

# Goals and strategies

## Overall goals

The Indutrade Group strives for continuous growth in selected geographic markets, product areas and niches while maintaining limited business risk. Growth is to be achieved organically as well as through acquisitions.

**THE GROUP'S OVERALL GOAL IS TO GENERATE SUSTAINABLE PROFITABLE GROWTH.**

### FINANCIAL TARGETS

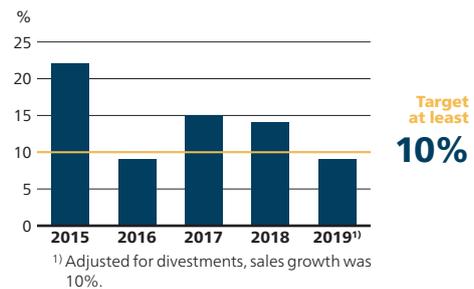
#### Sales growth

Average sales growth shall amount to a minimum of 10% per year over a business cycle. Growth is to be achieved organically as well as through acquisitions.

### TARGET ACHIEVEMENT

During the last five-year period, average annual sales growth was 14%. Net sales rose 9% in 2019. Adjusted for divestments, sales growth was 10%. The increase for comparable units was 2%, acquisitions contributed 7%, and the effect of divestments was -2%. Currency movements had a positive effect on net sales of 2%.

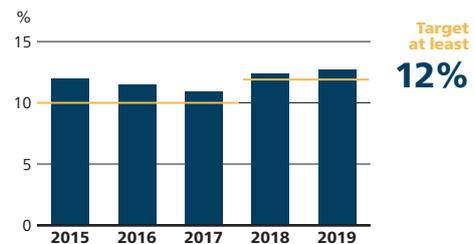
### HISTORICAL ACHIEVEMENT



#### EBITA margin

The EBITA margin shall amount to a minimum of 12% per year over a business cycle.

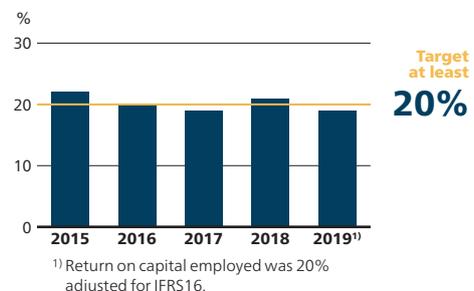
The EBITA margin has averaged 11.9% over the last five years. The EBITA margin in 2019 was 12.7%.



#### Return on capital employed

The return on capital employed (previously called operating capital) shall be a minimum of 20% per year on average over a business cycle.

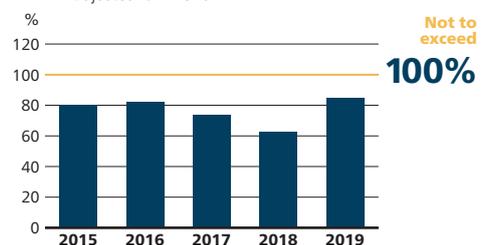
During the last five years the average return on operating capital was 20%. In 2019 the return was 19%. Adjusted for IFRS 16 Leases, the return on capital employed should have been 20%.



#### Net debt/equity ratio

The net debt/equity ratio shall normally not exceed 100%.

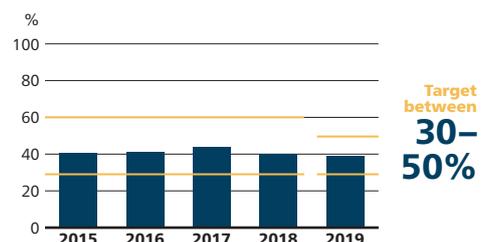
During the last five years, the net debt/equity ratio at the end of each year ranged from 63% to 85%. The net debt/equity ratio at year-end 2019 was 85%.



#### Dividend payout ratio

The dividend payout ratio shall range from 30% to 50% (previously 60%) of net profit.

During the last five years, the dividend payout ratio has been an average of 41%, including the proposed dividend. For 2019, a dividend of SEK 4.75 has been proposed, corresponding to 39%.



# Strategies

To achieve its overall goals, Indutrade pursues the following strategies:

