

THUN LONDON

SUSTAINABILITY REPORT

2018

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INTRODUCTION

As from 2017, it is mandatory for large enterprises¹ to publish a sustainability report, in order to increase the transparency and quality of financial, social and environmental information and increase the confidence of customers and other stakeholders in the company.

Erik Thun AB has been working on sustainability matters for 80 years - as a natural consequence of being mainly a shipping company, for which natural resources are our greatest asset. Through innovative ship design, we are constantly working to minimise our environmental footprint, and safety work is always at the top of the agenda in order to safeguard both employees on our ships and those working on shore.



“An attractive, safe and responsible workplace with happy, proud employees is essential if we are to succeed in our ambition to create sustainability for future generations through long-term growth and profitability.”

Lidköping, April 2019

Johan Källsson

Deputy Managing Director, Erik Thun AB

UN Global Goals

In a unique process, the 193 member states of the UN produced the Global Goals for Sustainable Development -the most ambitious agreement on sustainable development that global leaders have ever committed to. It is not the UN itself but rather each member state - from governments down to individuals - that is responsible for achieving the 17 Global Goals, and everyone must play their part if we are to succeed.

In our Sustainability Report we connect to the Global Goals that we are striving towards and which are central to us and our business, such as the environment, safety and employees.



THE GLOBAL GOALS
For Sustainable Development

Limitations

We have decided to focus our Sustainability Report for the Group on the shipping business, and therefore the meat processing subsidiary Direkt Chark AB as well as Täby Air Maintenance AB (TAM) has been excluded.

¹Defined as companies that have met more than one of the following criteria for the past two financial years: average number of employees was more than 250, balance sheet total was more than SEK 175 million, net sales were more than SEK 350 million.

ERIK THUN AB IN BRIEF

Erik Thun AB was established in Lidköping in 1938 by Helge Källsson and is still owned by the same family today. Our core business is shipping and our fleet of around 40 vessels is mainly employed in short sea shipping in Northern Europe.

We are at the forefront of the development of new ships built to our own designs for transport solutions that are adapted to our customers. In 2015-2016 the first two dry cargo ships in the world (transporting cement) to be fuelled by Liquefied Natural Gas (LNG) were delivered. Between November 2017 and the year 2021 we will take delivery of a further 14 new built vessels - 11 tankers, two dry cargo ships and one cement carrier. Six of these will run on LNG (Liquid Natural Gas) or LBG (Liquid Bio Gas). We have a long tradition of environmental and quality work, and are certified to ISO 9001.

Our sales amount to around SEK 1.5 billion and we will be making investments of around SEK 2 billion over a four-year period.

Business areas

Our shipping operations are divided into the following segments:

- 14 bulk cargo ships from 4,000 to 6,500 tons deadweight (dwt) sailing between Lake Vänern and North Sea, Baltic Sea and Mediterranean ports.
- 6 self-unloading ships, from 6,000 to 10,000 dwt, mainly employed in the North Sea, the Baltic and the Mediterranean. An office was recently opened in Barcelona to provide a local base.
- 16 product tankers from 6,500 to 18,000 dwt, which are operated by the subsidiary Thun Tankers in Gothenburg.
- 7 cement carriers from 4,000 to 7,600 dwt, which are employed in Northern Europe and are owned and operated by JT Cement AS - a joint venture between KGJ Cement AS, NovaAlgoma Cement Carriers and Erik Thun AB.

The Group also includes the shipbroker and port agency OP Ship AB, based in Gothenburg and Kalmar, and Citadel Shipping AB, based in Helsingborg. In addition, we are engaged in aircraft leasing and the company currently owns 18, mainly passenger aircraft. We also have a meat-processing factory in Gothenburg, Direkt Chark, employing 60 people and Täby Air Maintenance AB in Örebro, employing about 40 people.



