nässjö, Sweden, resulting in reduced activities in Zwolle. The remaining production lines are now re-organised in order to optimize material handling and the logistics process, reducing inventory capacity and labour time to a minimum (in Q2'2018 we will also rent out 50% of the current space available).
For the loading and unloading of assembled chairs, various ergonomic improvements have been introduced such as a sliding ramp for unloading trucks, and a custom made "forklift" for moving multiple 24/7 chairs with protective wheel caps. On the training side, the daily whiteboards meetings have been improved, extra focus is put on safety rounds and on training of in-house emergency officers.

Employee welfare also includes ensuring that employees are not exposed to harmful substances. We evaluate the risks associated with each chemical used in our facilities every year, and carry out continuous substitution of chemicals that have undesirable effect. As a result of this we have in the last few years managed to replace almost all of the harmful chemicals that were used in production with non-toxic alternatives.

**Physical Activity**
Both the company and its welfare committees encourage employees to participate in physical activity and in 2017 many successful activities took place. At Røros we offered weekly physical exercise classes, and a mountain hiking trip for those who participated in the class on a weekly basis. In Oslo the employees take part in the Holmenkollen relay race each year and exercise prior to the race. A skiing technique course was also offered in 2017. In Zwolle many employees live nearby, and use their bikes or public transport to get to work.
In Nässjö we have a gym at the premises free to use for the employees before/after working hours.

**SICK LEAVE**

| | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| **Røros** | 5,8 | 5,1 | 5,7 | 6,1 |
| **Nässjö** | 2,2 | 4,0 | 1,7 | 3,9 |
| **Oslo** | 2,7 | 1,8 | 2,6 | 2,3 |
| **The Netherlands** | | | | 3,9 |

**Sick Leave**
Sick leave is recorded for all our parts of the organisation. The figures vary over time, but are in general lower than comparable industry. We have focused on reducing sick leave for many years and ensure employees who are on sick leave are closely followed up. Procedures for adapting work tasks and ensuring that employees can return to work quickly have also been implemented.
The trend at Røros has been positive for a long period, but for 2017 we experienced a somewhat increasing trend, linked to long term sick leave, however non-work related. However the sick leave rate in Oslo decreased between 2016 and 2017, and is still on a very low level. Nässjö saw an increase between 2016 and 2017, due to long term sick leave cases. In 2017, the sick leave rate in Zwolle was 3,92 which represents a decrease of more than 60%. This is due to a more stabilized activity in 2017 in Zwolle.

## Injuries and Occupational Illnesses

All injuries suffered by our production employees that result in more than one day's sick leave, are recorded and followed up through the company's quality system TQM. We also conduct risk assessments after all registered accidents and near accidents.

Røros had a lost day rate of 18,4 in 2017, representing a decrease from 2016. Nässjö had an increase from 0 to 90,3, mainly due to two personal injuries with a total of 17 days of absence. 2017 was the first year we registered this number in Zwolle, and they had a lost day rate of 28,5. In a total Flokk had a lost day rate of 45,4 in 2017. For the Zwolle site we are working on establishing similar health and safety routines as the Nässjö and Røros.

**PRODUCTION SITES**

| | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| **Injury rate*** | 0 | 7 | 5 | 23 |
| **Lost date rate**** | 0 | 84 | 51 | 43 |

* Injury Rate = Number of work-related injuries that led to absence (per million hours worked)

** Lost Day Rate = Number of absentee days due to work-related injuries (per million hours worked).

| 2017 | INJURY RATE | LOST DAY RATE |
|---|---|---|
| **Nässjö** | 53 | 90 |
| **Røros** | 4 | 15 |
| **Zwolle** | 14 | 29 |

Occupational illnesses are not registered since an individual's medical situation usually involves multiple factors and is complicated. We have never experienced a work-related fatality at any of our facilities.

| | |
|---|---|
| **GOALS 2017** | Eliminate chrome tanned leather from BMA supply chain |
| | Implement Supply Chain Management tool which enables improved chemical control at suppliers |
| | Implement replacement/phase-out plan for older products with undesired chemicals / materials |
| | Continue work on updating "Negative list" and defining "chemical footprint" |
| **RESULTS 2017** | The phase out process of chrome tanned leather kicked off in August 2017 |
| | Substitution of undesired chemicals: 1 in Nässjö and 2 at Røros - both sites on target |
| | Removed gluing for BMA seats - no standard seats are now glued (backs still need to be glued) |
| **GOALS 2018** | Initiate program to replace chromed surfaces in RBM portfolio |
| | Complete elimination of chrome tanned leather |
| | Land decision on supply chain management tool, postponed due to growth/need to align supply chain |