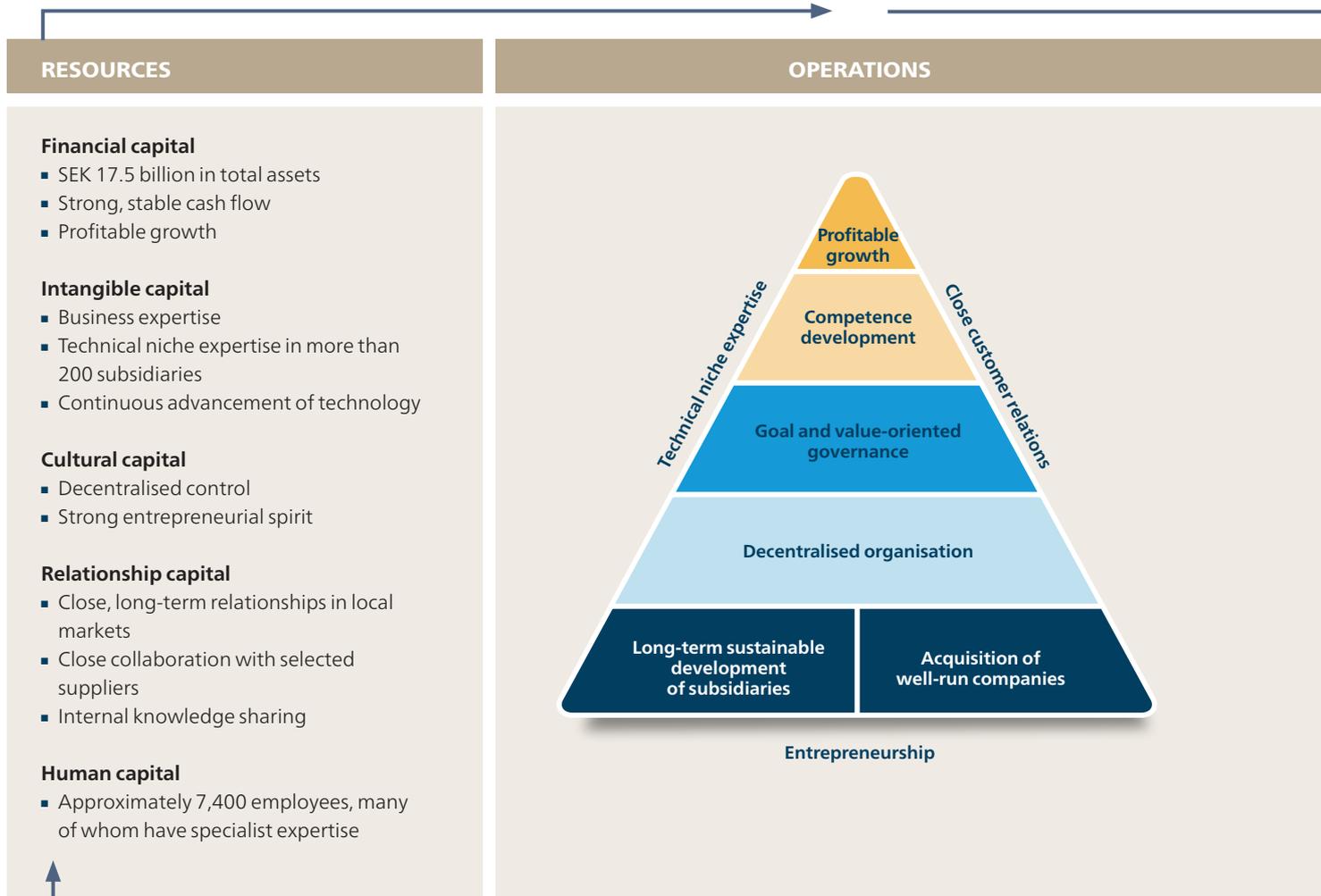
STRATEGY	EFFECT	PERFORMANCE IN 2019
<p><b>Growth with limited risk</b></p> <p>Growth will be achieved organically and through acquisitions:</p> <ul style="list-style-type: none"> <li>■ In existing and new technology areas</li> <li>■ Through a broadened customer offering based on relevant knowledge, such as extended support, training and other aftermarket services</li> <li>■ Via innovation and development of both products and offerings</li> <li>■ Geographically in selected markets.</li> </ul>	→ Business development and growth are strategic tools for reducing the Group's risk.	→ Growth has occurred both organically and via acquisitions. Geographic spread of the year's acquisitions has been good, occurring primarily in both existing and new areas of technology.
<p><b>Acquisitions</b></p> <p>Indutrade acquires well-managed, successful and typically owner-led industrial companies whose management teams are eager to continue running and growing the business. The companies manufacture or sell products in distinct markets. We can also make smaller, add-on acquisitions through our existing companies to strengthen market positions. A central feature of the acquisition process is to ensure that there is a shared foundation of values and ethical principles. All subsidiaries are expected to follow our Code of Conduct.</p>	→ Indutrade acquires companies with the aim of developing them over the long term. We do not change the companies' names and neither do we merge companies. This assures the seller that the company will be able to, even over the long term, continue as a player in the market.	→ The acquired companies have a skilled management team with true entrepreneurial spirit and vast technical expertise. Several of the acquisitions made in 2019 were add-on acquisitions aimed at further strengthening our market position in attractive segments.
<p><b>Strong market positions</b></p> <p>Indutrade focuses on sales of products in niches in which it can attain a leading position.</p>	→ Strong market positions are often a prerequisite for good profitability and being able to attract the best suppliers, all of which further solidifies Indutrade's position.	→ Several of Indutrade's subsidiaries have leading positions within their niches. They were able to maintain those positions and many were even able to strengthen them in 2019.
<p><b>Long-term partnerships with leading suppliers</b></p> <p>Indutrade gives priority to suppliers who, through own product development, provide market-leading, high-quality products with a high-tech content. A partnership with an Indutrade company should be the most profitable way for suppliers to sell their products.</p>	→ A range of market-leading products from the best suppliers, coupled with Indutrade's technical and market know-how, makes us an attractive business partner for existing and potential customers.	→ Long-term relationships with existing suppliers of high-quality products were also prioritised in 2019. Simultaneously, we established collaboration with several new suppliers during the year.
<p><b>Companies with proprietary products and brands</b></p> <p>Indutrade has many companies with proprietary products and brands. The products should have a high-tech content, while the companies should have a strong market position and good growth potential.</p>	→ Companies with proprietary products and brands provide balance to the Group's technology sales companies. Since 2004 the share of companies with proprietary products has grown by 31 percentage points, and in 2019 they accounted for 40% of consolidated net sales.	→ A large portion of the companies acquired in 2019 have own brands, which is entirely in line with our strategy to increase the share of companies with proprietary products.
<p><b>High share of repetitive sales and focus on selected customer segments</b></p> <p>The Group's companies give priority to customers with a recurring need that are active in industries where the prospects are favourable for maintaining competitive production in their home markets. Many of these industries are characterised by a high degree of automation, high distribution costs and/or large start-up investments.</p>	→ This contributes to business stability and predictability of revenue flows.	→ During the year, we continued acquiring companies with repetitive sales. One example is the Finnish company, Finkova, which offers valve solutions to the process industry.
<p><b>Sales organisation with high level of technical expertise</b></p> <p>Indutrade's product and service offering, which is aimed at both end users and OEM customers (i.e. customers that integrate Indutrade's products in their own products), should have a high-tech content and incorporate a high level of service and qualified technical consulting. Indutrade's sales representatives must have a high level of technical expertise in their respective niches and a depth of knowledge about the customers' production processes.</p>	→ This makes Indutrade an attractive business partner that creates added-value for customers and suppliers alike.	→ The companies continuously strive to establish closer ties with customers and acquire more expertise in their areas of technology. During the year, several informal meetings for experts in a particular areas, such as exports, where they could exchange knowledge and experience aimed at strengthening the overall customer offering.
<p><b>Decentralised organisation with strong local ties</b></p> <p>Indutrade's governance model is characterised by decentralisation, as the best business decisions are made close to customers by people who have the best understanding of the customers' needs and processes.</p>	→ We raise customer value via subsidiaries that have the autonomy to run their own operations with a high level of flexibility and entrepreneurial employees who work close to the customer.	→ Our decentralised organisation has ensured that our companies can effectively adapt their businesses to changes in their own market.