BUSINESS MODEL

Our vision is:

A sustainable Swedish partner over generations

Together with our customers, our aim is to tailor-make services within shipping so that:

- Customers experience a high level of customer benefit and regard us as a stable, value-for-money, responsive partner within shipping.
- We want to create a workplace where our employees develop and take pride in their work, feeling passionate for the shipping industry.
- Our business continues to be characterised by relatively low risk with reasonable returns.
- We create a sustainable business through generations and in all fields, business wise as well as in society.



Our core values - we are:

- **Long term**
Our investments are done to last over generations. We order vessels for a lifespan. Our customers and co-workers feel confident in us, look forward to new challenges with us and want to stay true to us. We are a family business looking beyond interim reports.
- **Responsible**
We take responsibility for our co-workers, our customers and the surrounding environment. Sustainability in every aspect is important to us. This approach is reflected at all levels in our family business, and we take good care of one another.
- **Committed**
We have a profound interest in shipping and in our company. Our co-workers are empowered and dedicated, thus creating customer benefit. We want to contribute with our best effort in order to solve the task at hand the best way possible.



RISK ASSESSMENT

Our vessels sail mainly in Northern Europe, but our business is global. Significant risks associated with the organisation's operations are:

- Accidents
- Emissions
- Terrorism
- Piracy
- Fire
- Corruption
- Cyber threats

These risks are prevented and managed by:

- Audits
- Training and exercises
- Manuals (SMS/SSP)²
- Oil pollution equipment
- Design of the vessels
- Qualified crew
- Cyber security risk assessment



Results are measured and followed up by tracking these statistics:

- Accidents and near-misses
 - No reports of LTI³ during 2018
- Port State Control (PSC)⁴
 - Our goal is to have less than 0.75 deficiencies per inspection during a period of 36 months, current average is 1.36.
- Fuel consumption
 - We have just begun using EEOI⁵ to measure the energy efficiency. From 2020, we will be able to compare the energy efficiency from one year to another for the whole fleet.

² The SMS (Safety Management System) manual relates to the ISM Code (International Safety Management Code), a standard issued by the IMO (International Maritime Organization).

The SSP (Ship Security Plan) manual relates to the ISPS Code (International Ship and Port Facility Security Code), likewise issued by the IMO.

³ LTI = Lost Time due to Injuries

⁴ PSC (Port State Control) refers to the inspection of foreign vessels in national ports in order to check and ensure that international rules are being complied with.

⁵ EEOI = Energy Efficiency Operational Indicator

OUR ENVIRONMENTAL RESPONSIBILITY

Erik Thun's fundamental concept has always been to build and operate ships with a focus on the environment, sustainability and fuel efficiency - long before these matters made it onto the global agenda. The objective is continual improvement and awareness.

Shipping is a regulated industry with a long history of working on quality and safety aspects, and there are clear manuals and instructions for compliance with the stringent requirements. We as Swedish ship-owners are also highly committed and very sustainability-minded, which sets the bar high and creates an innovative environment in which everyone strives to be at the forefront.

As a shipping company in a global market, we have clear regulations controlling how we work. All our ships are operated and approved in accordance with the requirements in force, taking into account the various conventions and regulations that exist including:

- SOLAS (Safety of Life at Sea)
- MARPOL (Prevention of Pollution from Ships)
- Ballast Water Management Convention
- Monitoring Reporting Verification (MRV)
- Ship Energy Efficiency Management Plan (SEEMP)

The above examples contain clear guidelines and constantly point the way in our daily work. Our customers and national authorities also set very high requirements through the processes of vetting (auditing) and Port State Control - regular inspections of the ship at which they come on board and carry out rigorous checks to ensure that laws and regulations are being complied with and that there are no deficiencies in safety routines. If we were to have too many deficiencies, it could result in our customers not wanting to use the ship for their cargo and we would lose competitiveness, business and our good reputation. Our goal is to have less than 0.75 deficiencies per inspection during a period of 36 months. The average for inspections carried out worldwide, is currently 2.75. Our current average is 1.36, which is good, but we will continue to strive towards an average below 0.75 deficiencies per inspection.

