

SUSTAINABILITY REPORT 2020

XANO INDUSTRI AB (PUBL)

For XANO, sustainability means accepting responsibility for the way the Group's operations affect society from an environmental, social and economic perspective. The Group is working systematically to achieve sustainable development, creating value and profitability by striking a responsible balance between the demands, expectations and needs of customers and other stakeholders on the one side, and care and responsibility for the environment and the society where the Group operates on the other.

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BUSINESS CONCEPT

XANO develops, acquires and operates manufacturing businesses with unique or market-leading products and systems with associated services. The XANO Group is made up of niche engineering companies whose main market is industry in Europe. XANO creates value for shareholders by exercising both active ownership and management by objectives.

OUR CORE VALUES



ENTREPRENEURIAL DRIVE

Entrepreneurship combined with strong drive is the most important common denominator for the companies in the Group. The units have flat organisations with rapid decision-making paths and short times before arriving at solutions. Leadership is down-to-earth and close at hand, with clear demands for the involvement of all employees.



LONG-TERM THINKING

The long-term approach characterises all activities and decisions within the Group. XANO conducts long-term investment in its companies, giving each unit the resources and space to develop. The companies in turn strive to achieve long-term relationships and close collaboration with all stakeholders.



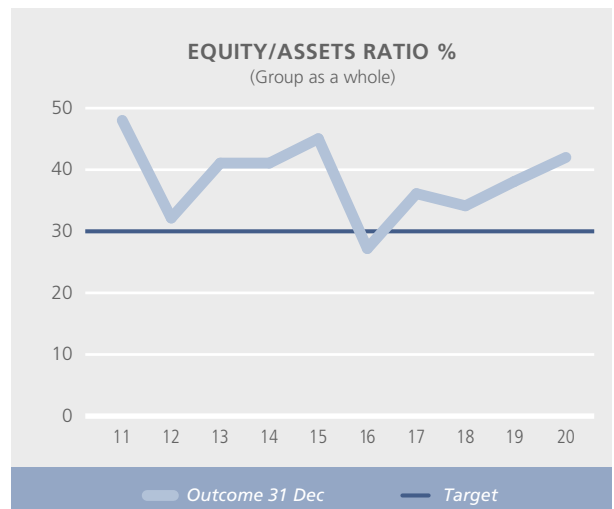
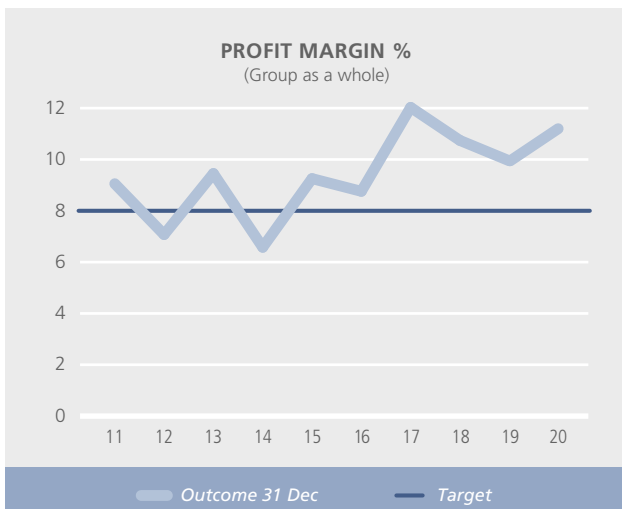
TECHNICAL KNOW-HOW

The Group's companies are niche operations, possessing sound technical know-how within their respective specialist areas. Continuous skills and technical development ensure quality and delivery reliability. A high degree of innovation creates efficiency and business benefits for both Group companies and their customers.

XANO INDUSTRI AB		
INDUSTRIAL PRODUCTS	INDUSTRIAL SOLUTIONS	PRECISION TECHNOLOGY
Ackurat Industriplast AB Ackurat Ornplast Sp z o o Ackurat Suomen Oy Blowtech GP AB Blowtech GT AS Cipax AB Cipax AS Cipax Eesti AS Cipax Industri AB Cipax Oy	Canline Systems BV Canline USA Corp Fredriksons Verkstads AB Fredriksons Industry (Suzhou) Co Ltd Jorgensen Engineering A/S NPB Automation AB Polyketting BV	AB Kuggteknik Kungsörs Mekaniska Verkstad AB Lasertech LSH AB AB LK Precision Parts Mikroverktyg AB Modellteknik i Eskilstuna AB Resinit AB

STRATEGIES AND GOALS

Financial objectives	<p>STABLE PROFITABILITY AND HIGH GROWTH</p> <p>XANO's organic growth will be at a higher level than general market growth. Growth will also take place through the acquisition of operations and companies. The profit margin will amount to 8% over time. The equity/assets ratio will exceed 30%.</p>
Vision	<p>MARKET LEADER WITHIN SELECTED SEGMENTS</p> <p>XANO will be a market leader within selected market segments. XANO will create strong units from companies, where economies of scale are utilised optimally.</p>
Strategy	<p>DEVELOP, ACQUIRE AND RUN NICHE ENGINEERING COMPANIES</p> <p>XANO will develop, acquire and run niche companies and, through active ownership, create added value for the shareholders. The manufacturing process must have a high technical content with the aim of satisfying the customers' needs. In order to achieve this, XANO needs to work within well defined niches. The level of service and delivery capability have to be high. The companies must strive to achieve long-lasting relationships with both customers and suppliers. XANO must have a sufficiently large market share within each niche in order to be an interesting partner for both customers and suppliers.</p>
Market offering and operations	<p>ADVANCED TECHNOLOGY FOR SELECTED TARGET GROUPS</p> <p>XANO's market offering includes the manufacture and assembly of components, systems and associated services, as well as the development, manufacture and marketing of proprietary products. The Group currently has operations in the Nordic region, Estonia, the Netherlands, Poland, China and the USA. The units all work within well-defined niches and have a high level of expertise within their respective technical fields. Possessing such advanced technical expertise enables XANO to create added value for its customers.</p>
Core values	<p>EMOTIONAL AND FUNCTIONAL ADDED VALUES</p> <p>XANO's core values are entrepreneurial drive, long-term thinking and technical know-how. These form the basis for all decisions that can impact on the Group.</p>
Fulfilment of goals	<p>RESULTS EXCEEDING STATED FINANCIAL GOALS</p> <p>The Group's organic growth stood at 4%, while acquisitions contributed a further 1% in sales during 2020. The profit margin rose from 9.9 to 11.2%. The equity/assets ratio was strengthened from 38 to 42%.</p>





CEO REFLECTIONS

2020 was a very special year. The coronavirus pandemic and its effects dominated the global news flow. Lockdowns, guidelines and recommendations limited both the commercial sector and private life. Our business model was put to the test and proved to be sustainable in times of challenges. Thanks to committed corporate management teams and employees, we succeeded in implementing adjustments rapidly as new circumstances arose. As a result, we did well in terms of both earnings and financial position. Our employees' health and safety were our primary concern, however. Measures for making the working environment as safe as possible, as well as stricter cleaning and hygiene procedures and restrictions as regards visits, were quickly put in place. Short-term sick leave among our personnel increased slightly overall, but the proportion of sick leave is still below our guide value. In addition to monitoring illness numbers, we introduced procedures to safeguard our employees' health and wellbeing, including during temporary layoff periods and when working from home.