# Indutrade's business model

## VISION

### An entrepreneurial world where people make a difference

Indutrade has a long-term commitment to ensuring that people and companies can grow. We contribute to our own development and that of society at large by giving more people and companies the chance to become part of a business world fuelled by entrepreneurial spirit.



## VALUES



### People make the difference

For us, people are most important of all – our employees are the key to the Group's future success. We strive to derive the greatest value and benefits from our talented employees by sharing and spreading best practice and successful local improvement initiatives throughout the Group.



### Entrepreneurship

We have a strong entrepreneurial spirit and are passionate about the business. We are also determinedly committed to continuously driving, developing and improving the business.



### Decentralisation

We are a decentralised organisation with a strong local presence. We believe that the best decisions are made locally, by those who are closest to the customer.

**TRUSTED BY  
ENTREPRENEURS**

**VALUE CREATED**

**Customers**

- Long-term relationships
- Attractive offerings
- Sustainable solutions
- More efficient use of resources

**Suppliers and business partners**

- Long-term business relationships
- Ethical business methods

**Employees**

- Competence development
- Knowledge exchange
- Career development
- Stable employer

**Society**

- Presence in the local society
- Offering that contributes to sustainable development
- R&D investments that lower environmental impact
- Job creation

**Shareholders**

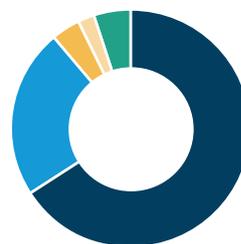
- Profitable growth
- Dividend

Indutrade’s brand promise is rooted in our conviction that passionate entrepreneurs are an important part of our continued growth. We have been winning the confidence of this target group ever since our first acquisition in 1978. Now, more than 40 years later and having made more than 200 acquisitions, we have established a unique position with vast knowledge of both acquisitions and company development.

Our proven, decentralised business model is based on flexibility and customer-focused decision-making by passionate entrepreneurs. Indutrade is in the business of developing and acquiring well-managed, profitable technology and industrial companies with a focus on decentralisation.

Our business risk is limited by acquiring successful companies with established customer relationships and good profitability. We conduct a thorough assessment of potential acquisitions. We have clear expectations on sustainable, profitable growth targets and we support our companies during their continued journeys of growth.

In addition to meeting requirements for financial performance, the acquired companies must also have a highly motivated management team, be characterised by a genuine entrepreneurial spirit and possess deep technical expertise. Perhaps the most important factor in a successful acquisition is the culture and values – i.e. ensuring that everyone shares the same values and ethical principles.



