

Musti Group Nordic Oy

United Nations Global Compact Communication on Progress 2018-2019



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

We welcome feedback on its contents.

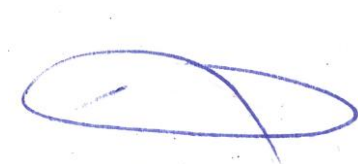
Statement of continued support

To our stakeholders

As the CEO of Musti Group, I am pleased to confirm that Musti Group Nordic Oy (Musti Group) reaffirms its support of the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labour, Environment and Anti-Corruption.

In this annual Communication on Progress, we describe our actions to continually improve the integration of the Global Compact and its principles into our business strategy, culture and daily operations. We also commit to share this information with our stakeholders using our primary channels of communication.

Sincerely yours,



David Rönnberg

CEO, Musti Group Nordic Oy

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1. Musti Group

Musti Group Nordic Oy ("Musti Group" or "the Company") is the leading pet specialty retailer in the Nordic countries. Musti Group's product assortment comprises a complete range of pet supplies and accessories related to the pets' well-being as well as pet food.

Musti Group was established in Finland in 1988. Today the Company has in total 271 stores; 124 in Finland, 121 in Sweden and 26 in Norway. In total 73 of the stores are run by franchising partners; 18 in Finland, 55 in Sweden and none in Norway.

In Finland Musti Group's stores are called Musti ja Mirri. Musti Group entered the Swedish market in 2012 through an acquisition of Grizzly Zoo. In 2015, Musti Group acquired Zoo Support, the franchisor of Arken Zoo and DjurMagazinet pet stores in Sweden. The acquisition also included Trimmis grooming salons and Vettris veterinary clinics. The first Musti stores in Norway were opened in October 2016. Djurkompaniet, Vetzoo and Animail were acquired in 2017.

Musti Group has approximately 1,300 employees (April 2019). The Musti retail concept is based on a wide assortment of pet food and accessories in combination with a culture of dedicated, knowledgeable and service-minded employees. The Musti Group Head Office is located in Helsinki, Finland. Group revenue in the financial year 10/2017 - 9/2018 was EUR 216 million and EBITDAR EUR 15 million.



EQT Mid Market acquired Musti Group in December 2014. The management team of Musti Group has co-invested and partnered with EQT Mid Market to continue to drive the growth and development of the Company.

Musti Group is aiming to accelerate growth through continued expansion of the store network across the Nordics, further development of the online and omni-channel platform and further development of adjacent pet related services. Currently the most prominent services across Musti Group's network are grooming and puppy dates, with Musti receiving very encouraging feedback from customers following its introduction in Suomenoja flagship store in Espoo, Finland. In addition to physical services offered in stores, Musti Group continues to roll out a suite of digital services. Musti Group has 12 Pet Spa salons in Finland, 6 in Norway and 3 in Sweden. Seven stores are offering also training, massage and physiotherapy for dogs.

The ongoing pet humanization trend is driving an increasing demand for high-quality food and premium brands as well as a higher spend on accessories. Pet owners are increasingly viewing pets as family members and are becoming more focused on the pet's well-being and comfort, which increases the awareness of high-quality food ingredients resulting in pet owners purchasing healthier, high protein foods from premium brands and manufacturers. In line with this development, customers also consider environmental and human rights aspects increasingly important, which puts emphasis on integrating corporate responsibility into the business. In addition, these trends support the positive development of the pet specialty retail channel taking market share from other sales channels such as grocery stores and independent retailers.

1.1. Corporate responsibility at Musti Group

Musti Group builds its strategy on being a "one-stop-shop" retailer of pet products and services (excluding medical treatment) of top quality and with a concept of holistic wellness for pets and their parents. The Company's corporate responsibility comprises of the responsibility it takes for the surrounding society, in particular, in terms of logistics, transportation, products and managing people.

The corporate responsibility thinking of Musti Group is driven by resource efficiency, which in practice means both better profitability and saved resources. In addition, the Company's corporate responsibility comprises of being a high-quality actor with products and services based on top expertise. Through these aspects of efficiency, high quality and top expertise, corporate responsibility is embedded in the Company's strategy and business model. It means, for example, that the Company does not choose the cheapest products, it strives to minimize use of resources and its offering is built on the best expertise.



Indeed, Musti's customer satisfaction (NPS) is considerably high and according to a recent customer survey, customers considered it to be particularly advanced in having high quality products and knowledgeable staff.

Musti Group's top management carries the ultimate responsibility for ensuring effective implementation of corporate responsibility commitments. Corporate responsibility related topics and viewpoints are regularly discussed at management and board meetings. Musti Group's Corporate Responsibility is led jointly by the Finnish Country Manager and HR Director.

In early 2019, Musti Group updated its corporate responsibility materiality analysis and analysed its stakeholders in more detail.

Issues of most importance to Musti's stakeholders and the Company are employee satisfaction and wellbeing, employee safety, pet parent & pet welfare, high-quality and safe products & services, being a trusted company with a responsible brand, responsible sourcing & transparency, and responsible use of customer data. Musti Group has many important stakeholders, but key stakeholders are its employees, customers, owners, franchisees, social media followers, suppliers and service providers.

Musti Group communicates actively, openly and transparently on its corporate responsibility related commitments, activities, goals and achievements. All Musti Group employees are expected to represent the company, its activities and operations in an accurate manner, in all stakeholder relationships. Musti Group cooperates and collaborates respectfully and responsibly with local communities and key stakeholders. Musti Group is open about its activities and its impact on local communities. Musti Group communicates on corporate responsibility mainly on its website mustijamirri.fi, arken zoo.se and in its stores.

Musti Group is aiming to develop new and more active communication on corporate responsibility, for example to customers and other key stakeholders.

Internal communication on corporate responsibility aspects is an important part of implementation alongside training (e.g. training sessions, e-learning, manuals) as a tool to build a strong culture of acting responsibly. Musti Group communicates about corporate responsibility aspects internally by Group's and local chain's intranet. The Musti Group Ethical Principles (code of conduct) has been communicated to all employees. An e-learning course on the Principles was launched in Finland and Norway in 2016 and in Sweden in 2017. The e-learning course is carried out through the learning management system Campus. 59% of Musti employees have completed the course by the end of May 2019.



Musti Group has developed its policies and systems to improve customer and employee data privacy. This provides customers and employees with a better chance of influencing the processing and validity of data collected from them by the Company. For this purpose, Musti Group has prepared two e-learning courses for its employees, which are mandatory for all employees.