ENVIRONMENTAL WORK

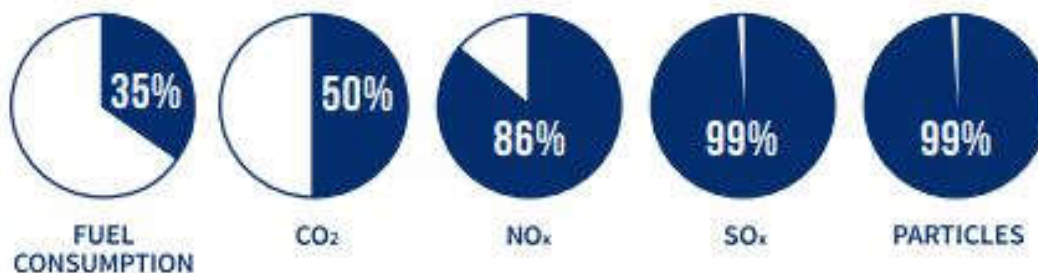
Our long experience within shipping provides us with a good basis for environmentally smart thinking and innovative design. We are highly involved in the design and construction of our ships, from the initial drawings and testing right through to the launch. We work closely with the shipyards that build the ships for our customers' needs. We also have a close dialogue with our customers about potential improvements; for example, the ship's speed and arrival in port are adjusted to make the journey as energy-efficient as possible.

Our ships are built to be as environmentally efficient as possible. As early as the 1990s we began using box coolers to cool the engines, and analysed and optimised systems on board to reduce electricity consumption. Cooling water from the main and auxiliary engines is used to heat the ship, thereby dispensing with the need for an oil-fired boiler. The hull and propeller are optimised using the latest computational fluid dynamics technology and tested using models in a test channel. The ships are equipped with a 50/60 Hertz system that allows the ship to switch to a lower frequency and thereby operate much more energy-efficiently. This also allows us to connect directly to shore power without a frequency converter. We also work actively to reduce noise emitted to air and water, both in the existing fleet and in our new buildings.

During 2019, we will install energy meters (kWh) on every vessel to monitor the energy consumption, thus providing both the crew on board and our technical division ashore immediate feedback on the energy consumption and measures that can be taken to improve the energy efficiency.

LNG powers parts of our fleet already, and a number of our new buildings will also be powered by LNG or renewable LBG. This combined with a modern design of hull and propeller plus engines that are more efficient, will result in lower fuel consumption and emissions compared with older ships. Calculations on one of our newly built ships have shown that fuel consumption is reduced by 35% and that emissions are reduced by 50% for noise, 50% for CO₂, 86% for NO_x and 99% for SO_x and particulates.