# Local Communities

**We define our main local communities as Røros and Nässjö. Flokk is aware of our responsibility to be an active and socially conscious employer, as this has direct effect on the employees, their families and relations throughout the local communities.**

At Røros, a town of approximately 5.500 inhabitants, Flokk is considered as a cornerstone company. In Nässjö (about 30.000 inhabitants), Flokk is one of the leading employers in the municipality. Focus areas are often business and social related issues, such as maintaining and developing solid transport services to the regions by air (Røros), road and rail. Flokk´s smaller production site in the Netherlands, in Zwolle (about 125.000 inhabitants), is located in an area that is easily accessible both by public transport and by car, and in the heart of BMA´s main markets Germany, The Netherlands and Belgium.

**Collaboration with government and local business sector**
As one of the largest employers at both Røros and in Nässjö, Flokk has for long been an important contributor in these communities. Flokk is working closely with the municipalities in both cities, as we see it as our responsibility to participate in the development of our local communities. It is primarily site managements that participate in these collaborations.

- Flokk is a member of the association Røros Næringshage (business park) and Røros business forum.
- Flokk's regularly provides input at Røros´ planning work for the municipality.
- Flokk AB is an active member of the association Nässjö Näringsliv AB (municipality´s business forum), where Flokk AB´s managing director is Chairman of the Board since 2015.
- As a result of the transfer of BMA production from Zwolle to Nässjö, 30 new employees have joined Flokk in the city, as well as an increased number of hired resources.

**Projects and participation**
For Flokk it is important to involve local talents, and to participate in developing our local communities. We often do this through participation in projects

- In Nässjö, Flokk AB has in 2017 continued to participate in the "Business Model Innovation for Circular Furniture Flow" project, focusing on development of lifecycle for products in new business models (see page 134 - Circular Economy).
- Flokk AB participates in the "Reshoring Swedish Industry – Driving Forces and Obstacles" in Nässjö, a project that is funded by the EU and owned by the University of Jönköping. It involves understanding regarding bringing back work that has previously been outsourced from a company.
- In 2016 and 2017, Flokk AB in Nässjö has participated in a project with several other industrial companies in the area to increase the integration of arrived refugees who have industrial experience, providing work and language training.
- In Zwolle, Flokk is an Accredited Work Placement Company, and the R&D department facilitates scholarships for students in Industrial Product Design from Windesheim, University of Applied Science.

**Community Involvement and Inclusion**
In Flokk we understand the value and importance of supporting local NGOs in the local community. We therefore provide significant support in the form of sponsorships to various organizations within culture and sports.

- At Røros, Flokk actively seek to employ apprentices, accept work experience placements from schools and welcome visits from educational institutions. Our motivation is to present ourselves as an attractive employer, and contribute to development of education possibilities.
- At Røros, Flokk has in 2017 sponsored sports teams, associations and various cultural activities such as "Vinterfestspillene" (The Winter Chamber Music Festival).
- In Nässjö, Flokk AB sponsored the Swedish Childhood Cancer Foundation.
- In Nässjö, Flokk has worked closely with another company called Samhall since 2005. Samhall runs and insourcing business and functions as a subcontractor and provider for our factory in Nässjö. Based on this agreement we employ around 15 people with various degrees of impaired functionality.
- In Zwolle, Flokk had a cooperative agreement with the WEZO Group, an organization which focuses on people who are relatively distanced from the labour market.

# Product Liability - Certificates

**All of Flokk's products are subject to specific EU requirements concerning ergonomics, usability, safety, stability and strength. These stipulate guidelines concerning design, dimensioning and material choice, and are subject to continuous evaluation and testing throughout the product's entire development and usage phases.**

**Product Quality and Guarantee**
Our goal is to deliver perfect products. For this reason, we conduct thorough tests throughout our production processes. Our commitment is to ensure our customers' complete satisfaction. Our level of technical expertise, combined with our honesty and sense of responsibility, mean that our customers can sit comfortably every time they choose a Flokk chair.