Musti Group is a member of the United Nations Global Compact, which means that it is committed to supporting 10 principles within the four important areas: human rights, labour rights, environment and anti-corruption. The UN Global Compact principles are embedded in the policies and principles guiding Musti Group's corporate responsibility work.

1.2. Policies and principles

The corporate responsibility work at Musti Group is guided by the Corporate Responsibility Policy, the Ethical Principles, the Supplier Code of Conduct, the Environmental Principles, the People Principles, the Product Safety and Quality Principles, the Animal Welfare and Pet Parenting Support Principles, the Crisis Management Policy and Information Security Policy. An owner is defined for each of the policies and principles to ensure efficient implementation and follow-up.

The most important guiding principles of corporate responsibility at Musti Group are as follows:

Compliance with the Ethical Principles is an essential element in Musti Group's business success and all its employees are responsible for following these principles in their daily work. The Ethical Principles guide the work of all Musti Group employees in all business areas and countries of Musti Group's operation. The principles are based on, e.g. the ten basic principles of the UN Global Compact. Musti Group is conducting its business in an ethically sound manner and its employees work according to the rules and standards set out in Musti Group's Ethical Principles. In no situation is unethical behaviour accepted or tolerated.

Musti Group is continuously developing its business processes, products and services to make them more efficient and to reduce its environmental footprint. The environmental work includes Musti Group's supply chain operations, partners and other actors in the supply chain. The work is guided by Musti Group's Environmental Principles.

Musti Group as an employer is committed to providing all its employees with modern and safe working conditions, investing in employees' health, occupational well-being and work satisfaction. This commitment applies to the personnel at the offices, stores and warehouses across all Musti Group operating countries. Musti Group's People Principles set out the way Musti Group cares for, trains and develops its employees.



Musti Group is always adding value to the customer. Musti Group's personnel are always proud to serve the customers in the best possible way and offering reliable and topical advice. Musti Group's main goal and purpose is to support the well-being of pets and their parents according to the guidelines set out in Musti Group's Principles on Animal Welfare and Pet Parenting Support.

Musti Group is offering the customers the choice of responsible and high-quality brands, products, services and advice. Musti Group's products are always safe to use for pets and their owners. Musti Group monitors the quality of its products by working with its suppliers and organizing factory visits and supplier audits. In case of a faulty product defect, Musti Group immediately initiates the recall procedures according to a pre-agreed process. The process and other information regarding the product safety and quality at Musti Group are presented in Musti Group's Product Safety and Quality Principles.

Musti Group respects the human rights and labour rights of all the people in its sphere of influence and works with its suppliers in order to ensure that they are in compliance with Musti Group's Supplier Code of Conduct. According to the Supplier Code of Conduct, Musti Group, e.g., monitors and audits its suppliers on their environmental, social and ethical performance.

In December 2016, Musti Group joined the Business Social Compliance Initiative (BSCI) of the Foreign Trade Association (FTA) to improve social performance in its supply chain in high-risk countries. These countries are included in the BSCI's classification of risk countries (countries identified to have high-risk for problems with, e.g., working conditions). Musti Group's high-risk country suppliers are expected to observe the BSCI Code of Conduct, which refers to international conventions such as the Universal Declaration of Human Rights, the Children's Rights and Business Principles, UN Guiding Principles for Business and Human Rights, OECD Guidelines, UN Global Compact and International Labour Organization (ILO) Conventions.



2. Human Rights Principles

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

2.1. Assessment, policy and goals

Description of the relevance of human rights for the company (i.e. human rights risk-assessment)

Description of policies, public commitments and company goals on human rights

Musti Group operates in Finland, Sweden and Norway. All countries are among the low-risk countries, according to Maplecroft's Human Rights Risk Atlas 2015. Therefore, the immediate risk for serious human rights offenses in Musti Group's main operating countries can be seen as reasonably low.

Musti Group, however, has an indirect impact on human rights through its supply chain, especially through sourcing. Some of the companies that Musti Group is sourcing directly from, even if in very limited amounts (5% of all purchases within Musti Group), are located in Business Social Compliance Initiative's (BSCI) list of risk countries, especially China. Therefore, there is an inherent risk for human rights abuses in Musti Group's supply chain.



Own activities

The Ethical Principles guide the work of all Musti Group employees in all business areas and countries of Musti Group's operation. It is the responsibility of each Musti Group's employee to follow the Ethical Principles in their daily duties and to keep themselves informed on any detailed instructions and guidelines related to the principles.

According to its Ethical Principles Musti Group is strongly committed to respecting and protecting human rights wherever it operates and treats all employees in a fair and equal manner in accordance with internationally proclaimed human rights.

Musti Group does not accept child labour, forced or compulsory labour, including modern form of slavery such as human trafficking. Musti Group respects employees' freedom of association and rights to collective bargaining.

Musti Group respects the personal dignity, privacy and personal rights of individuals and does not accept any discrimination, intimidation, harassment or offense.

Employees can, at all times, report any misconduct to their supervisors or to Musti Group Management. The Musti Group corporate culture emphasises trust between people and encourages employees to express and communicate their concerns openly with management. In 2019 Musti was ranked with high employee satisfaction (overall Trust Index of Musti Group 74%) in the Great Place to Work ranking. The results implicate that the management is seen as very approachable and easy to talk to by the personnel.

Supply chain

Musti Group's suppliers must comply with all national laws and regulations. In addition to meeting national legislation, all suppliers must meet the provisions of the Musti Group's Suppliers' Code of Conduct.

According to Musti Group's Suppliers' Code of Conduct, suppliers must always respect the fundamental human rights and the dignity of the individual, according to the United Nations Universal Declaration of Human Rights.

The majority of Musti Group's suppliers have signed the Musti Group's Suppliers' Code of Conduct. The Suppliers' Code of Conduct is in accordance with the 10 principles of the UN Global Compact. Suppliers commit to operating according to the UN Global Compact principles by signing the Suppliers' Code of



Conduct. Suppliers also confirm that they will take action if they observe any failure to comply with the principles and standards in the Suppliers' Code of Conduct and its appendixes among its sub-contractors. In addition, the supplier will notify Musti Group immediately if any breach or misconduct appears. Suppliers must be able to document their compliance, and if any conflicts are detected, suppliers must inform Musti Group immediately.