**Distribution of economic value**

- Suppliers and business partners **66%**
- Employees (including social security contributions) **23%**
- Shareholders and other financiers **4%**
- Society (corporate tax) **2%**
- Remaining in the company **5%**



**Long-term perspective**

We focus on profitability and our definition of success is achieving sustainable profitability and growth that benefits individuals, companies and society at large.

# Active ownership

Indutrade is a long-term and stable owner that is involved in and takes responsibility for its subsidiaries' development. Decentralised leadership based on clear values promotes entrepreneurial spirit. We help further develop leaders with strong business acumen who are given opportunities to continually improve the companies. When a company joins the Indutrade Group, it is able to maintain its original identity and keep its own name, culture and management team.

## INDUTRADE AS OWNER

We exercise active ownership by participating on the Boards of Directors of our subsidiaries with the aim of developing them to generate long-term value and make a positive contribution to society. Examples of areas where we, in our role as active owner, can participate in and contribute to the companies' development are: leadership training, providing knowledge and injecting capital so that companies can invest in for example product development and enhance their customer offerings. It is of utmost importance that our companies continually strive to improve their social, environmental and economic impact. Responsible action and focus on sustainability creates long-term value and enhances competitiveness.

### Value-based leadership

Indutrade's values guide us in how we act both externally and internally. Over the years, our values have been defined by our employees and their actions, grounded in the fact that it is people who make the difference. One important component of our approach is value-based leadership, where individuals have a great deal of freedom and decision autonomy. This mindset guides our efforts in all areas: from the acquisition phase to how we run, build and develop businesses in a responsible manner. It also serves as the foundation for our vision: an entrepreneurial world where people make a difference.

Our Code of Conduct is an important tool to describe our common principles and promoting our shared values. Our decentralised governance model puts demands on acquired companies to have well-functioning operations and management. During the acquisition process we put strong emphasis on getting to know the company and its management, employees and owners in order to gain an understanding of whether they share our values and views of sustainable business.

### Decentralised organisation

Our highly decentralised organisation enables companies to make own decisions, thereby giving them freedom and flexibility. The best business decisions are made when there is close contact with customers based on their specific needs and processes. A great many of our subsidiaries work in smaller cities or towns, and our employees thereby become important local ambassadors who, through their work, contribute to our companies being perceived as reliable and responsible, such as by ensuring that the local environment is not negatively impacted by the company's operations. Our companies contribute to local growth and development by creating jobs and promoting entrepreneurship and local investments.

### Benefits of joining Indutrade

Indutrade supports its subsidiaries by providing industrial and technical expertise and assisting with business development, financing and management by objectives. We offer support in many areas, including competence development and sustainability. The Group's financial strength facilitates the subsidiaries' expansion and it creates stability. As a stable owner, we take responsibility for the longevity of our subsidiaries.

We hold network meetings and have a digital communications portal called Indutrade Portal, both of which facilitate knowledge-sharing and informal networking to exchange ideas and experiences between companies. Internal benchmarking is carried out each quarter by generating a ranking list. This clarifies the goals for our subsidiaries and enables MDs to see and compare the progress of other companies in the Group.

## DEVELOP

When a company joins the Indutrade Group, it is able to maintain its original identity, while gaining access to the cumulative experience and knowledge that exists within the Group. Companies in the Group enrich each other and we obtain a knowledge sharing. Network meetings and internal benchmarking help us identify best practice, which can be spread throughout the Group. All Indutrade companies have distinct, decentralised responsibilities and authorities. Indutrade supports them with industrial know-how, financing, business development and management by objective.

## ACQUIRE

We put high requirements on the companies we acquire. They are successful and well-managed, with a defined market and distinct customer offering. They are run by entrepreneurs who are passionate about their business concept, who want to further develop their company and who share our values on sustainable entrepreneurship. We acquire companies where the owners want to continue leading and developing the company without being its owner. Reasons for wanting to sell can vary. For example, a company may need a new owner because it is in an expansion or investment phase. Or, perhaps new ownership is needed to ensure the company's longevity. Indutrade has no exit strategy, and by selling to Indutrade, the company's future is secured.



## ACQUISITION PROCESS

Acquisition is a natural component of Indutrade’s operations and it is fundamental to our strategy for growth. With an opportunistic acquisition strategy, we acquire successful, well managed companies with a well defined market and a clearly distinct offering. We maintain a high rate of acquisition, typically acquiring several companies each year.

Our business philosophy builds upon entrepreneurship, decentralisation and profitable growth. We put high requirements on the companies we acquire. They are run by entrepreneurs who are passionate about their business concept, who want to further develop their company and who share our values on sustainable entrepreneurship. They also have technical niche expertise. They have well-working and motivated management teams that are characterised by entrepreneurship and which are eager to continue their involvement also after the acquisition.

The pre-acquisition process might last for several years, during which time we meet managers and employees frequently to ensure that they are an “Indutrade company”. We strive to, as early as possible during the acquisition process, discuss our decentralised governance model and fundamental values.