We demand high quality in everything we do, from materials and durability to ergonomics and design. We constantly strive to offer our customers work chairs and office chairs with a quality above their expectations, so that they get the most from their chairs and feel good too.

10 Year HÅG Guarantee

24|7 5 Year HÅG Guarantee

A Flokk chair is built to withstand stress and to last. Before it leaves our factory it undergoes rigorous tests and inspections. That is why we also give 10-year guarantees on most of our chairs.

**Environmental Certificates**
The use of certificates is important both when it comes to communicate our strong environmental commitment and performance to the public, and with respect to guiding our customers in making the right choices. With more than 450 'green' certificates in Europe alone, these are very difficult waters to navigate. Some certificates relate to business and companies, others to products – chemicals and content of recycled materials. Some focus on the usage phase only, while others cover the entire life cycle. Some are national, some are global. The certificates Flokk has chosen cover all the important aspects and areas. All our environmental certificates are available from our website www.flokk.com



**Environmental Product Declaration**
If we are to succeed, we have to see the whole picture. We track our products' environmental performance throughout their entire life cycles (LCA – Life Cycle Analysis), and publish the results in Environmental Product Declarations (EPD). The EPDs are rapidly gaining recognition in the furniture industry, due to their ability to document and communicate a product's most important 'green' indicators, such as share of recycled materials, energy consumption and the associated GHG (Greenhouse Gas) emissions that are generated by production of one unit – from extraction of raw materials to the end of the product's life time.

**The Nordic Swan Ecolabel**
The Nordic Swan Ecolabel for furniture is awarded to products that meet strict environmental, quality and health requirements. The use of harmful chemicals is strictly regulated and a high content of recycled materials is required. In 2010, HÅG Capisco became the first office chair in the world to qualify for the Nordic Swan Ecolabel. In February 2018, HÅG SoFi received the Swan, after extensive work on a new recycled material-mix, needed in order to pass strength tests with the required share of recycled plastics.

**Greenguard**
To ensure that our products do not harm the indoor climate by emitting hazardous gases (specifically volatile organic compounds such as formaldehyde in glue) they are tested in relation to the requirements of the US GREENGUARD Environmental Institute. The most important collections from HÅG, RH and RBM have been approved and certified.

**Svenske Möbelfakta**
Möbelfakta is a Swedish certification scheme that is based on three areas of requirements: quality, the environment and corporate social responsibility. It sets external requirements such as CEN and ISO standards for quality and follows the environmental criteria of the Swedish Environmental Management Council, while the corporate social responsibility part is based on the ten principles of the UN's Global Compact.

**Cradle To Cradle™**
The Cradle to Cradle Certified™ program is an eco-label that evaluates several properties and assesses a product's safety to humans and the environment and design for future life cycles. Designer and manufacturers are guided through a continual improvement process that looks at a product through five quality categories – material health, material reutilization, renewable energy and carbon management, water stewardship, and social fairness.

**Labelling**
All our products have labels that provide information on the existing certification. They are also delivered with detailed user manuals and instructions for safe use, maintenance/cleaning and recycling.

Product Matrix: The overview on the next page shows products from Flokk's core brands, and their associated tests and approvals, as well as the certificates and declarations they have attained.

# Product Matrix

Note: this list of products is not a full overview of our portfolio. For a wider selection and more details, please read our Price lists available on our website.