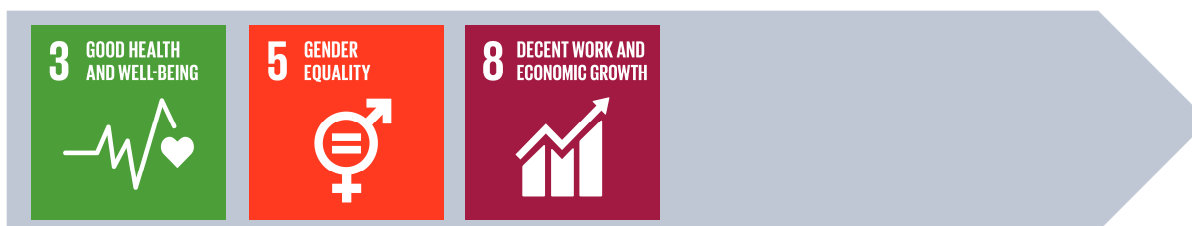
FUEL AND EMISSION REDUCTION



As well as looking at new types of fuel that ships can run on, the vessels are built to the latest designs and according to the principle that they must be able to be operated with a high level of safety, with the minimum possible environmental impact and always with a focus on what is best for the customer. The progress of our environmental efforts can be shown by using our Environmental Ship Index (ESI) score. The ESI is voluntary and evaluates the amount of nitrogen oxide (NOx) and sulphur oxide (SOx) that is emitted by a ship; it includes a reporting scheme on the greenhouse gas emission of the ship. The ESI score is a perfect indicator of the environmental performance of ocean going vessels and for identifying cleaner ships. The database currently exists of about 8550 vessels and the average for these vessels are 26.1 (with 100 being the highest score). Our vessels (that are so far reporting to the database) has an average of 44.25. This very encouraging result shows that our environmental efforts are paying off.

In 2018, we had no oil spills, neither on deck nor in the water. LTI (lost time injuries) is another factor that we keep statistics on. This shows time lost due to injuries on board, and thanks to preventive work this has shown a downward trend in recent years and for the year 2018 we had no reports of LTI.





OUR SOCIAL RESPONSIBILITY

Erik Thun AB shall be a workplace characterised by a good and safe working environment. Employees, customers and partners must feel secure with how we manage the working environment. We have statutory insurance and strive to work according to policies and regulations in the area of human resources. With shore-based employees in our offices and ship crew working at sea, we have two different types of workplace. In many ways, these have different conditions and types of risk in their daily work - but they must be treated equally. We were 41 employees at our offices in Lidköping and Gothenburg in 2018. We have 122 employees on board the ships that we manage ourselves.

During 2019, we will continue the initiative with all officers and office personnel completing a Maritime Resource Management Course (MRM) that has been adapted to shipping companies. This will provide opportunity to share experiences and increase understanding between offices and ships, as well as increasing knowledge of both our own capabilities and others' needs as regards performance. We will also build further on our annual Company Days, when our ships' officers come together at our head office in Lidköping to work on best practice and attitude aspects - and also get an opportunity to meet and spend some time with our office employees. Out on the ships we also provide continuing education through CBT (computer-based training) courses.

Work environment aspects on board

On the ships, we work according to the convention in force, which is the Maritime Labour Convention 2006 (MLC). This specifies living standards on board and states that as a shipping company, we must comply with the rules and requirements that relate to seafarers. The MLC also helps provide assurance that seafarers will always be able to report to their home country, direct to the company management or to the ship's flag administration if they feel they have been badly treated or do not feel safe on the ship or as part of the crew on board. The requirement for the crew to have the right training is met by a matrix detailing which skills seafarers must have for each role. The aim of the matrix is for seafarers to be able to see what is required, and what they need to improve and obtain further training in - either through training on board or at a training centre. Through 2018, we have implemented a feedback portal where all staff anonymously can report any issues or harassments.

Results of the work/policy:

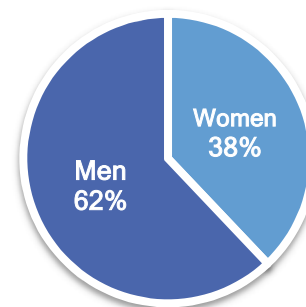
- Fewer deficiencies in Port State Control and other inspections
- Employees stay with the company
- Employees develop and grow with the job
- Better work environment

We measure the results through:

- Number of deficiencies in Port State Control
- Employee turnover
- Promotions
- Performance reviews

Shore-based work environment

Our shore-based employees have an average age of 47 years; 38% are women and 62% men. We carry out compensation survey annually as part of our internal monitoring that pay differentials are not discriminatory. In wage formation and pay determination we set individual targets that are followed up in our performance, follow-up and pay reviews.



Our employees are encouraged to continue their training and education through various courses and through involvement in business-related networks such as Svensk Sjöfart (the Swedish Shipowners' Association), WISTA (the Women's International Shipping and Trading Association), Nautiska föreningen (the Swedish Nautical Association) and Sveriges Junior Redare (a network for young shipping employees).