The pandemic has not shifted our focus from our core issues, rather it has reinforced it. Our work on employer branding is continuing. Access to skilled personnel and a healthy working environment in every respect

are preconditions for continued development. Several of our companies have grown during the year and have been successful with recruiting new staff, as well as in terms of retaining their existing employees. Leadership plays a key role in this context. The leadership programmes that have been implemented within the framework of XANO Academy have provided the Group's managers with good tools in their day-to-day work of developing both individuals and groups. Our aim is to have an atmosphere that is steeped in commitment and innovation, which strengthens both the individual employee and each company, and thereby also the Group as a whole.

The climate we want to achieve at the workplace affects our view of long-term sustainable business, which is another of our core issues. For us, this concept largely relates to excellent relationships, development and innovation. We have to be able to rely on our suppliers making sustainable choices, at the same time as living up to our expectations as regards quality and delivery reliability. Our customers and other stakeholders must, in turn, be sure that we are working to achieve constant improvements in our operation. This includes everything from a good working environment and sorting waste at source to using new technology and materials in our

production that have the least possible impact on the environment.

In recent years, we have come a good way along the road in our digital transition in a number of areas, and this fact has supported us over the past year. One example of this is that, despite more than halving our volume of travel, we have still grown organically, which means that we have succeeded in developing collaborations as well as generating new business remotely. From an environmental perspective, less travel means reduced emissions, although we would obviously rather achieve improvements through well-planned, long-term measures. With extensive installations and servicing assignments right across the world, travel restrictions and the risk of travel restrictions have accelerated the transition to connected and virtual systems. For example, digital solutions mean that our customers can approve equipment prior to delivery without the need for physical visits, and that installations at customers can be carried out remotely to some extent. The technology is providing us with fantastic opportunities, although we are looking forward to new meetings with the people behind the machines.

Lennart Persson
Managing Director and CEO

OUR SUSTAINABILITY WORK

SUSTAINABILITY FOR XANO

Our financial goals for the Group are an annual organic growth above the general market trend, a profit margin of at least 8 per cent and an equity/assets ratio exceeding 30 per cent. In order to achieve profitable growth, it is necessary to employ sustainable enterprise through resource optimisation and efficiency at every stage. A sound corporate culture, a health working environment and committed employees are the preconditions for development and success. This is the core of the Group's operations and at the heart of sustainability for XANO.

SUSTAINABILITY WORK

Since our first sustainability report, which related to 2017, we have introduced a number of Group-wide procedures aimed at systematising the work and reinforcing corporate governance in respect of sustainability. We wanted to obtain a combined picture of the sustainability activities in our companies, and we developed a central sustainability policy that all the units implemented. At the same time, we launched the process of incorporating the sustainability aspects in each Group company's business plan. In 2018, the Board of Directors adopted a sustainability strategy that describes the overall focus of the ongoing work. Furthermore, directional goals were formulated relating to improvements with selected areas in respect of personnel and the environment. The task for the individual Group companies is, on the basis of the common guidelines, to formulate their own quantified goals regarding materiality and business benefits.

Tangible sustainability activities during the year have been focused on those issues that the Group companies themselves and their respective stakeholders consider to be most pressing, according to implemented analyses.

At Group level, we have further developed the follow-up process and clarified the procedures regarding reporting data in respect of selected sustainability indicators.

The plan for 2021 involves Group-wide training programmes for CEOs and sustainability coordinators, including a review of the methodology for stakeholder, risk and materiality analyses. We will also continue to improve our reporting procedures, with the aim of simplifying the process and improving the reliability of the data that is collected.

THE XANO SPIRIT

Our core values – entrepreneurial drive, long-term thinking and technical know-how – characterise the XANO spirit, which is based on the Group's origins in the southern Swedish province of Småland. The most important common denominator for the Group's companies is entrepreneurial spirit with a strong drive. The companies have flat organisations with rapid decision-making paths and short times before arriving at solutions. Leadership is down-to-earth and close at hand, and specifies clear demands for the involvement of all employees. The working climate and stakeholder relations are characterised by openness and a high ceiling.

We believe that strong relations lead to success, which is the reason behind our long-term investment in our companies. This provides each unit with opportunities to develop its own resources optimally. With genuine technical know-how, we also have the conditions to develop and use new machinery and methods in a manner that contributes to more efficient manufacturing and sustainable products.

DIVISION OF RESPONSIBILITY

All employees in the organisation are covered by our shared responsibility for the Group's

sustainability work. We all have to take part and contribute to sustainable development.

From an organisational perspective, the Board of Directors is responsible for the preparation of the sustainability report. Furthermore, the Board is responsible for the goals, vision and strategy linked to XANO's sustainability work and, together with the Group management, also for the sustainability policy.

The Group's CEO has ultimate responsibility for compliance with the sustainability strategy, and the Group-wide sustainability work is conducted by the Group management. In conjunction with the annual business plan process, the responsibility for producing a company-specific sustainability strategy as well as for the fulfilment of goals is delegated to each company's CEO, who is also responsible for ensuring that the sustainability policy is followed. At the request of each company's CEO, managers and employees are responsible, within the framework of their area of responsibility and their authorisation, for the preparation and implementing of action plans as well as the following up of goals. Each Group company has also appointed a sustainability coordinator, who is responsible for e.g. reporting quarterly data.

POLICIES, GUIDELINES & PROCEDURES

XANO's sustainability work is based on the Group's sustainability policy. This is based on the UN's Global Compact, which encompasses ten principles based on the UN's Declaration of Human Rights, the ILO's fundamental conventions on human rights at work, the Rio Declaration and the UN's Convention against Corruption.

Since 2014, a Group-wide code of conduct describing in general terms the rules that apply to the Group's companies and

Our significant sustainability

issues are:

- Climate emissions
- Energy consumption and energy type
- Material consumption
- Waste management
- Employer branding
- Quality
- Financial results

employees was adopted. The code is based on the UN's Global Compact, the UN's Convention on the Rights of the Child, the Swedish Anti-Corruption Institute's economic code, national legislation as well as basic environmental, health and safety requirements. All employees should study this, and the aim is for it to be part of all employment contracts in the long term.

We have had a Group-wide supplier code since 2018. Our goal is for all the long-term suppliers of each Group company to sign this as part of the business agreement, or to have their own code containing values that correspond with ours. An initial interim goal was for the 20 largest suppliers of each Group company to have approved the code by the end of 2019, although this was not achieved in full. This work has continued during 2020, but there is still a little way to go before reaching the goal.