| | EN 1335 | EN 1729 | EN 16139 (13761) | IEC 61340 - ESD | GS, LGA | BS 5459 | NPR 1813 | ANSI BIFMA | EN 15372 | MÖBELFAKTA | EPD, ISO 14025 | THE NORDIC SWAN ECOLABEL | GREENGUARD | CRADLE to CRADLE™ Bronze certificate |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **HÅG CHAIRS** | | | | | | | | | | | | | | |
| HÅG Capisco | • | | • | • | • | | | | | • | • | • | • | |
| HÅG Capisco Puls | • | | • | | • | | | • | | • | • | | • | |
| HÅG H03 | • | | | | • | | | • | | | • | | • | |
| HÅG H04 | | | | • | | | • | | | | • | | • | |
| HÅG H05 | • | | | • | • | | • | • | | • | • | | • | |
| HÅG Futu | • | | | | • | | • | • | | • | • | | • | |
| HÅG SoFi | • | | | | • | • | • | • | | • | • | • | • | |
| HÅG SoFi mesh | • | | | | • | | • | • | | | • | | • | |
| HÅG Tribute | | | | | | | | | | | | | • | |
| HÅG Inspiration | • | | | | • | | | • | | • | • | | • | |
| HÅG Excellence | • | | | | • | | | • | | • | | | • | |
| HÅG Conventio | | | • | | • | | | • | | • | • | • | • | |
| HÅG Conventio Wing | | • | • | | | | | • | | • | • | | • | |
| **RH CHAIRS** | | | | | | | | | | | | | | |
| RH Activ | • | | | • | • | • | | • | | • | • | | • | |
| RH Mereo | • | | | | • | | • | • | | • | • | | • | |
| RH Extend | • | | | • | • | • | • | | | • | • | | • | |
| RH Logic | • | | | • | | | • | | | • | • | • | • | |
| RH Support | | | | • | | | | | | | • | | • | |
| RH Visit | | | • | | | | | | | | | | | |
| **RBM CHAIRS** | | | | | | | | | | | | | | |
| RBM 300 / 500 | | | | | | | | | | • | | | | |
| RBM 600 / 700 / 800 | • | | | | | | | | | | | | | |
| RBM Noor | | | • | | • | | | | | • | • | | • | |
| RBM Noor Up | | | • | | | | | | | | • | | • | |
| RBM Ana | | • | • | | | | | | | • | • | | • | |
| RBM Ballet | | • | • | | | | | | | • | | | | |
| RBM Bella | | | • | | | | | | | | | | | |
| RBM Low-back Bella | | | • | | • | | | | | • | | | | |
| RBM Sweep | | | • | | | | | | | | | | | |
| **RBM TABLES** | | | | | | | | | | | | | | |
| RBM Allround | | | | | | | | | • | • | | | | |
| RBM Ultima | | | | | | | | | • | | | | | |
| RBM Standard folding table | | | | | | | | | • | • | • | | | |
| RBM u-Connect | | | | | | | | | • | • | | | | |
| RBM e-Connect | | | | | | | | | • | • | | | | |
| RBM Sweep table | | | | | | | | | • | | | | | |
| **BMA CHAIRS** | | | | | | | | | | | | | | |
| BMA Axia 2.0 Series | • | | | | • | • | • | | | | • | | | • |
| BMA Axia Office | • | | | • | • | | • | | | | | | | |
| BMA Axia Plus | • | | | | | • | • | | | | | | | |
| BMA Axia Focus | • | | | | • | | • | • | | | | | | |
| BMA Secur24 | • | | | | • | • | | | | | | | | |
| BMA Axia Visit / Invite | | | • | | | | | | | | | | | |

# GRI-Index

This report is prepared in accordance with guidelines from Global Reporting Initiative (GRI), version G4. GRI is a voluntary, international network and is the most widely used international framework for reporting on corporate sustainability.

Flokk reports in accordance with GRI G4 'Core' level.

The GRI report has been reviewed and approved by Group Management. Selection of important topics is supported by the Group Management. The report has not been externally verified.

A list of GRI aspects and indicators is provided below with a reference to where the topics are discussed in this report (DMA – Management Approach/PA – Partially addressed).