Musti Group is entitled to conduct (announced) audits at the suppliers' sites either by themselves or through third parties in order to verify compliance with the Suppliers' Code of Conduct. In the event of non-compliance, Musti Group requires its suppliers to be committed and engaged in remedying the non-compliance issues within the time schedule set out in the corrective action plan.

Musti Group seeks to continuously improve supplier relationships and help them achieve compliance with the provisions of the Suppliers' Code of Conduct. Musti Group reserves the right to terminate any agreements should a supplier decide that compliance with the requirements of the Suppliers' Code of Conduct is impossible to obtain or the supplier shows repeated and/or serious disregard for the Suppliers' Code of Conduct.

If no solution can be agreed upon and implemented within a reasonable amount of time, Musti Group may choose to terminate the business relationship and/or suspend future contracts with a non-compliant supplier.

Musti Group joined the Business Social Compliance Initiative (BSCI) of the Foreign Trade Association (FTA) in 2016 to improve working conditions in its supply chain in high-risk countries. Musti Group's high-risk country suppliers are expected to observe the BSCI Code of Conduct, which refers to international conventions such as the Universal Declaration of Human Rights and UN Guiding Principles for Business and Human Rights. Musti Group is now working systemically to receive supplier audits for all suppliers in high-risk countries and one third of suppliers are now covered.

2.2. Implementation

Description of concrete actions to implement human rights policies, address human rights risks and respond to human rights violations.

Own activities

All employees of Musti Group are required to complete an e-learning course on the Musti Group Ethical Principles in order to ensure that all employees entering and working in the Company are aware of Musti



Group's policies, principles and ways of working when it comes to corporate responsibility and ethics. The training strengthens the implementation of the UN Global Compact principles and other corporate responsibility related viewpoints. The training was launched in Finland and Norway in 2016 and in Sweden in 2017. Matters related to corporate responsibility and ethics are also discussed in monthly meetings with employees.

Supply chain

Musti Group aims at knowing its suppliers well. Musti Group's representatives visit the suppliers' factories and premises to see that the suppliers are in compliance with Musti Group's requirements, which include respecting internationally recognized human rights.

Musti Group categorizes its suppliers according to the risk level. Suppliers are divided to high-risk country suppliers, low-risk country suppliers, suppliers delivering from both high- and low-risk countries and also according to the type of purchase (directly from the manufacturer / from a wholesaler or brand owner). The volume Musti Group buys directly from companies located in high-risk countries is small, less than 5 % of total annual spend. Also, when purchasing from a wholesaler or a brand owner, they are required to ensure that responsibility aspects are taken into account in their operations, including their own supply chain.

Musti Group continuously monitors quality of its products and packaging by working closely with the suppliers as well as collecting store personnel and customer comments. Before introducing a product, Musti conducts quality checks as well as functional testing. All major suppliers, who have been officially approved to Musti Group's suppliers and are providing a continuous assortment of Musti's own brands, will be audited. Currently, the main suppliers are located in low-risk countries. All supplier audits are reported and saved according to the company policy. Currently, audits and inspections are not covering a large variety of responsibility viewpoints, but Musti Group is planning to make responsibility viewpoints a material part of the normal audit and inspection agendas.

Musti Group has a powerful tool to improve working conditions and audit suppliers in high-risk countries by being a member of the Business Social Compliance Initiative (BSCI). Musti Group's high-risk country suppliers are required to comply with the BSCI Code of Conduct and all but one supplier has signed it.

Musti Group has a documented recall procedure in place and the procedure is periodically tested to ensure that it is comprehensive and fit for purpose in its ability to remove an unsafe product from consumers and



the distribution chain. In case of a faulty product or product defect, Musti Group immediately initiates the recall procedures in accordance with a pre-agreed process.

2.3. Measurement of outcomes

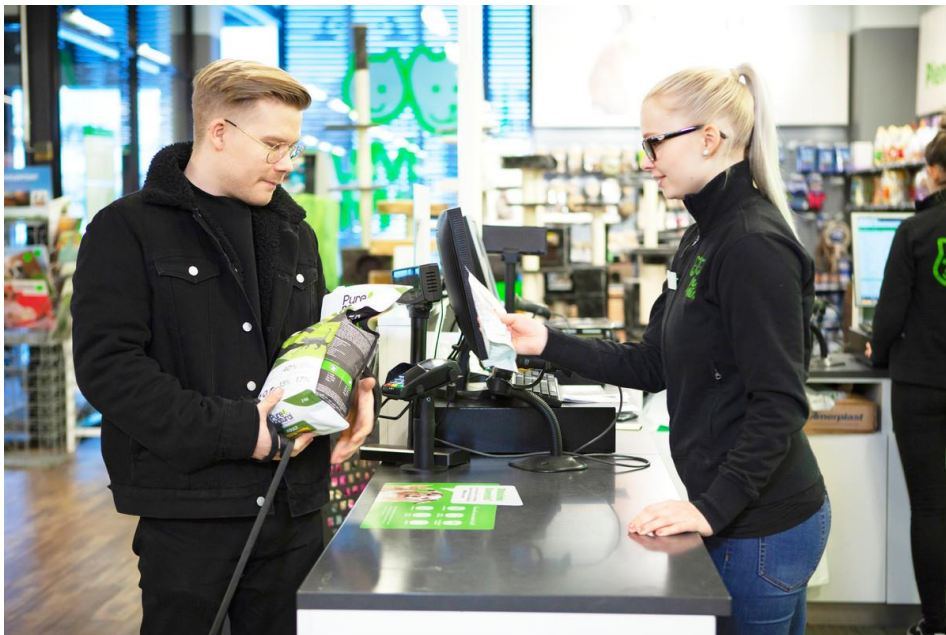
Description of how the company monitors and evaluates performance

At Musti Group human rights related performance is evaluated as part of the normal business practices. Musti Group does not at the moment have systematic processes or metrics in place to evaluate human rights related performance, but active monitoring of key KPIs is being planned for the whole group.

In case of any misconduct or non-compliance with the UN Global Compact principles, Musti Group Management will take immediate action to deal with the situation and to ensure future compliance with the UN Global Compact principles.

The responsibility work with suppliers is a continuous effort at Musti Group. Musti Group is developing its responsible sourcing as part of its corporate responsibility framework. Musti Group strengthened its work to ensure respect for human rights in its supply chains in high-risk countries by joining the Business Social Compliance Initiative (BSCI) in December 2016. Reports on supplier audits are being gathered in high-risk countries and Musti Group will improve the supply chain visibility in order to better evaluate supplier performance against the BSCI Code of Conduct. As of May 2019, audit reports have been received of one third of suppliers in high-risk countries and work continues on covering all suppliers.