The Group's companies have a number of business-specific policies, guidelines and procedures that are based on the Group-wide code of conduct and that reflect the values established therein. Company-specific policies exist in areas such as communication, working environment, the environment, equal treatment and anti-corruption.

SUSTAINABILITY CONTROL

Every year, the Group's companies draw up a business plan for the upcoming three-year period, and since 2018 these have included separate strategies, action plans and goals for sustainability work. As part of the work on the business plan, the individual businesses must conduct a SWOT analysis (strengths, weaknesses, opportunities and threats). Key performance indicators are defined and target values are set on the basis of the results of the SWOT analysis. After this, the work begins on the strategy aspects of the business plan.

Based on the strategy, an action plan is drawn up along with a forecast for the next three years.

The Group management approves and continually monitors each Group company's business plan. A report plan controls the companies' reporting of e.g. financial and sustainability-related key performance indicators. We have further developed our follow-up procedures during 2020, for example by creating a digital platform for the provision of information and reporting. This work is continuing to create an ever-better structure, which is simplifying the process and improving the reliability of the data that is collected. Our aim is to achieve standardisation without controlling the activities in detail. Each unit must take individual responsibility and be motivated to achieve its goals.

RISK MANAGEMENT

Within the Group, there is a systematic working method for identifying, preventing and rectifying risks in various areas. The companies work actively and in a structured manner on risk management, based on the individual operation's business plan and its specific circumstances. Both operational and strategic assessments are carried out, based on a risk matrix. The existing management of risks is documented and action plans are drawn up in those cases where additional efforts are required.

A due diligence process is normally carried out in conjunction with acquisitions, covering areas such as the charting of potential risks.

Separate risk analyses are performed for challenges specifically linked to sustainability. This year's work, like last year's, demonstrates that most of the Group's companies consider that a shortage of expertise is the most significant operational risk to their business. Activities related to employer branding conse-

quently remain a high priority. At Group level, IT security is also deemed to be an area where preventive work is essential.

The 20 largest suppliers of each Group company have been evaluated and assessed on the basis of a number of environmental, social and economic risks. The risks that were analysed included working conditions, business ethics, collaboration with suppliers, environmental risks, human rights, production, as well as transport and distribution. The companies that identified suppliers with high risks are continuing to work on various measures to reduce the risk levels. New risks may also have arisen in conjunction with the coronavirus pandemic, and this will be taken into consideration over the next year. On the whole, the Group's companies are encouraged to maintain systematic and continual supplier monitoring. One important goal is for all suppliers to sign up to the common code of conduct that was implemented in the Group during the previous year, or alternatively to demonstrate their own equivalent code with corresponding requirements.

In most of the Group's companies, the work is supplemented with risk management through internal audits and certification processes such as ISO 9001:2015 and ISO 14001:2015, where demands are stipulated regarding the management's awareness of risks. Working environment-related safety rounds are conducted linked to health, safety and the environment, and environmental aspect lists are drawn up.

MANAGEMENT SYSTEM FOR INCREASED EFFICIENCY AND CONTINUITY

Quality is an essential sustainability aspect for the Group. Quality is also a key concept within each operation. This relates to satisfying requirements from customers and observing



financial considerations, as well as ensuring product safety and minimising environmental impact. For our companies, the quality issue is a standing item on the agenda. Quality policies and quality manuals exist to provide support in the day-to-day work.

The majority of the Group's companies are certified in accordance with ISO 9001 (quality management system) and ISO 14001 (environmental management system). These companies have identified the working method as an important factor from a sustainability and competition perspective.

The Group also holds certifications within specific areas, such as medical technology according to ISO 13485, welding standards according to ISO 3834, deliveries to the automotive industry according to ISO/TS 16949 and working environment according to OHSAS 18001.

Working in accordance with these management systems can produce several benefits, such as:

- Involved personnel.
- Lower consumption of materials and reduced energy usage.
- Proactive and systematic working methods.
- Higher productivity.
- Cost savings.

By complying with the standards, the companies gain a longer-term perspective and it is easier for them to focus on both quality and

environmental activities in order to achieve improvements.

There are no central demands placed on Group companies regarding the implementation of quality and environmental management systems. The companies that are not certified have judged that their processes correspond to applicable requirements in the management systems.

Customer audits are also carried out continually within certain areas, thereby achieving further process assurance of the business.

HUMAN RIGHTS

XANO respects and supports human rights. The basic idea behind the concept is that people are born free and that all people are of equal value. This includes the rights of children and women, the right to health and education, as well as the right to be free from discrimination.

XANO works to identify, prevent and rectify risks such as unwanted behaviour linked to human rights. The Group is represented in the Nordic region, Estonia, the Netherlands, Poland, China and the USA. Against the background of geographic location, there are various types and degrees of risks associated with human rights. Due diligence procedures in relation to new acquisitions and the evaluation of suppliers are examples of control activities that incorporate human rights.

INVOLVEMENT OF STAKEHOLDERS

XANO is endeavouring to achieve strong, long-term relations with all stakeholders that are characterised by sensitivity to the various needs and requirements raised. Our charting of stakeholder involvement in the Group's companies shows that they all conduct regular dialogues with employees, customers and suppliers. The majority of the companies also have ongoing contacts with the local community, usually the municipality. More than half of the companies have regular dialogues with business partners and other players in the sector. There is less dialogue with politicians, authorities and trade organisations.

A compilation of the results from stakeholder analyses implemented with the Group companies' respective employees, customers and suppliers shows that the five most important sustainability aspects for these stakeholders were as follows:

- To create a secure, safe and healthy workplace.
- To optimise material consumption and minimise waste.
- To reduce climate emissions from the business.
- To develop innovative products and use new technology.
- To reduce energy consumption.

The stakeholders were also given the opportunity to give their opinions on how well the



Group has communicated its sustainability work. This input provided us with a focus in the work of better highlighting our activities and involving our stakeholders.

During the spring of 2021, new training sessions are planned for the CEOs and sustainability coordinators of the Group companies, along with our partners in sustainability issues. Since our previous Group-wide review in 2019, we have acquired two new companies as well as new coordinators. Furthermore, a great deal has happened both within the Group and around us since then. The training will focus on business intelligence and the Group's core issues, as well as on how risk, stakeholder and materiality analyses should be implemented and followed up.

Interest in sustainability issues and the importance of working to achieve constant improvements from a sustainability perspective is continuing to increase. We welcome this interest and the demands that are placed on more sustainable enterprise throughout the entire value chain. One of our goals is to satisfy our stakeholders' wishes without compromising on either quality or our financial goals of growth and long-term stable profitability as a result. The Group's sustainability work is focused on the areas where we have the greatest potential to influence events and thereby achieve the most positive effects by balancing sustainability aspects and business goals.