In 2019, employees working with acquisitions received training on sustainability to ensure that all sustainability aspects are reviewed during the acquisition process. The goal is to verify that the acquired company has a long-term sustainable business strategy that generates long-term value. Running operations in a responsible way is of utmost importance and the key to long-term sustainable growth, development and profitability. In 2019, Indutrade acquired 15 new companies. All of them were subject to a sustainability review.

### Identification

Indutrade strives to, already at an early stage, engage with owners of potential acquisition candidates. Prior to a potential sale, owners are already acquainted with Indutrade and find it natural to involve us in discussions about an acquisition. Indutrade continually engages in discussions with interesting acquisition candidates, both directly and via company advisors.

### Evaluation

Several parameters are used to evaluate a potential acquisition including market position, customers, competitors, main supplier’s strategic and technical focus, environmental impact, ISO certifications, financial position, historical data and future involvement of key employees. Running the business in a responsible way is critical to creating long-term sustainable growth, development and profitability, and is therefore central to the evaluation process.

Thorough and tailored due diligence minimises the operational and financial risks associated with acquisitions. The acquisition process is never rushed because allowing time for getting to know each other increases the probability of a successful acquisition. Careful preparation is key to success. If a potential acquisition does not comply with relevant standards, does not pass the review process regarding such items as human rights or corruption risks, or is not deemed to be amenable to necessary improvements, Indutrade rejects the acquisition.

### Negotiation

The negotiation stage is primarily about ensuring the following:

- that it will be possible to carry out the acquisition at a price that makes the deal worthwhile for both parties.
- that key individuals will stay involved after the acquisition. These are typically joint owners of the company that is being acquired, which is why additional consideration is often part of the acquisition structure. It will be paid if the company achieves a certain level of profitability after the acquisition.
- It is also important that partners are in favour of the acquisition so that they too remain loyal.

## GOVERNANCE PROCESS

### Implementation

A structured review of the acquired company is done when carrying out an acquisition. The main areas that we focus on are the acquired company’s:

- Customers and suppliers – will it be possible to expand the scope of clientele and product line?
- Sustainability - have sustainability aspects been integrated into the business model, business culture, strategies, processes and product offering?
- Organisation – could it be made more efficient, with more focus on customers and sales?
- Costs, margins and inventory turnover – is it possible to raise profitability and returns?

New financial targets are established that are specific to the company and its conditions.

### Monitoring

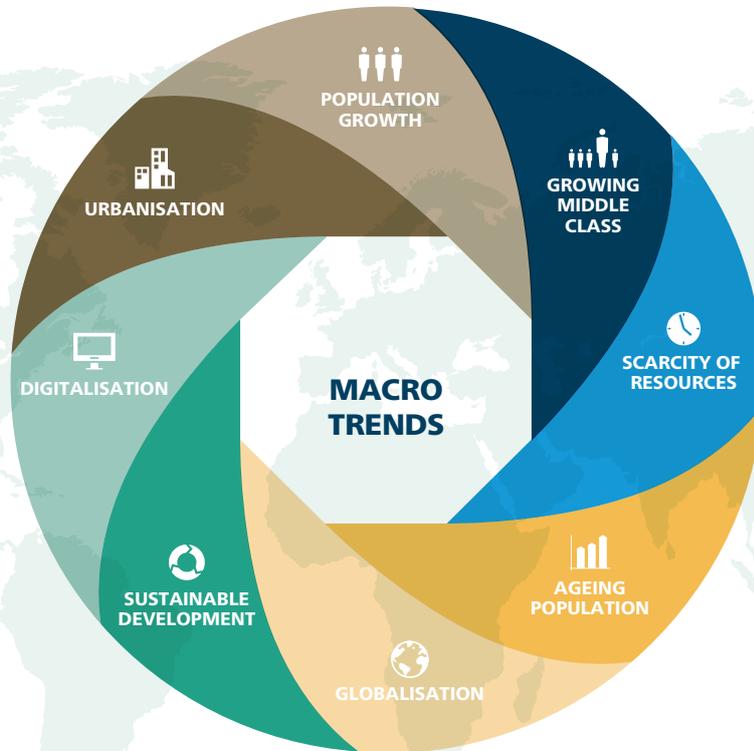
There is continuous dialogue between Indutrade’s Group management team/business area managers and the acquired company’s management team. Ongoing governance is goal-oriented with a focus on growth, margins and tied-up assets. During the year, we also ensure that the sustainability agendas of subsidiaries are being monitored and evaluated, which is an important aspect of Indutrade’s role as an active owner.



**One very important component of our approach is value-based leadership, where individuals have a great deal of freedom and decision autonomy.**

# Driving forces and business environment

Global macro trends such as climate change, demographic changes, increased globalisation and digitalisation and rapid technological development present our customers with a steady progression of new challenges.