| INDICATOR | DESCRIPTION | PAGE | DIRECT ANSWER TO ASPECTS/ NOTES |
|---|---|---|---|
| **GENERAL STANDARD DISCLOSURES** | | | |
| **Strategy and analysis** | | | |
| G4-1 | Statement from the most senior decision-maker of the organisation and the Board about sustainability in the organisation and its strategy | 15, 45-47 | |
| G4-2 | Key impacts, risks, and opportunities | 15, 119 | |
| **Organisational profile** | | | |
| G4-3 | Name of the organisation | Cover, 170 | |
| G4-4 | Primary brands, products, and services | 26-35 | |
| G4-5 | Location of organisation's headquarters | Cover, 170 | |
| G4-6 | Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report. | 2-3, 11, 41, 140-142 | |
| G4-7 | Nature of ownership and legal form | 22-23, 75 | |
| G4-8 | Markets served (including geographic breakdown, sectors served, and types of customers) | 2-3, 13, 41 | |
| G4-9 | Scale of the reporting organisation | 3, 40-47 | Number of employees/operations/products, revenues, debt and equity |
| G4-10 | Total number of employees, by gender, age, type of employment, work contract and region | 144-147 | |
| G4-11 | Percentage of total employees covered by collective bargaining agreements | 148 | |
| G4-12 | Organisation's supply chain | 114-115, 140-143 | |
| G4-13 | Significant changes during the reporting period regarding size, structure, or ownership | 1, 12-13, 40-47, GRI-index | Several changes in company capital and other real capital. Changes in the supply chain: SC-Leather, delivering to BMA transfered to Flokk supply chain (LTP+Wollsdorf). Wanzun, final delivery to Flokk made, transfered to Dezhan, known supplier on contract and with more professional management and systems.MarboPur + Alex Kunsttoffe delivering Foam to BMA, terminated and moved to Swedish suppliers. Lycro, delivering Plastic from Norway for decades to HÅG, made final delivery during 2017, after a long planned and controlled exit, based on Performance. Pre-assembly of BMA components moved out of Nässjö to LTT, new supplier in LT. Also other changes made to integrate BMA supply to Nässjö. |
| G4-14 | Explanation of whether and how the precautionary approach or principle is addressed by the organisation | 23-25, 119, 141, GRI-index | Work on "Risk management and internal control" as described on page 25 is based on the precautionary principles and continuous improvement |
| G4-15 | Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses | 102-105, 116-117, 141, GRI-index | Member of IEH/ETIN - Ethical Trading Initiative Norway, Flokk Code of Conduct in accordance with the UN Global Compact, Long-term goals according to EU 2-degree target and selected numbers of the UN Sustainability Development Goals. |
| G4-16 | Memberships in associations and/or national/international advocacy organisations in which the organisation is of strategic nature | 100-105, 156-157 | |

| | | | |
|---|---|---|---|
| **Identified material aspects and boundaries** | | | |
| G4-17 | All entities included in the organisation's consolidated financial statements | 3, 53-54, 64, 75 | |
| G4-18 | Process for defining report content and aspect boundaries | 106-109 | |
| G4-19 | List of material aspects | 109 | |
| G4-20 | Boundary of each material aspect within the organisation | PA 107-109, GRI-index | BMA is now covered in the Corporate Sustainability report at same level as the other core brands. Malmstolen, Offecct and Giroflex, aquired by Flokk in 2017, are not covered by this year's Corporate Sustainability report. |
| G4-21 | Boundary of each material aspect outside the organisation | PA 107-109 | |
| G4-22 | Effect of any restatements of information provided in previous reports, and the reasons for such restatements (eg mergers/acquisitions, change of base years/periods, nature of business, measurement methods) | 97, GRI-index | BMA is now covered in the Corporate Sustainability report at same level as the other core brands. Malmstolen, Offecct and Giroflex, aquired by Flokk in 2017, are not covered by this year's Corporate Sustainability report. |
| G4-23 | Significant changes from previous reporting periods in the scope, boundaries or measurement methods | 97, GRI-index | BMA is now covered in the Corporate Sustainability report at same level as the other core brands. Malmstolen, Offecct and Giroflex, aquired by Flokk in 2017, are not covered by this year's Corporate Sustainability report. |
| **Stakeholder engagement** | | | |
| G4-24 | List of stakeholder groups engaged by the organisation | 99, 102-105 | |
| G4-25 | Basis for identification and selection of stakeholders with whom to engage | 98-99 | |
| G4-26 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group | 102-105 | |
| G4-27 | Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting | 102-105 | |
| **Report profile** | | | |
| G4-28 | Reporting period for information provided: 2016 | GRI-index | |
| G4-29 | Date of most recent previous report: 2015 | GRI-index | |
| G4-30 | Reporting cycle: Annual | GRI-index | |
| G4-31 | Contact point for questions regarding the report or its contents | 169 | |
| G4-32 | Table identifying the location of the Standard Disclosures in the report | 109, 163, GRI-index | "In accordance" option chosen for this report: GRI G4 'Core' level |
| G4-33 | Policy and current practice with regard to seeking external assurance for the report | 163, GRI-index | The report has not been independently verified. The structure and content of the report is however based on an independent gap analysis performed by DNV GL in 2015, to ensure quality transition from GRI 3.1 to GRI G4 format |
| **Governance** | | | |
| G4-34 | Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight | 21-25, 116 | |
| G4-36 | Whether the organisation has appointed an executive level position(s) with responsibility for economic, environmental, and social topics and whether post holders report directly to highest governance body | 21, 23-25, 116 | |
| G4-42 | Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts | 21, 23-25, 116-119 | |