In 2018, in its own activities, Musti Group has not detected any indication that it would, directly or indirectly through its partnerships or associates, be complicit in activities in breach of the UN Global Compact Human Rights Principles.



3. Labour Principles

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation

3.1. Assessment, policy and goals

Description of the relevance of labour rights for the company (i.e. labour rights-related risks and opportunities)

Description of written policies, public commitments and company goals on labour rights

Own activities

The labour practices at Musti Group are guided by the Musti Group's Mission statement, general management principles and People Principles.



According to the People Principles, Musti Group as an employer is committed to equal treatment of all its employees without any discrimination. Musti Group provides all its employees with safe working conditions and invests in employees' well-being, occupational health and work ability management.

Musti Group company culture is built on trust and sharing and Musti Group as an employer wants to invest in employee satisfaction. This commitment applies to people working in the stores, warehouses and offices across all Musti Group operating countries.

Equality and diversity

Musti Group is committed to treating every employee in an equal manner and embraces diversity. Musti Group offers its employees an equal workplace with development opportunities for all own personnel. Musti Group encourages men and women equally to seek opportunities at all organizational levels. Musti Group respects the privacy and personal characteristics of every individual and does not accept any discrimination, intimidation or harassment at work. In 2019 Musti was ranked with high employee satisfaction (overall Trust Index of Musti Group 74%) in the Great Place to Work ranking. The results implicate that employees also feel that they are equally treated.

The equality plan required by law was reviewed and updated in Finland and Sweden in 2016. In Norway, an equality plan was created as the first stores were opened in 2016.

Health and safety

Musti Group is taking the necessary steps to prevent accidents by minimizing and eliminating hazards from the working environment and by ensuring that all employees have been trained to work in a safe way. A strong safety culture is built in cooperation with all employees and business partners.

Musti Group co-operates with occupational health service providers to ensure immediate care in case of health issues. Musti Group is committed to actions preventing long-term sickness and absence from work by supporting job rotation and flexible work conditions.

Everyday work satisfaction

For Musti Group everyday work satisfaction means a rewarding job with a purpose in an environment built on trust and sharing. The components of everyday work satisfaction include the functioning basics of employment, quality leadership practices and possibilities for growth and development. The management



has an important role in creating a workplace where all employees feel appreciated, but the individuals themselves must also contribute to a supportive and open company culture. Great Place to Work programme is used as one reference when developing well-being at work.

Musti Group involves its personnel in planning and decision making wherever possible and uses crowdsourcing to collect employee views and feedback to further improve its ways of working. Musti Group invests in being the most desirable and appealing employer in the retail business. At Musti Group we believe that good customer experience cannot be achieved without satisfied employees.

Learning and development

Musti Group offers employees opportunities for professional and personal development, enabling them to serve customers even better and depending on their roles, also to lead their teams and the business better.

Musti Group has specific training programs and other development opportunities for different personnel groups, e.g., for customer service personnel, personnel working at the logistics centre and for managers. Training sessions are complemented with on-the-job learning and sharing, job rotation and online solutions to boost different ways to develop knowledge and competencies.

Freedom of association

Musti Group respects the freedom of association and employees' rights to advocacy and collective bargaining.

Supply chain

Elimination of discrimination

According to Musti Group's Suppliers' Code of Conduct, Musti Group's suppliers should not practice or condone any form of discrimination in the workplace in terms of hiring, remuneration, overtime, access to training, promotion, termination or retirement based on race, ethnicity, caste, national origin, religion, disability, gender, sexual orientation, union membership, political affiliation, marital status, pregnancy status, physical appearance, HIV status, age, or any other applicable prohibited basis, such that all individuals who are "Fit for Work" are accorded equal opportunities and are not discriminated against on the basis of factors unrelated to their ability to perform their job.



Suppliers have to ensure that employees are not subjected to harsh or degrading treatment, sexual or physical harassment, mental, physical or verbal abuse, coercion or intimidation in any circumstances.

Prevention of the use of child labour and forced labour

According to Musti Group's Suppliers' Code of Conduct, the supplier must not engage in or benefit from the use of child labour. The minimum age for full-time employment has to be not less than the age of completion of compulsory schooling and, in any case, shall not be less than 15 years (or 14 years where established by local laws in accordance with the International Labour Organization (ILO) developing-country exception).

The supplier has to refrain from hiring workers under the age of 18 for positions that require hazardous work that could jeopardize their health, safety or morals. If any children are found to be in employment below the minimum age, suppliers will provide adequate support to enable them to attend and remain in school until no longer a child. Child labour remediation processes will include steps for the continued welfare of the child and consider the financial situation of the child's family.

According to Musti Group's Suppliers' Code of Conduct, all forms of forced labour, such as lodging deposits or the retention of identity documents from personnel upon commencing employment, are forbidden as is prisoner labour that violates basic human rights. Neither the supplier nor any entity supplying labour to the supplier should withhold any part of any personnel's salary, benefits, property, or documents in order to force such personnel to continue working for the supplier. Personnel shall have the right to leave the workplace premises after completing the standard workday, and be free to terminate their employment provided that they give reasonable notice to their employer.

Freedom of association

According to Musti Group's Suppliers' Code of Conduct, suppliers will not prevent employees from associating freely. Where laws prohibit these freedoms, suppliers will support parallel means for independent and free association and bargaining. Suppliers will not prevent collective bargaining and will adhere to collective bargaining agreements, where such agreements exist.

Working hours, wages and contract



Suppliers must comply with applicable national laws on working hours and public holidays. The maximum allowable working hours in a week are as defined by national law, but shall not on a regular basis exceed 48 hours and the maximum allowable overtime hours in a week shall not exceed 12 hours. An employee is entitled to at least one free day following six consecutive days worked. Suppliers will provide employees with all legally mandated leave, including maternity and paternity, compassionate and paid annual leave.

Suppliers will pay all employees a wage based on the higher of either, the applicable legal minimum wage plus associated statutory benefits, or the prevailing industry standards. Suppliers will make payment to the employee on a regular and pre-determined basis and will accompany all payments by a wage slip which clearly details wage rates, benefits and deductions where applicable.

All workers must be provided with a written, understandable, and legally binding labour contract.

Provisions for non-permanent and seasonal workers should be no less favourable than for permanent workers. Suppliers will maintain appropriate employee records, including records of piece rate and wage payments as supplier as working hours, for all staff employed, whether on a full-time, part-time or seasonal basis.