“  
**While global trends pose challenges, they also represent major business opportunities.**

Conducting active business intelligence in which the salient trends are identified, monitored and analysed is crucial for Indutrade in its ability to make well-grounded decisions and conduct long-term sustainable business. While global trends pose challenges, they also represent major business opportunities. Some of the specific challenges we have identified are political uncertainty and forces that would like to restrict free trade. Indutrade is an international Group that is active in markets in more than 30 countries on six continents. Accordingly, we have the prerequisites in place for being able to take advantage of business opportunities that arise both locally and globally, since many of Indutrade’s companies sell and produce components and products that are exported globally.

- Population growth and a growing middle class are leading to rising demand for capital – as well as consumer goods, at the same time that the need for healthcare is rising as people are living longer.
- Migration in large parts of the world is creating a need for expanded infrastructure.
- Greater uncertainty in the world increases the demand for security solutions.
- Limited natural resources are leading to greater demands for more efficient use of resources, recycling of material, and conservation of energy in industry.
- Climate change is leading to demands for greater use of renewable energy sources and a sustainable transport sector, with improved fuel economy and lower carbon emissions.
- This growing environmental awareness, coupled with demands for long-term sustainable development, is resulting in greater demand among consumers for locally produced goods.
- Awareness about climate change and the environment is also influencing where industrial production is established around the world.

Indutrade offers components, systems and services that improve our customers’ ability to manage the challenges presented by a changing world. Our growth strategy is focused on sectors with high demands for efficiency and thus a high degree of automation. Priority is given to products that help industries measure, regulate, control, automate and improve the efficiency of their processes, and products that support industries in meeting environmental standards and their energy needs. With Indutrade’s help, customers can conduct their business in a more energy-efficient and environment-friendly manner.

# Sustainable business

Sustainable business is about managing companies with an eye on the future. We strive to create long-term value and regard business opportunities linked to sustainability as a driving force for developing our companies and continuing to generate sustainable profitable growth.

## Good progress with sustainability efforts

Indutrade made good progress with its work in the area of sustainability in 2019. Through active board work in the Group's subsidiaries, we strive to ensure that sustainability aspects are integrated into company business models and strategies. In 2019, sustainability was included as a standing item on the agenda at one of the three annual Board meetings in all companies within the Group. A major training initiative on sustainability was held for all of the Group's MDs at the start of the year. The goal of the training was to create higher awareness of how work with sustainability improves competitiveness and increases profitability. It was also aimed at helping companies identify strengths, weaknesses, opportunities and threats in environmental, social and economic areas, along with providing tools for identifying the essential areas that each company should focus on with their sustainability work. In 2019, our ambition was for all subsidiaries to conduct a materiality analysis and begin defining the relevant key figures for their company. At year-end 2019, approximately 85% of Indutrade's companies had done this and we are striving to ensure that the remainder complete these efforts during the first quarter of 2020. Approximately 95% of the Group's CEOs have participated in sustainability training.

At the annual CEO meeting for all of the Group's CEOs, the theme was "Sustainable, profitable growth". During the two-day event, participants gained inspiration while sharing and discussing their thoughts on such things as the business value of integrated sustainability work.

## Indutrade becomes signatory of the UN Global Compact

In March 2019, Indutrade became a signatory of the UN Global Compact. Global Compact is the world's largest sustainability initiative for companies. The framework contains ten principles on corporate social responsibility. The principles are based on international conventions on human rights, labour rights, the environment and anti-corruption. We are proud to be affiliated with the UN Global Compact and are committed to adhering to the ten principles of sustainable business.

## Our Code of Conduct – everyone's responsibility and right

Indutrade's Code of Conduct is our policy for sustainable entrepreneurship and it is an important component of our sustainability efforts. It provides guidance for who we aspire to be and how we would like to be perceived, and applies for all employees in the Indutrade Group, in all countries. In 2019, a revised Code of Conduct was launched, which has its starting point in the basic values expressed in the Global Compact's ten principles for corporate sustainability, the OECD Guidelines for Multinational Enterprises, and other internationally recognised norms. The Code of Conduct lays out guidelines for our daily conduct in a number of important areas, including care for the environment, health and safety, business ethics including anti-corruption, employee relations, human rights and community impacts.

The Code of Conduct has been adopted by Indutrade's Board of Directors and it is available to all of our employees via Indutrade Portal (our communications portal). It has also been translated from Swedish into eight other languages. The Code of Conduct is also available on our website: [www.indutrade.com](http://www.indutrade.com).

## New Code of Conduct for Suppliers and Partners

A new Code of Conduct for Suppliers and Partners was implemented in 2019. The Code of Conduct for Suppliers and Partners can be used by Indutrade subsidiaries in their business relationships with suppliers and partners. Signing the Code of Conduct obligates suppliers and partners to act responsibly when it comes to the environment, working conditions, human rights and ethical entrepreneurship. A significant portion of Indutrade's impact on the environment and surrounding world occurs in the supply chains of our subsidiaries. A large portion of Indutrade's subsidiaries do not have any own production. The products that they sell are manufactured in countries where the working conditions, environmental regulations and business ethics (including anti-corruption) may vary. It is therefore crucial that we work with our suppliers and partners as a way of contributing to sustainable development.