| | | | |
|---|---|---|---|
| G4-48 | Highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered | 163 | |
| G4-51 | Remuneration policies for the highest governance body and senior executives. How performance criteria in the remuneration policy relate to the highest governance body's and senior executives' economic, environmental and social objectives | 25, 144, 149 | |
| **Ethics and integrity** | | | |
| G4-56 | Organisation's values, principles, standards and norms of behavior – codes of conduct | 25, 97, 116, 140-141 | |
| **SPESIFIC STANDARD DISCLOSURES -** Identified material aspects & indicators | | | |
| **CATEGORY: ECONOMIC** | | | |
| **Economic performances** | | | |
| DMA | Results | 110-111 | |
| G4-EC1 | Direct economic value generated and distributed | 64, 140, 142 | |
| **Market presence** | | | |
| DMA | Market presence | PA 149 | |
| G4-EC5 | Standard entry level wage compared to local minimum wage | PA 149 | |
| **Procurement practices / Use of Local suppliers** | | | |
| G4-DMA | Procurement practices | 102-105, 140-141 | |
| G4-EC9 | Proportion of spending on local suppliers | 142 | |
| **ENVIRONMENTAL** | | | |
| **Materials** | | | |
| G4-DMA | Materials | 113, PA 128-129, 133 | |
| G4-EN1 | Materials used by weight or volume | PA 129-133 | |
| G4-EN2 | Percentage of materials used that are recycled input materials | PA 129-133 | |
| **Energy** | | | |
| G4-DMA | Energy | 113, 116-117, 122-125, 127 | |
| G4-EN6 | Reduction of energy consumption | 45-46, 125-127 | |
| **Water** | | | |
| G4-EN8 | Biodiversity | 132 | |
| **Biodiversity** | | | |
| G4-EN12 | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas | GRI-index | Flokk's factory at Røros is located next to the Kvitsanden protected landscape area, about 2 km west of the center of Røros. The Kvitsanden protected landscape area consists of a special shifting sands area containing both stable and mobile sand dunes. The area is an important element of the landscape, and has a very high conservation value. At our factory we are particularly aware of our environmental obligations, and have drawn up procedures to prevent all pollution of the local environment. |

### Emissions ($CO_2$)

| | | | |
|---|---|---|---|
| G4-DMA | Emissions ($CO_2$) | 113, 116-117, 122-125, 127 | |
| G4-EN15 | Direct greenhouse gas (GHG) emissions (scope 1) | 122-127 | |
| G4-EN16 | Indirect greenhouse gas (GHG) emissions (scope 2) | 122-127 | |
| G4-EN17 | Other indirect greenhouse gas (GHG) emissions (scope 3) | 122-127 | |
| G4-EN18 | Greenhouse gas (GHG) emissions intensity | 45-46, 125-127 | |
| G4-EN19 | Reduction of greenhouse gas (GHG) emissions | 45-46, 125-127 | |

### Waste

| | | | |
|---|---|---|---|
| G4-DMA | Waste | 138 | |
| G4-EN22 | Total water discharge by quality and destination | 138 | |
| G4-EN23 | Total weight of waste by type and disposal method | 138 | |
| G4-EN24 | Total number and volume of significant spills | GRI-index | There has been no leakages to the environment in 2017 |

### Products and services

| | | | |
|---|---|---|---|
| G4-EN27 | Extent of impact mitigation of environmental impacts of products and services | 120-121, 126-127, 130-131, 133, 136, 158-159 | |

### Compliance

| | | | |
|---|---|---|---|
| G4-EN29 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations | GRI-index | We have not identified any deviation with environmental laws and regulations in 2017 |

### Transport

| | | | |
|---|---|---|---|
| G4-DMA | Transport | 126 | |
| G4-EN30 | Significant environmental impacts of transporting products and other goods and materials for the organisation's operations, and transporting members of the workforce | 126 | |