Health and safety

Suppliers will provide safe and healthy working conditions for all employees in accordance with applicable law and other relevant industry standards, including, but not limited to, protection against fire, accidents and toxic substances.

The supplier should also formulate and maintain health and safety plans that clearly set out the measures to be taken to safeguard employees and others affected by its activities. The supplier should progressively identify and eliminate or control hazards that present a risk to employees and other people present on its sites and to the environment.

The supplier must provide a suitable, clean and sanitary infrastructure, including access to toilets and potable water, which meets the needs of its employees and is adequate for its employee numbers.

Accommodation, if provided by the supplier, must satisfy the same requirements, including the general provisions on health and safety listed above.

Suppliers will provide employees with the necessary health and safety training and/or education and will secure that adequate systems to detect and avoid potential threats and to help continuously improving health and safety are put in place.

Appropriate procedures must be in place to prevent accidents and injury to health arising from, or linked to, the course of work-related activities and operations at a facility. Suppliers will establish emergency procedures and evacuation plans for all reasonably foreseeable emergencies. Suppliers will ensure that the procedures and plans are accessible or clearly displayed throughout their facilities.

The supplier must provide its employees with the protective equipment and training necessary to perform their tasks safely. The supplier must develop and maintain effective systems for informing and consulting employees on relevant health and safety matters. Through these systems the supplier must keep accurate records of accidents, injuries and known exposure to health and safety risks at work according to local legislation.

High-risk countries

In 2016, Musti Group joined the Business Social Compliance Initiative (BSCI) of the Foreign Trade Association (FTA) to improve social performance in its supply chain in high-risk countries. Musti Group's high-risk country suppliers are expected to observe the BSCI Code of Conduct and suppliers are monitored through audits. BSCI Code of Conduct's labour-related principles are, e.g., the rights of freedom of association and collective bargaining, no child labour, no precarious employment and no bonded labour.

3.2. Implementation

Description of concrete actions to implement labour policies, reduce labour risks and respond to labour violations

Occupational health and safety

Musti Group offers occupational health services to personnel. The services are arranged by an external health service provider. Musti Group pays special attention to work safety and ensures that, e.g., safety equipment is used.

Musti Group's central warehouse in Sweden and the warehouse in Finland are regularly visited by the warehouse shelves supplier to inspect, e.g., the safety of the shelf fittings. It is obligatory to use safety shoes when working in the Musti Group's warehouses. There have not been any serious work-related accidents within Musti Group's own operations (office, stores, warehouse, logistics).



In general, according to the safety study made by Securitas, Musti Group manages its personnel related risk well and, e.g. the accident frequency is at a low-level. In 2018, there were in total 54 accidents in Musti Group's warehouses, stores and offices in Finland, Sweden and Norway (a total of 266 premises).

Working hours and work contracts

Musti Group's employees are extremely committed. The challenge is to maintain work life balance since there is a heavy workload at the moment due to Musti Group's fast growth. To address this challenge, the Company organized a lot of training on leadership and management skills to managers because they can have a great impact on maintaining personnel's work life balance. In addition, Musti Group employees working in the Company offices can organize their working time flexibly and can also work remotely.

Employee well-being

Musti Group aims at being a fair employer and is strongly in favour of employee well-being and discussion on what it means in practice to be a fair employer. In the Great Place to Work employee survey shows particularly high employee satisfaction, but a few qualities have stood out a little extra: Excellent camaraderie and high pride.

Musti Group cooperates and develops working practices together with its franchise entrepreneurs. Musti Group ensures that it treats its entrepreneurs in a fair manner. As one result, Musti ja Mirri was chosen as the best franchising chain of the year 2016 in Finland. The Finnish Franchising Association's jury appreciated, e.g. Musti ja Mirri's strong growth and the entrepreneurs' attitude towards customer service and the development of the chain.

Employee well-being is reflected in customer service. Musti ja Mirri was nominated as "The Best Customer Experience in Finland 2017" by Data and Marketing Association (ASML). Approximately 5,000 consumers attended the survey, evaluating their customer experience in more than 100 companies. A recent customer survey stressed in particular the knowledgeable staff at Musti Group.

Parental leave

In addition to the statutory parental leaves of each country, Musti Group employees are entitled to three months paid maternity leave and to 54 days paternity leave. Most of the Musti Group employees have pets. Musti Group wants to make pet parenting easier for its employees. From the beginning of June 2018



Musti Group offers three days paid pet parental leave “pawternity leave” to employees with new pets at home. Pets are also allowed at the office.

Training and learning at work

Learning, training and development at work are highly appreciated at Musti Group and training opportunities are actively offered to its employees.

The Country Director is responsible for training and development regarding Musti Group’s stores. He/she is assisted by human resources managers, who also support the Country Director in organizing the store personnel training. In Finland approximately 70 % of the store managers are acting as managers/supervisors for the first time in their career so training plays an important role in their development.

The store employees are highly appreciated at Musti Group due to their unique knowledge on pet care and deep understanding of customer expectations. The store employees receive regular business training to complement their deep knowledge and good competences on pet care. Training is also regularly provided on the products sold in the Musti Group stores and on services such as dog grooming. The Musti Group store managers receive regular business and people leadership related training.

Employees working in the central warehouse in Sweden and the warehouse in Finland are supervised employees. In addition to training on the operational processes in the warehouse, they have been trained on other practical issues such as first aid. Job rotation in the warehouse in Finland offers supervised employees an opportunity to learn new skills and to advance in their careers. The employees are in general offered, e.g. leadership training.

At Musti Group it has always been important to put effort on employees’ vocational education and systematic work has been done to promote education that aims for a diploma or a degree. Musti Group also cooperates with vocational education institutions to ensure the supply of high-quality workforce in the future. Musti Group offers, e.g., internship opportunities for students and our employees can complete qualifications along with work. The store managers are studying to receive, e.g., a degree in business administration (upper secondary education). Musti Group’s fifth business administration group started in 2019 and the fourth group is studying for KEAT/LEAT diplomas (Specialist Qualification for Store Managers) at the same time. Three regional sales managers will also graduate from management training (Specialist Qualification in Management) in 2019.



Musti Group also has a foreign trainee program “Musti Goes Abroad”, which several employees have participated in. For example, one Finnish employee from the Marketing Department has worked at the office in Norway and one Finnish Store Manager worked in Sweden. Musti Group wants to share the best practices between the countries where we operate.