## Monitoring and evaluation

The Managing Directors of the respective subsidiaries are responsible for ensuring that the Code of Conduct is integrated in their own operations and organisations. It is also the responsibility of each subsidiary's MD to decide whether to implement and use the Code of Conduct for Suppliers and Partners in their business relationships. The Code of Conduct for Suppliers and Partners also encourages subcontractors to implement these principles and guidelines with their own partners, suppliers and subcontractors. Indutrade is looking into ways of monitoring and evaluating its suppliers' and partners' compliance with the Code.

Follow-up of the Code of Conduct is conducted yearly as part of the internal control process. Employees who notice any deviations from the Code of Conduct or suspect improprieties can report such via an external whistleblower function (anonymously, if they so prefer). The whistleblower function is also open to subsidiaries' suppliers, partners and subcontractors. A follow-up during the year showed that the vast majority implemented the Code of Conduct in their operations. During the year, Indutrade received four reports on suspected deviations from the Code. These were related to events that occurred in our subsidiaries. All of the reports were investigated and the matters were dealt with.

Web-based training was set up and offered to all of the Group's Managing Directors to support them with implementation of the revised, 2019 Code of Conduct. All of the MDs completed the training. Web-based training on the Code of Conduct will also be offered to all employees of the Group in 2020. The training is an effective tool for communicating the content of the Code of Conduct and helping employees understand how the guidelines should be applied when carrying out their daily tasks.

## Risk assessment of Indutrade's subsidiaries

A risk assessment, from a sustainability perspective, was conducted of all subsidiaries in 2019. The purpose of this is to ensure the efficacy of our sustainability efforts and governance. The risk analysis covered the following items:

- market sector
- products
- suppliers
- environment and health
- safety



## PENTRONIC HELPS CUSTOMERS LOWER THEIR ENERGY CONSUMPTION

Sustainability is a natural part of Pentronic’s operations. Pentronic is one of Europe’s leading manufacturers of industrial temperature sensors and equipment that helps customers in many sectors identify sustainable solutions that reduce the negative environmental impact.

Exact temperature measurement facilitates energy savings and more efficient use of resources which, in turn, help optimise and make customer processes more efficient. Pentronic’s customers work in a variety of sectors, including food processing and packaging, pharmaceuticals and the automotive industry.

Within its own operations, Pentronic also puts much focus on sustainability. Sustainability is one of the company’s business strategies and it is one of the key parameters used for evaluating new projects, investments, collaborations and other business opportunities. The company is continually striving to reduce its use of hazardous chemicals, create a safe and healthy work environment for employees and make more efficient use of resources in its own manufacturing operations. Pentronic has both ISO 9001 and ISO 14001 certification, along with ISO/IEC 17025 accreditation.



tance to Indutrade. In order to grow and develop, we must ensure that we have good business ethics and that there is full compliance at all levels with our requirements on anti-corruption. This ensures that we can retain the confidence that our stakeholders and the rest of the world have in Indutrade. The Code of Conduct contains guidelines for business ethics and in 2019 we expanded and explained the section on anti-corruption in more detail. In 2019, Indutrade’s Group Management participated in training on how to counteract corruption. No cases of corruption were reported to Indutrade during the year.

In 2019, we introduced a new Group-level policy for compliance with export controls and trade sanctions (Trade Compliance). The policy stipulates that all subsidiaries must comply with international trade rules as well as applicable import and export legislation in the countries where they operate. The policy also requires subsidiaries importing or exporting products and services outside the EEA and Switzerland to conduct an annual risk analysis, including sales to high-risk countries and controversial customer segments. Each business area manager is responsible for ensuring that the subsidiaries comply with the policy.

### Acquisitions

Acquisition is a natural component of Indutrade’s operations and it is fundamental to our strategy for growth. More information on how we work with sustainability in conjunction with acquisitions is provided on pages 8-9. All of the 15 companies that Indutrade acquired during the year have been evaluated from a sustainability perspective.

### Sustainability governance

Our sustainability governance efforts have been adapted to our decentralised organisation and they primarily occur via the Boards of Directors of our subsidiaries. In 2019 and for all companies in the Group, sustainability was included as a standing item on the agenda at one of their three annual Board meetings.

Indutrade comprises more than 200 companies in a wide variety of industries and markets. Accordingly, each of them faces different types of challenges and opportunities. It means that we cannot have Group-wide targets and focus areas for sustainability. Instead, they must be tailored to each company. However, from a long-term ownership perspective, our overall ambitions for sustainability are the same for all of our subsidiaries.

After having identified each company’s most important sustainability issues, the next step is for each subsidiary to, during 2020, identify relevant goals and key indicators linked to the identified sustainability issues, thereby enabling efficient and strategic improvement work within each company.

As part of the analysis, we conducted a risk survey of the countries where the subsidiaries’ suppliers are located. The analysis included the impact on human rights, risk of corruption and environmental impact. It was based on internationally accepted indices such as Transparency International and Global Rights Index (ITUC).

During 2020, we will follow up on subsidiaries that have been assessed as being exposed to high risk based on the parameters stated above. The aim is to ensure that the identified risks are being managed appropriately.