### Supplier assessment – Environment

| | | | |
|---|---|---|---|
| G4-DMA | Responsible supply chain | 140-143 | |
| G4-EN32 | Percentage of new suppliers that were screened using environmental criteria | 141, GRI-index | All new suppliers screened based on the relevant environmental requirements and our CoC. Suppliers as part of the BMA integration mainly on contract or started transfere. Largest and most relevant suppliers are done (König, Timmerije, Rubitec, Wicro). |
| G4-EN33 | Significant actual and potential negative environmental impacts in the supply chain and actions taken | 140-141, GRI-index | No significant actual and potential negative environmental impacts in the supply chain have been registered in 2017. A risk as a result of Supplier moving their production of rubber to China was evaluated and identified an unknown deviation in the compound, not being a result of the moving. Some content in some of the rubber compound was not known, and outside recommended levels. This deviation was corrected and Risk of nonconfirming raw material is limited. We keep on making external sample test to control against "master sample". Also initiated efforts to establish new and more local supply for new R&D project to reduce dependency. Still the supplier (Betech) is performing well and we do not currently see specific risk in the operation. |



## SOCIAL – LABOR PRACTICES AND DECENT WORK

### Working conditions employment

| | | | |
|---|---|---|---|
| DMA | Attractive workplace | 43-45, 144 | |
| G4-LA1 | Total number and rates of new employee hires and employee turnover by age group, gender and region | 146-147 | |

### Labor / Management Relations

| | | | |
|---|---|---|---|
| G4-LA4 | Minimum notice periods regarding operational changes, including whether these are specified in collective agreements | GRI-index | Minimum 1-6 months depending on the type of function (office or production work), the employee's age, employment country and seniority |

### Occupational Health & Safety

| | | | |
|---|---|---|---|
| G4-LA6 | Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender | PA 151-155 | |

### Training and Education

| | | | |
|---|---|---|---|
| G4-LA9 | Average hours of training per year per employee by gender, and by employee category | PA 150-151 | |

### Diversity and equal opportunity

| | | | |
|---|---|---|---|
| G4-LA12 | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity | PA 144-147 | |

### Supplier assessment – Labor practices

| | | | |
|---|---|---|---|
| DMA | Responsible supply chain | 46, 140-143 | |
| G4-LA14 | Percentage of new suppliers that were screened using labor practices criteria | 141, GRI-index | All new suppliers screened based on the relevant environmental requirements, and our CoC. Largest and most relevant suppliers in BMA integration are done, and process and progress ongoing on the rest of the suppliers. |
| G4-LA15 | Significant actual and potential negative impacts for labor practices in the supply chain and actions taken | 140-141, GRI-index | One supplier in China was considered as nonconforming 2016 and transfered to other supplier during 2017, under contract and with manegement system and performance according to Flokk expectations.<br><br>BMA supply chain on some sewed leather considered to be uncertain, lack of transparency, and unrealistic pricing levels. Re-engineering of components to enable sourcing and secure compliance to Flokk requirements is made. |

## SOCIAL – HUMAN RIGHTS

### Investment

| | | | |
|---|---|---|---|
| G4-HR2 | Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained | PA 151 | |