Benefits and remuneration

In addition to the basic monthly salary, a performance-based incentive system has been launched in Musti Group’s stores in Finland and Sweden. According to the rules of the program, the employees have the opportunity to a performance-based bonus quarterly. At the moment, the incentive program applies to the store and warehouse employees. A bonus scheme is planned for Norway in 2020.

Recruitment

The recruitment process at Musti Group is fair and treats all candidates in a respectful and equal manner.

The recruitment process for Musti Group store personnel has been documented and there are instructions for hiring in the recruiting handbook. The store managers are responsible for recruiting and can seek support from Musti Group’s human resources. The vacancies are always opened internally before being communicated externally.

Musti Group induction guidelines for store personnel are in use in the stores and at the office. The managers/supervisors have the responsibility for using the guidelines. The basic training in the stores is conducted using Musti Group’s learning management system Campus.

The recruitment process is done both in-house and by using external recruitment service providers. Many team members participate in the recruitment process, which has proven to be a good system for recruiting talented employees. Agile tools such as video interviews are used as part of the recruitment process.

3.3. Measurement of outcomes

Description of how the company monitors and evaluates performance

At Musti Group labour principles related performance is evaluated as part of the normal business practices. Musti Group does not at the moment have systematic processes or metrics in place to evaluate labour principles related performance.



In case of any misconduct or non-compliance with the UN Global Compact principles, Musti Group Management will take immediate action to deal with the situation and to ensure future compliance with the UN Global Compact principles.

The responsibility work with suppliers is a continuous effort at Musti Group. Musti Group is developing its responsible sourcing as part of its corporate responsibility framework. Musti Group takes impacts on working conditions into consideration in the procurement of products. For example, in January 2018, Musti Group decided not to sell silica cat litter anymore because the manufacturing process is a health risk for the factory employees in China.

Musti Group has strengthened its work to improve working conditions in its supply chains in high-risk countries by joining the Business Social Compliance Initiative (BSCI) in December 2016. Supplier audits, which include assessment of suppliers' performance in labour rights, are being conducted to Musti Group's suppliers in high-risk countries.

In 2018, in its own activities, Musti Group has not detected any indication that it would, directly or indirectly through its partnerships or associates, be complicit in activities in breach of the UN Global Compact Labour Principles.

Trust among employees is measured by using the results of the Great Place to Work's Trust Index survey. In 2019, the overall employee satisfaction rate measured by the Great Place to Work was 74% in Musti Group. The employees are informed about the results of the Trust Index survey. Musti Group teams also discuss the results of the Trust Index survey and agree on development targets. Musti Group actively crowdsources employee ideas on key initiatives and various other matters.



4. Environmental Principles

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

4.1. Assessment, policy and goals

Description of the relevance of environmental protection for the company (i.e. environmental risks and opportunities)

Description of policies, public commitments and company goals on environmental protection

According to its Environmental Principles Musti Group is committed to environmental and sustainable work in its own sphere of influence as well as in its whole supply chain and with other partners. Musti Group believes that by focusing on continuously developing its business processes, products and services, the Company can support its main shareholders, customers, and suppliers in their environmental activities, principles and targets.



Own activities

Musti Group seeks ways to find innovative solutions to environmental challenges. As a minimum, Musti Group complies with all relevant environmental legislation as well as other relevant environmental requirements and standards.

Musti Group has a precautionary approach to environmental challenges. Musti Group seeks to continuously identify significant environmental impacts of its operations and services and strive to minimize the use of energy, water and other natural resources as well as the amount of waste it produces.

In Musti Group's stores, offices and warehouses, energy is consumed in heating, cooling and lighting the premises and for electrical appliances such as freezers in the stores and computers at the offices. Energy, water and raw materials are needed in the manufacture of our products. Energy, mainly fossil fuels, is used for transportation of our goods. Waste is produced in all our operations.

To reduce its environmental footprint Musti Group aims to acquire only renewable energy in all its locations whenever the electricity contract is directly influenced by Musti Group. We will also reuse and recycle raw materials, products and packaging. For example, Musti Group recycles food, which is by its best before date. For this purpose, Musti Group has opened an outlet store in Sweden, which sells products by or close to their best by date. If the products are not sold, they are donated to local animal shelters when possible. In Finland products close to their best by date are donated to animal shelters and animal welfare associations.

Musti Group will also include environmental criteria in the procurement of products and services and works together with its supply chain, partners and customers to lower the environmental burden of the whole value chain. Musti Group ensures that internal logistics is run in an efficient way and that the environmental know-how of its employees is on a high-level.

Musti Group will include the consideration of environmental impacts in the decision-making process, by presenting "Environmental point of view" in the material leading to the decision. Musti Group is also planning to set objectives and targets for continuous improvement and will evaluate progress against these targets.

We initiate to replace the plastics in our products and packaging materials with recycled plastics. The new Gaia brand has been introduced with products made of recycled, organic or otherwise environmentally sustainable materials. Use of plastic bags decreased by 50% in 2018 in the Finnish stores, which made Musti a candidate for the year's responsibility act. There are also actions planned for adding new organic products to the portfolio as well as decreasing waste and emissions in logistics and packing.

Supply chain

Musti Group expects a positive attitude towards environmental responsibility from its business partners and suppliers. According to Musti Group's Suppliers' Code of Conduct, Musti Group's suppliers must comply with all relevant national environmental legislation. The suppliers must maintain awareness of current environmental legislative requirements relevant to the environmental impacts of their activities, products and services, and ensure legal compliance through training, awareness, operational control and monitoring.

Suppliers will, wherever appropriate, introduce management and operating systems to minimize the detrimental environmental impacts of their business practices.

Suppliers must not manufacture, trade, and / or use chemicals and hazardous substances subject to international bans due to their high toxicity to living organisms, environmental persistence, potential for bioaccumulation, or potential for depletion of the ozone layer.

According to Musti Group's Suppliers' Code of Conduct, suppliers must dispose of waste substances in compliance with applicable law. Where applicable law does not exist, prevailing international standards will be adopted. Suppliers must seek to decrease emissions to air, water and land relative to production output.

Suppliers must also seek to ensure the efficiency of their business operations in terms of consumption of natural resources, including, but not limited to, water and energy.

According to the BSCI Code of Conduct, suppliers in high-risk countries should take the necessary measures to avoid environmental degradation, assess significant environmental impact of operations, and establish effective policies and procedures that reflect their environmental responsibility. They should implement adequate measures to prevent or minimize adverse effects on the community, natural resources and the overall environment.