EFFECTS OF THE CORONAVIRUS PANDEMIC

The coronavirus pandemic has had a limited impact on the Group overall. For individual companies and employees, however, the effects have been significant. For example, local official decisions and lockdowns within various industrial segments led to temporary layoffs to varying degrees. In order to safeguard the working environment and comply with the guidelines and recommendations issued by each country's authorities, a number of safety measures were introduced. New hygiene procedures were established. The companies were closed to all visits that were not absolutely essential, with strict rules being applied to any visits that were allowed. Initiatives included rearranging shifts and breaks in order to maintain distance at the workplace as well as to spread the load in common areas. Personnel were asked to work from home wholly or in part wherever possible, and digital meetings became standard. All in all, the demands placed on our organisations were entirely different from those we normally face, and this challenged our business model. Applicable travel restrictions limited our potential to meet customers and other stakeholders, as well as to carry out installations and servicing assignments. The pandemic has resulted in changes to the nature of our collaborations. By means of an explicit focus on marketing, we have

nevertheless managed to advance our positions and achieve organic growth. In addition, two corporate acquisitions have been completed during the year. A high degree of digitalisation and a focus on technical development provided us with a good foundation for the restructuring work carried out during the year. The entrepreneurial spirit in our companies provided the driving force. From an environmental perspective, the fact that business travel has been more than halved during the year has been positive. However, our desire is to achieve improvements through planned measures and long-term work. ■



CIRCULAR ECONOMY IN PRACTICE

“Through Nordic Plastic Recycling, we are taking responsibility for recycling our products. The long-term goal is to be able to offer all our customers circular economy in practice,” says Dag Eirik Thomassen, CEO of Cipax in Norway.

PRODUCER RESPONSIBILITY

During 2016, Cipax became a co-owner in a Norwegian collaborative project, which is now marketed under the name Nordic Plastic Recycling. The operation is run along with colleagues in the industry, and is intended to handle the recovery of the involved companies’ own products and increase the recycling of plastic materials. For Cipax, this initially relates to dealing with the boats that the company manufactures and markets under the Pioneer and Steady brands, once they have reached the end of their service life.

“We will take control of the entire value chain, which is our responsibility as a producer and also part of our long-term sustainability work. Our products are 100 per cent recyclable, but the infrastructure, technology and expertise required for accepting and recycling them do not exist at present. We will

change this through Nordic Plastic Recycling,” says Dag Eirik.

TAKING BACK BOATS

It should be easy for the customer to return their boat for recycling, and for this reason Cipax is working to expand its network of business partners in order to get closer to customers in purely geographical terms. However, stringent demands are being placed on these partners’ ability to sort the materials into the correct fractions. “It is important for our partners to possess this expertise, as the biggest challenge at the moment is access to recycled material of a high and even quality,” says Dag Eirik.

During the recycling process at Nordic Plastic Recycling, the recovered material is sorted into two different fractions with separate production lines.

“The material that is of a sufficiently high quality that we can use it again in our own manufacture of rotational-moulded products has a separate, isolated production line. Scrapped products made of other recyclable materials end up in fraction number two, which we can use for other production methods. We naturally place very high demands as regards quality, and carry out quality tests continually on the recycled material before it can go back into production.”

SUSTAINABILITY CONSIDERATIONS IN EVERYTHING WE DO

Future customers will not be satisfied with the product they buy simply being made from a material that is 100 per cent recyclable. They also want to know that the circularity will continue once the product has reached the end of its service life. “They want to feel



secure in the knowledge that scrapped items will be taken back by us producers and then be used in the cycle again. Our customers expect us to close the circle," says Dag Eirik, continuing:

"It is important for us as a producer to play an active role in the entire life cycle of the product and to consider sustainability in everything we do – from product design to production and recovery. As new environmental directives from the EU enter into force, producer responsibility will be further tightened. Through the activities conducted within Nordic Plastic Recycling, we have positioned ourselves at the absolute forefront in this respect."



ABOUT NORDIC PLASTIC RECYCLING

Nordic Plastic Recycling is an industrial player that promotes the circular economy by developing sustainable solutions for the recovery and recycling of plastics. The market can return scrapped products for recycling through this establishment, and the Nordic players in the plastics industry have the potential to return waste from their own production operations. The initiative will also contribute to a reduced environmental impact through greater resource efficiency and reduced extraction of raw materials. Nordic Plastic Recycling AS was established at the end of 2016.



ACCEPTING ENVIRONMENTAL RESPONSIBILITY

The companies in the XANO Group are manufacturing industries with operations that lead to various kinds of environmental impact. The main impact occurs as a result of the use of energy and materials, although the occurrence of waste and generated climate emissions also entail a load on the environment. The Group also sees risks principally in respect of access to more sustainable materials from an environmental perspective, as well as the potential to make adjustments in accordance with the UN's sustainability goals. In order to manage these risks, the Group's companies are constantly working to improve their environmental performance.

GOVERNANCE AND GOALS

The Board of Directors has determined three directional goals that will constitute the foundation for the Group companies' work on improvements in the environmental field. Each unit must work actively on environmental issues and set up its own quantitative environmental goals. By means of a systematic follow-up procedure, the companies must report each year how well their environmental work has progressed, as well as what needs to be done over the next year to reduce the environmental load. Ongoing reconciliation is performed in conjunction with the standard following-up of results in relation to business plans. Supporting data for key performance indicators is gathered quarterly.

XANO's directional targets regarding the environment:

- Reduced amount of waste that cannot be reused or recycled
- Reduced energy consumption
- Lower climate emissions from energy usage and transport

Our selected measurement areas are initially waste, energy consumption and climate emissions. The Group's overall, long-term objective is for all environmental impacts to be minimised. Bearing in the varying nature of the Group companies' operations and the varying degree of maturity of their sustainability work, no general or absolute target values have been determined yet. Directional goals have been formulated for the Group instead, and on the basis of these the subsidiaries set their own quantified goals with the focus on those areas where the greatest sustainability and business benefit can be achieved. The Group's sustainability policy constitutes the foundation for the environmental work of the individual companies. The policy specifies that the Group's environmental impact must generally be reduced through active choices of materials, processes and transport. The companies with ISO 14001 certification also have their own environment-related policies and procedures, as well as carrying out audits on an ongoing basis to ensure that these are being followed.

WASTE

As manufacturing companies, we have an environmental responsibility, not only to ensure that the production processes live up to stipulated requirements, but also regarding what happens with waste material during manufacturing and finished products when they reach the end of their service life or are taken out of use for some other reason.

Hazardous waste must be minimised and materials must be recycled as much as possible. The companies are continuing to focus on quality work in order to reduce the amount of wastage and scrapping, as well as to replace traditional materials with alternatives that have a lower environmental impact. For plastic products that are manufactured in the Group, a project for circular handling is in progress. A host of other, smaller-scale activities include improved sorting at source, the reuse of packaging and digitalisation projects to reduce the paper flow.