| | | | |
|---|---|---|---|
| **Non-discrimination** | | | |
| DMA | Discrimination | 43-45, 140-141, 149 | |
| G4-HR3 | Total number of incidents of discrimination and corrective actions taken | GRI-index | No incidents of discrimination have been registered in 2017 |
| **Freedom of Associaton and Collective Bargaining** | | | |
| DMA | Freedom of Associaton and Collective Bargaining | 140-141, 148 | |
| G4-HR4 | Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights | 141, 148-149, GRI-index | No violations of, or cases in which the risk for incidents of violating, the right to exercise freedom of association and collective bargaining have been registered in 2017 |
| **Child Labor** | | | |
| DMA | Child Labor | 43-45, 140-141, 149 | |
| G4-HR5 | Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor | 140-141, GRI-index | No cases in which the risk for incidents of child labor have been registered in 2017. Long term supplier relationship, and performance follow-up and evaluation is made to monitor risk. Limiting number of suppliers and geographic spread to keep track on their working conditions and performance/Risk. |
| **Forced or compulsory labor** | | | |
| DMA | Forced or compulsory labor | 43-45, 140-141, 144 | |
| G4-HR6 | Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor | 140-141, 144, GRI-index | No cases in which the risk for incidents of forced or compulsory labor have been registered in 2017. Long term supplier relationship, and performance follow-up and evaluation is made to monitor risk. Limiting number of suppliers and geographic spread to keep track on their working conditions and performance/Risk. |
| **Indigenious Rights** | | | |
| DMA | Indigenious Rights | 43-45, 140-141 | |
| G4-HR8 | Total number of incidents of violations involving rights of indigenous peoples and actions taken | 141, GRI-index | No violations of indigenous rights registered in 2017 |
| **Operations Assessment** | | | |
| G4-HR9 | Total number and percentage of operations that have been subject to human rights reviews or impact assessments | 148-149 | |
| **Supplier assessment – Human Rights** | | | |
| DMA | Responsible supply chain | 43-45, 140-143 | |
| G4-HR10 | Percentage of new suppliers that were screened using human rights criteria | 141, GRI-index | All new suppliers are screened based on the relevant environmental requirements, and our CoC including Human Rights. Largest and most relevant BMA suppliers are done, and process and progress to the rest of the suppliers. |
| G4-HR11 | Significant actual and potential negative human rights impacts in the supply chain and actions taken | 141, GRI-index | No significant actual and potential negative impacts on human rights in the supply chain have been registered in 2017. Evaluation of supplier performance (including Risk) are made in monthly status, but also included in process steps, to secure compliance with our CoC |
| **SOCIETY** | | | |
| **Local Communities** | | | |
| DMA | Local communities | 156-157 | |



| | | | |
|---|---|---|---|
| G4-SO1 | Percentage of operations with implemented local community engagement, impact assessments, and development programs | 102-105, 156-157 | |
| **ANTI CORRUPTION** | | | |
| G4-SO4 | Communication and training on anti-corruption policies and procedures | PA 150-151 | |
| G4-SO5 | Confirmed incidents of corruption and actions taken | GRI-index | No incidents of corruption have been registered in 2017 |
| **ANTI COMPETIVE BEHAVIOUR** | | | |
| G4-SO7 | Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes | 148-149 | |
| **Supplier assessment – Impacts on society** | | | |
| G4-SO9 | Percentage of new suppliers that were screened using criteria for impacts on society | 141, GRI-index | All new suppliers are screened based on the relevant environmental requirements and our CoC, thus also potential impact on society. New suppliers as part of the BMA integration will need more time to contract and screen all suppliers. Largest and most relevant suppliers are done, and structured process and progress made to the rest of the suppliers |
| G4-SO10 | Significant actual and potential negative impacts on society in the supply chain and actions taken | 141, GRI-index | No significant actual and potential negative impacts on society in the supply chain have been registered in 2017 |
| **PRODUCT RESPONSIBILITY** | | | |
| **Customer Health and Safety** | | | |
| DMA | Customer health and safety | 43-45, 158-159 | |
| G4-PR1 | Percentage of significant product categories for which health and safety impacts are assessed for improvement | PA 158-159 | |
| **Product and services labelling** | | | |
| G4-PR3 | Type of product and service information required by the organization's procedures for product and information and labeling, and percentage of significant product subject to such information requirements | PA 158-159 | |
| **Compliance** | | | |
| G4-PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services | GRI-index | No cases registered in 2017 |

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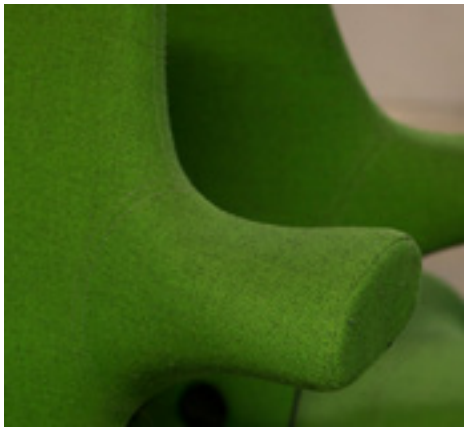
Flokk is the market leader in the design, development and production of workplace furniture in Europe. We are the proud owner of product brands HÅG, RH, Giroflex, BMA, Offecct, RBM, Profim and Malmstolen. About 2500 employees work together to realize the vision of our company: Inspire great work.



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