4.2. Implementation

Description of concrete actions to implement environmental policies, reduce environmental risks and respond to environmental incidents

Communication and training

Musti Group communicates about environmental aspects internally by Group's and local chain's intranet. Environmental aspects are included also in an e-learning course on the Musti Group Ethical Principles, which all employees have to complete.

The Musti Group Head Office in Finland obtained the WWF Green Office certificate in 2016 as a result of developing the environmental management system of the office and efforts to raise the environmental awareness of personnel. Possibilities to boost the environmental work at the offices will be investigated further.

Energy, waste and recycling

To reduce its electricity consumption Musti Group is planning to fit all new stores with energy efficient LED-lighting. In 2019, Musti Group has LED-lighting in approximately 90 stores.

Musti Group acquires renewable energy in all its locations whenever the electricity contract is directly influenced by Musti Group and about 35 % of Musti Group stores in Finland uses renewable energy.

Musti Group seeks to minimize the amount of waste it produces. Various lean tools are used to reduce waste in the warehouse in Finland. Musti Group is trying to reduce the use of packaging material, especially the use of plastic. In 2017, the central warehouse started to use thinner plastic wrap. When packing goods, we use paper instead of plastic whenever possible. Musti Group reuses packaging materials in the warehouses and has as priority to try to reduce the amount of packaging material from producers. Musti Group has started to negotiate with producers in order to reduce packaging materials, but also to investigate whether we can find recyclable packaging materials for our own brands.

Musti Group is aiming to keep the amount of waste to be sent to landfill minimal. In 2018, waste sent to landfill from the central warehouse was 0 %. Musti Group recycles 173 tons of carton and 32 tons of plastic a year in the warehouses. Musti Group stores are using the waste collection points of the premises, but the share of landfill waste is estimated at approximately 5 % of the total waste of the stores.

Musti Group has initiated a collection and recycling of empty pet food bags in some of its stores in Finland. Recycling is an important environmental theme in the stores, and the aim is to increase the number of empty bags collected and recycled and also find ways to apply the initiative to all Musti Group stores.



In 2018, empty pet food bags are collected in 9 stores in Turku area. Pet food bags are used in the same area for the manufacture of cement additives that can replace coal dust. Musti Group has also opened an outlet store in Sweden in order to recycle food, which is by its best before date.

Reducing the consumption of plastic bags

In 2017, Musti Group took action to reduce the consumption of plastic bags in stores. The Musti Group's Swedish chain Arken Zoo has completely replaced plastic bags with paper bags in Musti Group's stores in Sweden. Musti Group has joined the Green Deal agreement of the Ministry of the Environment in Finland and is committed to measures to reduce the consumption of plastic carrier bags. Musti Group will provide advice and information to the customers in order to reduce the consumption of lightweight plastic carrier bags and prevent littering.

In 2017, Musti Group started to charge for plastic bags. In 2018, Musti Group replaced plastic bags with plastic bags made from recycled plastics in stores in Finland. The plastic bags called "Essi circular bag" are Finnish products manufactured from post-consumer plastics. Essi circular bag is carbon neutral and according to Finnish study it has the smallest CO₂ footprint compared to any other carrier bag in grocery stores in Finland. The use of recycled plastics significantly reduces the need for virgin raw materials and plastic recycling has a great role in reducing greenhouse gas emissions. Also, Musti is starting to add paper bags to its assortment.

In June 2018, Musti Group started to sell cotton bags in stores in Finland. Musti Group has designed cotton bags made from 100 % recycled cotton in collaboration with Finnish WWF. Musti Group donates the proceeds of cotton bags to WWF's nature conservation work. Additionally, Musti Group donates one percent of the total amount of the customer's purchases, who is using the cotton bag, to WWF's nature conservation work. Use of plastic bags decreased by 50% in 2018 in the Finnish stores.

Consumption of water

Water consumption in Musti Group's stores, offices and warehouses is at a low-level. At the offices water is mainly consumed for washing dishes and flushing a toilet. In the central warehouse small quantities of water, less than 50 liters per week, is consumed for truck batteries. In Trimmis grooming salons, water is used, e.g., for washing dogs. Musti Group will follow up the water consumption in the salons.

Water is needed in the manufacture of our products, especially pet food. Musti Group is planning to follow up producers' water consumption.

Logistics and transport

The environmental viewpoints are not systematically taken into account at the moment when planning logistics. The aim is to discuss the opportunities to include environmental criteria into the evaluation and selection process of logistics suppliers. Currently, logistics suppliers are required to report their CO₂ emissions in total and per a kilometer to Musti Group. Musti Group is planning to use also other environmental criteria in the future.

Musti Group is constantly trying to make its transport and logistics as efficient as possible, e.g., by using the most direct routes from the warehouses to locations. Musti Group is using various lean tools to improve efficiency and reduce waste in the warehouse in Finland.

Business travel

Musti Group welcomes the possibilities of new technologies and applies, e.g., video conference facilities to reduce the amount of business travel. There are video conference facilities in the offices in Finland, Sweden and Norway making it easier to organize internal meetings between the countries.

There is also a guideline for store personnel regarding their business travel. The guideline encourages the personnel to use the public transport. Musti Group has a contract in Finland with the railway company VR to make using the train extremely easy, e.g., discounts on the tickets and a billing service for the tickets. In Sweden, Musti Group has an agreement with the railway company SJ to support the employees' use of public transport. Employees receive discounts on the tickets, which has increased travel by train instead of by car.

Purchase of products

Every time Musti Group is making product purchases it will identify the potential environmental impacts of the products. Musti Group always strives to find a product that has the least environmental impact. For example, group's purchasers will try to find the nearest factories to shorten the transport distances and find products made of organic or recycled materials.

Musti Group wants to raise awareness among suppliers and reduce potential environmental risks, especially in high-risk countries by asking suppliers for environmental data on their products. Chinese factories also have to report to us about their environmental goals. Membership in the Business Social Compliance Initiative (BSCI) gives Musti Group a tool to reduce environmental risks in its supply chain in high-risk countries, e.g., by conducting supplier audits in high-risk countries.

4.3. Measurement of outcomes

Description of how the company monitors and evaluates environmental performance

At Musti Group environmental performance is evaluated as part of the normal business practices. In case of any misconduct or non-compliance with the UN Global Compact principles, Musti Group Management will take immediate action to deal with the situation and to ensure future compliance with the UN Global Compact principles.