FUTURE ACTIVITIES

The work is continuing aimed at increasing the degree of sorting, as well as improving procedures and processes in the quality work to ensure reduced scrapping and the optimisation of material consumption. A review of preparation and production processes is being conducted with the aim of minimising the amount of waste, particularly in respect of hazardous substances.



ENERGY CONSUMPTION

Energy is required in order to run the businesses' production processes. Lower energy consumption, in addition to a reduced environmental footprint, also produces costs savings at the same time as strengthening the companies' sustainability profile.

To date, detailed energy surveys have been conducted in six of the Group's Swedish units, with one being completed during the year. These units are responsible for the majority of the energy consumption in the Group's Swedish companies.

The energy surveys have led to the implementation of a number of specific measures, which have resulted in energy savings and reduced carbon dioxide emissions.

The ongoing energy efficiency work includes energy recovery from our own processes as well as environmentally aware choices when replacing e.g. light sources and investing in new machinery.

CLIMATE EMISSIONS

Energy consumption for heating/cooling premises, lighting and the operation of production equipment in the Group's companies constitutes the biggest source of greenhouse gas emissions (primarily carbon dioxide). The transport of goods and business travel by car and air are other areas that we have identified as significant sources of emissions. A large proportion of the Group's manufacturing takes

place in our own properties in Sweden and Norway, countries where energy production to a large extent comes from renewable sources, which means that the consumption thereby generates relatively low climate emissions. The Group's companies report quarterly emissions data related to energy consumption and transport. This data is based to a large extent on information from energy suppliers, transport companies and external travel booking systems. The completeness of this information varies. We have developed our procedures since the introduction of Group-wide information gathering, and during the year we have further clarified our guidelines for creating homogeneity and continuity in the reporting of sustainability data. As from 2020, the Group reports emissions in accordance with the standard drawn up by the Greenhouse Gas (GHG) Protocol Initiative. This means that emissions from business travel using vehicles controlled by companies, transport using private vehicles and the consumption of gas and oil for heating are reported in Scope 1. Emissions from the use of purchased energy for electricity and the heating of premises are reported in Scope 2. Emissions related to the transport of goods by an external party as well as business travel by air come under Scope 3.

Constant improvements are being made in respect of energy efficiency to achieve reduced energy consumption and lower climate emissions. Automatic and more

energy-efficient lighting, improved procedures regarding starting/stopping energy-demanding processes and the recovery of heat are examples of measures that have been implemented during the year.

FUTURE ACTIVITIES

The Group's companies will continue to conduct ongoing supervision of energy efficiency, for example in order to identify and eliminate energy leakage as well as to make better use of surplus energy within our own operations. Sustainable material choices and the use of new technology that entails a reduced impact on the climate are high up on the agenda. When it comes to materials, we need to extend our knowledge about the possibilities that exist, so that we can become skilled in respect of placing demands on our suppliers. ■



ENVIRONMENTAL INDICATORS

CONDITIONS

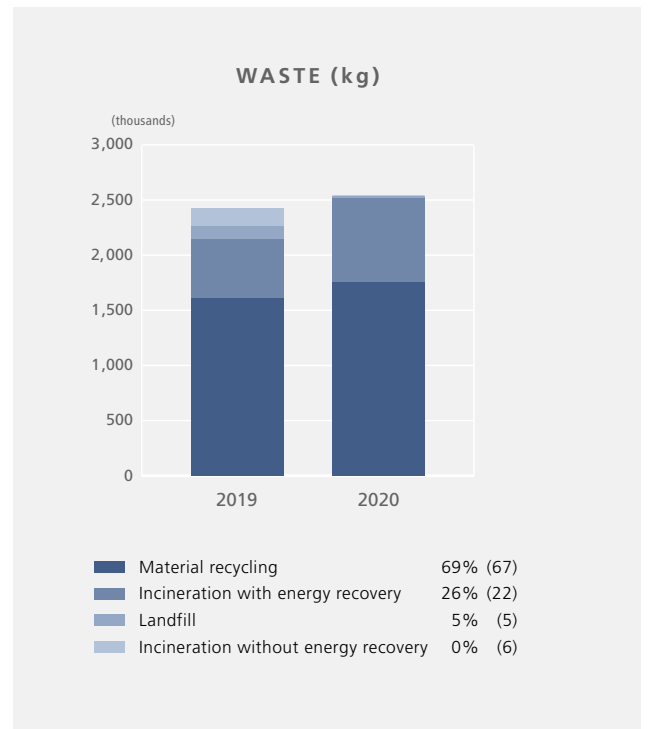
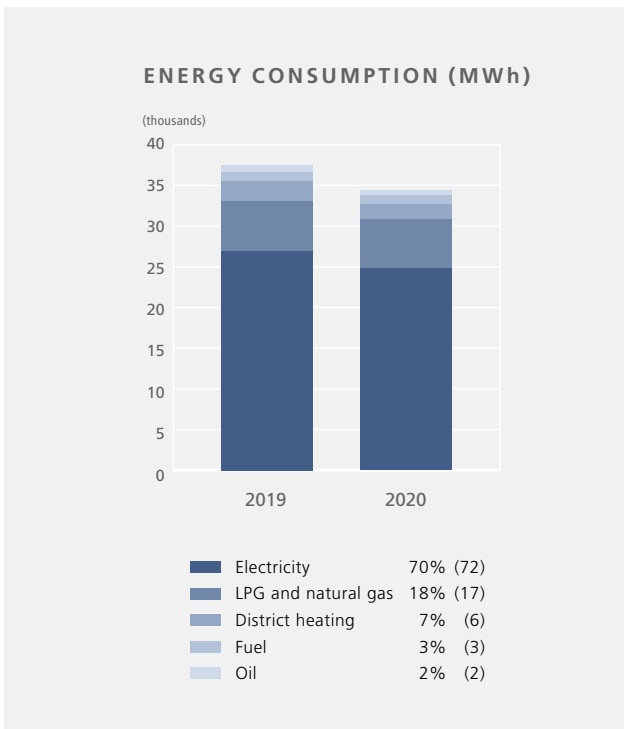
The basic preconditions for our measurement of improvements in respect of the environment are that all Group companies report data quarterly regarding waste, energy consumption and climate emissions based both on in-house systems as well as information from suppliers. This data is compiled and reviewed internally at Group level. In conjunction with this, internal checking of calculations is also carried out. Comparisons with previous periods are performed both with regard to

total volumes and in relation to sales. When calculating indicators regarding sales, the comparison period's amounts are converted to the relevant period's average exchange rates. Newly acquired companies are included in those cases where data is available, and on a whole-year basis.

WASTE

Our basic aspiration is to ensure that the Group's operations generate a minimum of waste. The waste that nevertheless results

from our activities must be dealt with by reputable recycling companies to ensure that material handling is as circular as possible. Compared to the previous year, the total amount of waste from our operations increased by almost 5 per cent. In relation to sales, however, the amount of waste decreased by 1.6 per cent. The proportion of waste submitted for material recycling increased from 67 to 69 per cent.