Health

Good health is the best pension investment! We support and encourage our personnel to keep in good health, which improves wellbeing. We actively promote exercise and other ways to stay fit among our staff. Corporate healthcare is available, and the standard we aim for is a good work environment that minimises the risk of accidents. Erik Thun AB also offers extended accident insurance at no cost.

Sickness absence in 2018 stood at 3.7%, but our aim is to bring this below 3%. In 2017 our employees at our offices in Gothenburg and Lidköping were offered the opportunity to have a health profile assessment with the company's corporate healthcare service. The aim is to avoid ill-health by highlighting any issues as early as possible, and if possible to prevent any further deterioration where problems have already arisen.

The outcome of this review was generally very positive and we are pleased to say that 95% are happy in their work and with cooperation with their colleagues. We are aware that certain work environments can be felt to be stressful, and that sedentary work at screens is common. We offer an annual fitness benefit, while participation in sports events such as Göteborgsvarvet (the Gothenburg half-marathon), Spin of Hope, badminton, skiing, bandy etc. is encouraged.



Corporate social responsibility

We support community engagement both within and outside of our industry. For example, Erik Thun administrates the Alice & Helge Källsson Foundation for education and research, the purpose of which is to provide grants and scholarships to support education within shipping and to support research aimed at environmentally safer coastal transport. During its nearly 40-year history, for example, the Foundation has given grants to students taking master mariner or maritime engineering degrees in connection with the writing of dissertations and master's theses. These papers have dealt with a variety of different areas such as marine environments, minimisation of emissions, navigation in narrow waters etc. The Erik Thun Group also sponsors various projects such as ShelterBox (international disaster relief efforts) and ÖRN-72 (preservation of eagles in Scandinavia).

Students

We consider it important to be involved with those who are potential employees by networking with students in various contexts. We have a close partnership with the shipping-related courses at Chalmers University of Technology. We take at least one intern per year from the Shipping and Logistics programme, a number of our employees are guest lecturers on the course and we have a representative on the council for the Maritime Management master's programme.



OUR BUSINESS ETHICS

We work in an international market with customers from large global oil companies to small-scale port agents along the coasts. Customer relations is our strength and our daily bread, and many of our business relationships go far back in time and are built on mutual respect. It goes without saying that we have zero tolerance of corruption, bribery and money laundering, and in 2018 no violations were reported.

Anti-corruption and anti-bribery

All our employees are required to abide by all applicable laws and provisions relating to corruption, bribery and money laundering. Our employees are not permitted to pay bribes or make other improper payments in order to obtain or retain contracts or to encourage favourable decisions or services. All shore-based and ship-based employees have been informed of the course of action they are to take should they come under pressure to pay bribes or make other improper payments, and that this must be reported both internally and to the relevant external persons/companies/customers. This applies likewise in the event that they were to be offered bribes or similar in the course of their duties.



The company shall under no circumstances participate in or support money laundering. To stay clear of any traces of money laundering we have to show a direct link between the party to the contract and the end-recipient of payment for services performed, and that no company in the “chain” is on any international or national sanctions list.

In parallel with our own guidelines, in order to continue providing our services to our customers we are required to sign and approve a number of specific anti-trust, anti-corruption, anti-bribery and anti-money laundering clauses in our commercial agreements.

Gifts, entertainment and hospitality

We shall not offer our customers overly lavish or excessive gifts, entertainment or invitations. All kinds of gifts, entertainment and/or hospitality must be reasonable and appropriate and must be in line with local legislation and business practice. Our personnel are not permitted to offer or accept monetary gifts or equivalent, whether directly or indirectly.

Compliance with laws and regulations

Erik Thun AB shall comply with all applicable national and international laws and regulations and shall conform to generally accepted practice. The company shall also act as a responsible company in every part of its business, including corporate governance, the work environment and safety, labour rights, the management of environmental work, financial reporting and taxes. As regards fair competition and compliance with competition legislation, the company shall comply with the competition legislation in the countries in which we operate.