Musti Group takes environmental impacts into consideration in the procurement of products. In January 2018, Musti Group decided not to sell silica cat litter anymore because the manufacturing process has a huge impact on environmental pollution and is also a health risk for the factory employees in China. Also, Musti has now decided to discontinue selling live animals in the stores due to ethical reasons. Musti Group is aiming to develop environmental criteria which will be used systematically in the procurement of products and services.

Environmental work with suppliers is a continuous effort at Musti Group. Musti Group is developing its environmentally responsible sourcing as part of its corporate responsibility framework. As a member of the Business Social Compliance Initiative (BSCI) Musti Group's work concerning sourcing from high-risk countries has been strengthened

Musti Group initiates activities to improve the environmental performance of its supply chain, including, e.g., focusing on CO₂ emissions measurement and reduction. Musti Group discusses with suppliers, e.g. about opportunities to reduce the environmental burden from packaging and in general, but also about other aspects material for Musti Group's environmental goals and targets.

Follow-up and monitoring of energy use in the warehouses in Finland and Sweden has been developed and temperatures have been decreased to save energy. Water use is minimal in warehouses.

In 2018, in its own activities Musti Group has not detected any indication that it would, directly or indirectly through its partnerships or associates, be complicit in activities in breach of the UN Global Compact Environmental Principles.

Over the past year, Musti Group has been able to reduce the environmental impact of its operations. Musti Group has managed to keep the amount of waste to be sent to landfill from the warehouses minimal. In 2018, waste sent to landfill from the central warehouse was 0 %. Musti Group has been able to reduce the consumption of plastic bags. We have completely replaced plastic bags with paper bags in the stores in

Sweden. Musti Group has also increased the use of renewable energy. In 2018, about 35 % of the Musti Group stores in Finland use electricity that is produced from renewable energy.



5. Anti-Corruption Principles

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

5.1. Assessment, policy and goals

Description of the relevance of anti-corruption for the company (i.e. anti-corruption risk-assessment)

Description of policies, public commitments and company goals on anti-corruption



Own activities

In the Transparency International's Corruption Perceptions Index, Finland, Sweden and Norway are ranked extremely well. Therefore, the immediate risk for corruption in Musti Group's main operating countries can be seen as reasonably low.

In 2013, Musti Group joined the UN Global Compact initiative which forms a basis for Musti Group's management practices. Musti Group embraces and supports the UN Convention Against Corruption.

According to Musti Group Ethical Principles, its employees must avoid any activity that can lead to a conflict of interest. Musti Group employees do not give or receive, whether directly or indirectly, bribes or other improper advantages for business or financial gain. Musti Group does not offer or give contributions to political parties.

Musti Group is committed to providing quality products and services which consistently offer value in terms of price and quality, and which are safe for their intended use. Products and services will be accurately and properly labelled, advertised and communicated.

Musti Group promotes fair business practices and does not engage in any illegal or restrictive trade practices. Musti Group conducts its operations in accordance with the principles of fair competition and all applicable regulations.

Musti Group treats its customers and consumers in a fair and equal manner. Musti Group sells and markets its products in an ethical and non-harassing manner.

Musti Group recognizes the importance of confidentiality and ensures that confidential information received is not disclosed to unauthorized people or companies.

Supply chain

According to the Musti Group's Suppliers' Code of Conduct, suppliers are not to engage in any form of bribery, corruption, extortion or embezzlement in any business practices and transactions carried out by them or on their behalf by business partners. Suppliers are not allowed to offer, accept or countenance any payments, gifts in kind, hospitality, expenses or promises as such that may compromise the principles of fair competition or constitute an attempt to obtain or retain business from any person or to influence the course of the business or governmental decision-making process.



Suppliers are also to refrain from offering funding, donations, lavish gifts and extravagant entertainment to any employee of Musti Group or any other counterparts at Musti Group in an attempt to influence business decisions.

According to Musti Group's Suppliers' Code of Conduct, suppliers must maintain financial accounts of all business transactions where required by applicable law and in accordance with national or international accounting standards.

In 2016, Musti Group joined the Business Social Compliance Initiative (BSCI) of the Foreign Trade Association (FTA) to improve social performance in its supply chain in high-risk countries. Musti Group's high-risk country suppliers are required to comply with the BSCI Code of Conduct. According to the BSCI Code of Conduct, business partners must not involve in any act of corruption, extortion or embezzlement, nor in any form of bribery.

5.2. Implementation

Description of concrete actions to implement anti-corruption policies, reduce anti-corruption risks and respond to incidents

Musti Group's e-learning course on the Musti Group Ethical Principles includes aspects on anti-corruption principles. Every employee of Musti Group has to complete the e-learning course.

Musti Group's work contract for store managers categorically forbids accepting any gifts or benefits without the employer's (Musti Group's) written approval. The sourcing department also informs its employees to reject any gifts and other benefits offered by business partners.

As a member of the Business Social Compliance Initiative (BSCI) Musti Group can reduce anti-corruption risks in its supply chain in high-risk countries, e.g. by conducting supplier audits in high-risk countries.

Musti Group has internal controls in order to monitor the accounting and financial transactions and for trying to prevent abuses. Musti Group's internal controls are monitored annually by an external auditor, EY.

5.3. Measurement of outcomes

Description of how the company monitors and evaluates anti-corruption performance



At Musti Group anti-corruption related performance is evaluated as part of the normal business practices. Musti Group does not at the moment have systematic processes or metrics in place to evaluate anti-corruption related performance.

In case of any misconduct or non-compliance with the UN Global Compact principles, Musti Group Management will take immediate action to deal with the situation and to assure future compliance with the UN Global Compact principles. Also, the internal code of conduct includes an anonymous whistleblowing mechanism.

In 2018, in its own activities, Musti Group has not detected any indication that it would, directly or indirectly through its partnerships or associates, be complicit in activities in breach of the UN Global Compact Anti-Corruption Principles.

Musti Group's accounting is subjected to an annual statutory audit, which is performed by an external auditor, EY. EY monitors Musti Group's internal controls. The auditor's report is reviewed by the Musti Group Board.

The responsibility work with suppliers is a continuous effort at Musti Group as part of Musti Group's corporate responsibility framework. Musti Group joined the Business Social Compliance Initiative (BSCI) in 2016. As a member of the BSCI Musti Group can use the BSCI supply chain management system in auditing and measuring Musti Group's high-risk country suppliers' anti-corruption performance, among other corporate responsibility aspects.