KEY PERFORMANCE INDICATORS	Net sales	Operating profit	Operating margin	Profit before tax	Employees
Segment	SEK m	SEK m	%	SEK m	average no.
Industrial Products	551	76	13.8	69	288
Industrial Solutions	1,345	170	12.6	159	572
Precision Technology	345	56	16.3	54	186
Parent company, eliminations	-2	-28	-	-31	9
Total	2,239	274	12.2	251	1,055

GREENHOUSE GAS EMISSIONS	Scope 1			Scope 2	Scope 3		Total
Segment	Business travel by car	Own transport	Gas and oil consumption	Electricity and district heating	External transport	Business travel by air	tonnes CO ₂ e
Industrial Products	50	43	1,224	3,637	527	5	5,486
Industrial Solutions	101	63	131	1,337	909	199	2,740
Precision Technology	10	13	102	376	17	0	518
Parent company	6	0	0	0	0	1	7
Total	167	119	1,457	5,350	1,453	205	8,751

ENERGY CONSUMPTION

Reporting in respect of energy consumption includes electricity, district heating, gas and oil for operation, heating, cooling and production processes, as well as fuel for travel and transport using our own vehicles. Consumption linked to business travel by car is based on mileage. The conversion to energy is performed using a flat rate based on a precautionary principle, which means that we use an average fuel consumption that, in most cases, exceeds the information in the car manufacturers' climate index. Over the past year, our total energy consumption fell by 7.5 per cent. In relation to the Group's annual sales,

the decrease was almost 13 per cent. Overall consumption has been affected by general efficiency improvements, although the largest single item is related to production stoppages in the Industrial Products business unit during the spring. Passenger journeys have more than halved during the year, although this is only having a limited effect, as the segment represents a small proportion of the Group's total energy consumption.

GREENHOUSE GAS EMISSIONS

As from 2020, our measurements in respect of greenhouse gas emissions are following the standard according to the Greenhouse Gas

(GHG) Protocol and are reported in Scopes 1, 2 and 3. Scope 1 covers climate emissions from vehicles controlled by companies that are used for business travel and the transport of goods, as well as the consumption of gas and oil for electricity, heating and production processes. Emissions from purchased electricity and district heating are reported in Scope 2. Reporting in accordance with these scopes is obligatory under the GHG Protocol. We have also opted to report emissions related to the external transport of goods and business travel by air in Scope 3. The climate impact attributable to purchased material is not included. ■



OUR FUTURE LEADERS

Within the framework of XANO Management School, a programme is currently under way encompassing 40 of the Group's employees holding key roles within sales, quality and HR. In parallel with the training, 19 different projects have been conducted within those areas on which the programme focuses.

XANO Academy is the Group's internal training hub. The purpose of the academy is to strengthen and profile XANO as an employer, to invest in employees, to facilitate a platform for internal networks, to achieve increased competitive advantages and to create a forum for the communication and implementation of XANO's core values.

The development programmes that are conducted within XANO Academy normally run over twelve months and are divided into a number of two-day modules. The content is adapted according to the target group's structure and skills requirements.

Since the start, nearly 200 employees have completed courses within XANO Academy. In October 2019, the XANO Management Program was launched for employees in various leading roles within sales, quality and

HR. Two groups with a total of 40 participants are immersing themselves in various subjects, which will strengthen them both in their respective professional roles and as people.

The ongoing programme within XANO Academy covers topics such as leadership, employer branding, strategy and digitalisation. The training was planned to be completed after the summer of 2020, but the coronavirus pandemic has resulted in a postponement of the timetable, with examinations taking place in 2021 instead. A significant proportion of the final module covers the reporting of projects that have been run within the framework of XANO Management Program. Using digital presentations, the participants have reported their work to their respective company's managing directors as

well as to the Group and business unit management teams. A brief description of three of these projects can be found opposite.

The purpose of XANO Management Program is to create networks between Group companies. Through a common understanding of the Group's business opportunities and the way in which new economic value is generated, each company is being given the optimum conditions for development and long-term profitability. Examples of topics that are covered include leadership and group dynamics, brand building, strategic analyses in order to understand in depth all parts of the business and to identify core skills, integration of Industry 4.0 in the business plan, increasing digital maturity and driving the process of change. ■



XANO MANAGEMENT PROGRAM

AFTERSALES

The purpose of this projects is to further strengthen long-term customer relationships. By being part of the customer’s overall value chain – from development and initial purchase to servicing and repeat purchases, the company can develop into a complete service provider and a valuable partner in long-term collaborations.

In order to achieve this goal, the servicing portfolio has been systematised at the same time as relationships with customers have been revised. The company has shifted from simply being an equipment manufacturer to offering services that add value for the customer throughout the entire assignment process.

CORE EXPERTISE

The aim of the project is to find a model that identifies, develops and uses the company’s core expertise to generate a market-leading position within selected business areas. The company operates in a technically demanding niche and developments progress rapidly. Investments in production technology for new processes and a higher level of knowledge are required in order for the company to remain competitive. At the same time, a shift is taking place in the corporate culture, from being a production and technology-oriented organisation to becoming market and customer-directed. This entails ensuring that all the functions in the company understand that the focus is on the needs of the customer, both now and in the future.

INDUSTRY 4.0

Developments within digitalisation, AI and automation are moving ever faster. What is required in order to achieve competitive advantages in the future? How can the company remain sufficiently flexible to adapt to a data-driven information stream that is growing with every passing day? The project relates to smart manufacturing through an increased understanding of the many challenges and opportunities that the company may encounter in its future development. The company’s strategy will focus on utilising available resources for those activities that are deemed capable of contributing most in respect of increased competitiveness on the market, which in turn generates profitable growth.

ACCEPTING SOCIAL RESPONSIBILITY

Our acceptance of social responsibility relates to assuming responsibility for employees and ensuring that each individual has a good working environment with regard to both physical and psychosocial factors. The stakeholder analyses that have previously been carried out demonstrated that our customers and suppliers also consider a secure, safe and healthy workplace to be one of the most important sustainability issues for our Group.

Furthermore, the social aspects of sustainability relate to assuming responsibility for people in, and the development of, the local community in which the Group's companies operate.

ATTRACTIVE EMPLOYER

There is considerable competition for resources on the labour market, particularly within the manufacturing sector. Our ambition is for all the Group's companies to be attractive employers with a good reputation on the labour market, as well as to have a strong and attractive employer brand.

A lack of access to skilled personnel is at the top of the list of sustainability risks in many of our companies. Employer branding has continued to be one of the Group's

areas of focus, with the explicit goal of each company carrying out at least one activity every year aimed at strengthening their brand as an employer.

The Group's employer branding work covers issues and activities linked to how the Group's companies are viewed as employers by current, future and former employees. On the basis of strategies established in the Group companies' business plans, we are now working in a structured manner within several different areas with the aim of attracting, recruiting, motivating and retaining personnel. This includes activities such as increased transparency in relation to employees, for example with the aim of promoting participation, wellness initiatives, employee surveys and both general and targeted training efforts.

LEADERSHIP

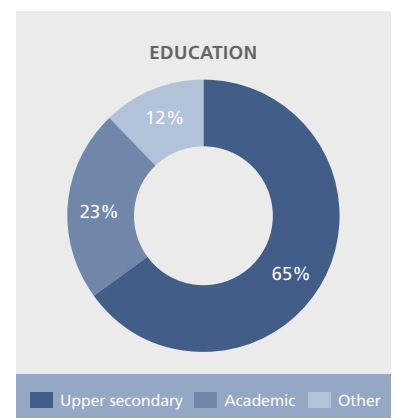
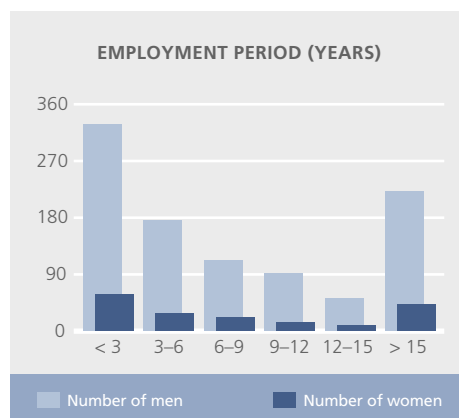
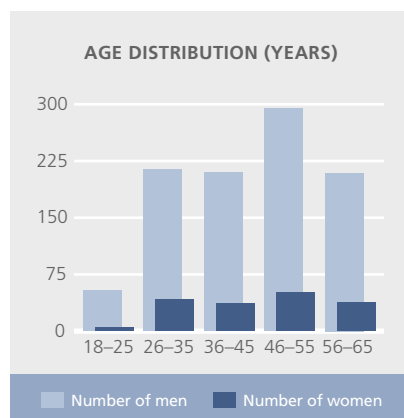
Committed and responsible employees create the conditions for a sustainable operation. In order to achieve this, we need skilled leaders who can see the potential that exists in both individuals and groups. For us, it is a matter of building long-term, healthy relationships, where leadership becomes a tool for achieving

goals, resolving tasks and producing results. Against this background, we are working actively with leadership issues and skills development.

SKILLS DEVELOPMENT

Our objective is for all employees to possess the correct skills. The Group's companies are constantly striving to build on the knowledge of their employees, for example through training programmes within XANO Academy. In total, the investment in training activities in 2020 amounted to SEK 3.4 million, giving an average value per employee of approx. SEK 3,250 and entailing a decrease of 12 per cent compared to the previous year.

In October 2019, the XANO Management Programme was launched for employees in various leading roles within sales, quality and HR. Two groups with a total of 40 participants are looking in greater depth at topics such as leadership, employer branding, strategy and digitalisation. This training was planned to be completed in the late summer of 2020, but the programme has been extended as a result of the coronavirus pandemic. Examinations are being conducted in 2021.



WORKING ENVIRONMENT

We have a responsibility to secure a good working environment for our personnel from both a physical and a psychosocial perspective, and to ensure that nobody sustains injuries at work.

We therefore work actively and systematically to improve our working environment. The working environment is constantly being evaluated and risks are constantly being assessed. Measures are implemented if necessary and then followed up to ensure that they have produced the intended effect.

Examples of preventive initiatives in relation to ill health include the companies in the Group supplying healthcare benefits to their employees, as well as the fact that the majority of the Group's companies are affiliated to occupational health services where personnel are offered regular health checks and, if necessary,

rehabilitation measures.

Historically speaking, the absence figures resulting from illness have remained at a low level in the Group's companies. Following focused initiatives relating to e.g. wellness in various units, the share of short-term sick leave fell in previous years while the corresponding figure for long-term sick leave rose. During 2020, the latter fell, while short-term absence increased. No full analysis has been completed, although the recommendations relating to the coronavirus pandemic ought to have contributed to more employees taking sick leave for short periods as a precaution. Following-up is being carried out in units reporting deviating values.

SAFETY IN THE WORKPLACE

Safety awareness and good safety behaviour at the workplace in general and specifically

in production are of the utmost importance within the Group. The safety of the employees is the priority. The companies must have equipment that eliminates the risk of injuries and facilitates demanding work procedures, for example. Safety regulations and procedures must be drawn up and complied with. Any accidents and near-accidents must be reported and investigated, to ensure that the preventive work can be continually improved.

EQUALITY

Equality means women and men enjoying the same rights, obligations and opportunities in all areas of life. At workplaces within the manufacturing sector, it is still difficult generally speaking to achieve an even gender distribution among employees. For many years, the proportion of men employed in the Group's companies as averaged above



KEY PERFORMANCE INDICATORS PERSONNEL

		2020	2019
Average number of employees ¹⁾		1,055	1,085
– in Sweden		534	530
– in other countries		521	555
– women		155	158
– men		900	927
Average age, women ²⁾	years	41	44
Average age, men ²⁾	years	45	44
Average employment period, women ²⁾	years	8	7
Average employment period, men ²⁾	years	8	7
Absence due to illness	%	4.8	4.5
– short-term	%	3.3	2.0
– long-term	%	1.5	2.5
– women	%	4.0	4.7
– men	%	4.8	4.2

¹⁾ Average number of employees during the period based on worked time. Employees who are covered by short-term work/temporary layoffs are only included to the extent that relates to actual worked time.

²⁾ Refers to employees at the end of the year.

XANO ACADEMY is the Group's internal training hub. The purpose of the academy is to strengthen and profile XANO as an employer, to invest in employees, to facilitate a platform for internal networks, to achieve increased competitive advantages and to create a forum for the communication and implementation of XANO's core values.

The development programmes normally run for twelve months and are divided into a number of two-day modules, the content of which is adapted according to the structure and skills requirements of the target group.

Since the start, 79 employees have attended training within XANO Production School, which focuses on various groups of production personnel. In addition, 16 employees with a sales focus have completed XANO Sales School and 90 managers have completed XANO Management School. A further 40 individuals will be completing the current leadership training course during 2021. ■



80 per cent. In the current circumstances, our equality work relates primarily to attitudes and values, in the first instance at the workplace, although also in our private lives. To ensure that nobody is discriminated on the basis of gender, all the companies' equality plans and personnel policies are continually evaluated and followed up.

XANO's directional targets for personnel:

- High skills development
- Low absence due to illness

VALUABLE DIVERSITY

For us, diversity is valuable – a good mix of people with a variety of experiences can increase innovation, creativity, efficiency and quality in our operations – in particular due to the positive effects on the working environment that result from greater diversity. A multi-faceted XANO also increases the Group's credibility in relation to other stakeholders. Having employees with varying knowledge and backgrounds provides the Group's companies with expertise and perspective that make it easier to understand the needs, demands and expectations of various target

groups and stakeholders. This in turn makes a valuable contribution to product development and service.

The Group's companies should be attractive workplaces where everyone is treated fairly and equally. For us, diversity means everyone having the same rights and opportunities, regardless of their gender, ethnicity, age, sexual orientation, transgender identity or expression, religion or other belief system or disability. Our diversity work is based on the Group's sustainability policy and code of conduct.

RESPECT AND OPENNESS

Each and every employee within the XANO Group is expected to treat colleagues and other people with respect. We are striving to achieve an open and permissive working climate, with zero tolerance of all forms of discrimination and harassment.

COMMITMENT TO SOCIETY

It is important and only natural for us to have broad social commitment. Many of our companies work in small towns where they play a significant role as an employer. Close contact with local residents and representatives from the authorities strengthens the role of these

companies locally and contributes towards mutual development. Examples of activities include collaboration with local authorities regarding employment for individuals with disabilities and the integration of new arrivals, as well as active membership in local business associations.

Several companies have organised collaborations with Swedish universities and university colleges. This exchange can include everything from taking in trainees and apprentices within the operation to participating in research and technical development projects. A healthy collaboration with schools can be very important in securing future skills provision. Taking part in job fairs and industrial seminars are other ways for Group companies to provide information about the business and establish contacts with potential employees.

Accepting responsibility for the local community can also take the form of supporting and collaborating with sports clubs. The Group's guidelines specify that children's and youth activities must be prioritised ahead of elite initiatives.

The ongoing work of extending relations and collaborations in the local area is a natural part of our social responsibility. ■



ACCEPTING FINANCIAL RESPONSIBILITY

In order to be profitable, it is important to use all your resources with care and to work efficiently at every stage. For many years, XANO has had a clear focus on long-term, profitable growth. The long-term approach permeates all parts of the business, and XANO therefore accepts responsibility for and helps to improve the society in which we are operating. Our social responsibility means that, as far as possible, we must ensure that our processes and products do not have a negative effect on people's health or our environment. By constantly adopting new technology and being at the forefront as regards product development, we aim to ensure that the Group's production has the least possible impact on health and the environment, at the same time as being conducted efficiently and profitably.

BUSINESS ETHICS

Good business ethics are a precondition for continued trust in stakeholder relations and long-term, sustainable commitments. Ethics is about doing the right things – respecting laws and paying tax in accordance with applicable regulations, as well as having zero tolerance of corruption.

We respect good business ethics and follow the rules of the Swedish Anti-Corruption Institute regarding the way gifts, rewards and other benefits associated with the business world may be used to promote operations. We actively choose business partners who stand for the same values.

A more structured working method for ensuring the acceptance of responsibility among suppliers was initiated during the previous year. Several of the Group's companies already had codes of conduct for suppliers as part of their business agreements. With the implementation of our Group-wide supplier code, the objective was for the 20 largest suppliers of each Group company to have accepted and signed up to this code at the latest by the end of the previous year. We have not managed to achieve this interim goal. The work is continuing, with our sights set on all long-term suppliers having signed up to our code of conduct or being able to demonstrate their own, equivalent set of requirements during 2021.

ANTI-CORRUPTION

Within XANO, there is zero tolerance of bribery and corruption. Based on the Group's

sustainability policy and code of conduct, we are working actively and consciously to combat corruption. Particular risk areas are identified in our work on internal control. Payment processes and other sensitive operations are continually reviewed and safeguarded. No cases of suspected corruption have been reported during the year.

For some time, the Group has been using an online, multilingual service for training in respect of anti-corruption. The initial requirement was that all employees with financial responsibility should undergo this training. As from the previous year, all personnel with any form of customer and/or supplier contact were also included in this preventive work.

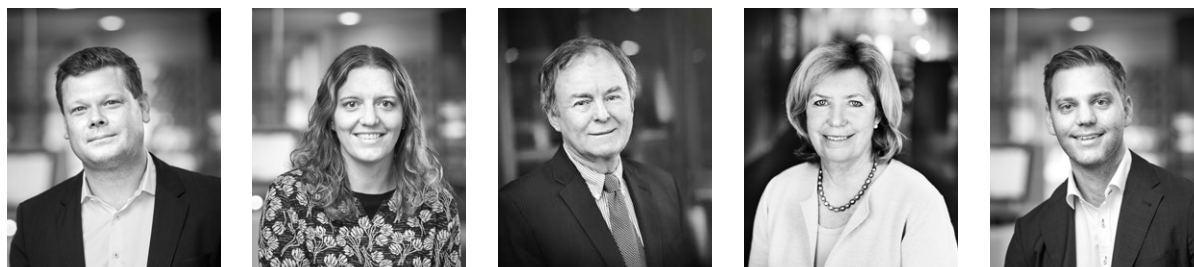
TRANSPARENCY AND OPENNESS

We are striving to achieve transparency and openness in all communication with both employees and the outside world, without breaching applicable regulations or jeopardising confidentiality in respect of business-critical and personal data. ■

DIVERSITY POLICY FOR THE BOARD OF XANO INDUSTRI AB (PUBL)

In its proposal to the Annual General Meeting regarding the choice of Board members, the company's nomination committee must take into account point 4.1 of the Swedish Code of Corporate Governance, using the most recently revised version which applies from 1 January 2020, which states:

"With the company's operations, phase of development, and other conditions taken into consideration, the board is to have an appropriate composition, exhibiting diversity and breadth in the directors' qualifications, experience and background. An equal gender distribution on the Board is to be an aim."



FREDRIK RAPP *born 1972*

Chairman elected 2004.

Principal education University, business studies.

Principal work experience CEO of Pomona-gruppen, CEO of Talk Telecom.

EVA-LOTTA KRAFT *born 1951*

Member elected 2012.

Principal education Graduate engineer, MBA.

Principal work experience Regional Manager at Alfa Laval, Head of Division at Siemens-Elema, Strategy and Marketing Manager at the Swedish Defence Research Agency.

ANNA BENJAMIN *born 1976*

Deputy Chairman elected 2016.

Principal education Master in economics and finance.

Principal work experience Project manager business development at ICA Sverige, Manager at PricewaterhouseCoopers, Controller at Nobina.

PETTER FÄGERSTEN *born 1982*

Member elected 2011.

Principal education Economics and Finance, Jönköping International Business School.

Principal work experience CEO of ITAB Shop Concept Jönköping.

PER RODERT *born 1953*

Member elected 2013.

Principal education Graduate in business administration.

Principal work experience CEO of INEV, CEO of Rörvik Timber, CEO and Finance Director of Munksjö.

The Sustainability Report for XANO Industri AB (publ) in respect of 2020 has been approved for publication by the Board.

Jönköping, 23 March 2021

Fredrik Rapp
Chairman

Anna Benjamin
Deputy Chairman

Per Rodert
Board member

Eva-Lotta Kraft
Board member

Petter Fägersten
Board member

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