### Indutrade’s materiality analysis

In 2018, we updated our materiality analysis to ensure that we are working with, and reporting on, the areas that are most important to Indutrade Group and our stakeholders. We did this based on qualitative interviews with our stakeholders. Stakeholders include owners, employees of Indutrade’s parent company and subsidiaries, investors

and analysts. Via engagement with stakeholders, business intelligence and analysis of industrial sectors, we identified our most important sustainability issues as the following: anti-corruption & business ethics, acquisitions, sustainability management, people, environmental and climate impact and sustainable products and services. In 2020, we will broaden the scope of our stakeholder engagement even further.

Sustainability work in 2019 was based on these issues and we have identified a number of measurable key figures to enable effective follow-up and evaluation of our sustainability efforts. Starting in 2020, our subsidiaries will report greenhouse gas emissions (Scope 1 and Scope 2 in accordance with the Greenhouse Gas Protocol), the percentage of renewable energy, staff turnover, sick leave and injury ratio.

### Anti-corruption and business ethics

With operations in 30 countries around the world, business ethics is of utmost impor-

The managing director and senior executives of each subsidiary have operational responsibility for their own sustainability efforts. Each Board of Directors is ultimately responsible for ensuring that their company complies with its own, and Indutrade's, guidelines and policies.

### **Employees**

#### **Employees**

Indutrade's most important resource is our employees, their well-being and expertise. Performance and high-quality work depends on this. Ensuring that each employee is thriving in the organisation is therefore one of our most important sustainability issues. We do this via competence development, health & safety and our working conditions.

Employees are recruited and promoted exclusively based on their work qualifications and without consideration of their gender, transgender identity or expression, ethnic origin, religion or other faith, functional variation, sexual preference, age or other categories protected by law.

### **Competence development**

One of the most important prerequisites for maintaining a long-term approach in our operations is to ensure we have the right expertise within the Group. In our subsidiaries this is largely a matter of making full use of the expertise that already exists internally. We do this both through continuing education for key individuals and by sharing knowledge and experiences within the Group.

Indutrade's companies often work as problem-solvers for customers, which requires that the employees have a high level of business and technical expertise. Offering development opportunities for our employees is a way for us to be an attractive employer and thereby retain and attract key talent.

In 2019, several Group-wide activities were held to promote competence development. For example, we maintained our focus on succession planning and knowledge sharing. Through Indutrade Academy, we offer an in-house leadership programme that provides training in areas such as leadership and sales. These trainings have been tailored to

our specific views on business acumen.

Our aim is to ensure that our managers and employees are better equipped to meet business challenges and customer expectations. It also facilitates knowledge sharing and networking within the Group. During the year, we initiated efforts to, both internally and externally, increase the visibility of job opportunities at Indutrade companies. The aim of such efforts is to make more opportunities available for our employees to develop their skills, along with attracting new talent. A network was set up for the HR managers at Indutrade companies during the year, thereby creating a forum for knowledge sharing and competence development. It is aimed at promoting long-term development of our employees and the companies themselves.

We also documented and distributed several Best Practice cases on how companies in the Group are working with various aspects of sustainability. These cases have been made available to all subsidiaries via Indutrade Portal, which is our digital communications platform for promoting and



### **HIGHER ENERGY EFFICIENCY WITH ACCURATE SHAFT POWER METER DATA**

Datum Electronics helps ship owners and vessel operators improve the energy efficiency of their fleets and save fuel, with the help of accurate shaft power meter data. Aimed at addressing greenhouse gas emissions from shipping, IMO<sup>1)</sup> adopted two major energy efficiency measures: Energy Efficiency Design Index for new ships and Ship Energy Efficiency Management Plan for all ships.

"For the past 30 years Datum Electronics has been developing, manufacturing and supplying products aimed at improving maintenance programs, reducing unplanned downtime and complying with stringent regulations. Everything we do is aimed at helping our customers improve the energy efficiency of their products and services across many industries, including automotive, marine, offshore, civil engineering, and others", says Malcolm Habens, Technical Director of Datum Electronics.

One of the products Datum Electronics offers for the marine market is a Shaft Power Meter. It is specifically designed to measure torque, speed, power and thrust in real time, providing ship owners and operators with accurate and reliable data for

verifying and validating new energy efficiency measures, implemented by IMO.

"Our shaft power meter has received a lot of positive feedback in the last decade and we've been honoured to work with several multinational companies, contributing to the environmentally friendly strategy for their vessels. We still want to achieve more, though. So, we are working to develop a new technology that helps optimise fuel consumption, reduce emissions and improve maintenance even more. We expect to launch this new product during Q1 of 2020 and we believe it will become a key component for monitoring vessel performance", says Mark Gladdis, Marine Product Manager at Datum Electronics.

<sup>1)</sup>IMO – the International Maritime Organization – is the United Nations specialised agency with responsibility for the safety and security of shipping and the prevention of marine and atmospheric pollution by ships.



**The ambition is to continually reduce our environmental impact via systematic improvement efforts.**



facilitating knowledge sharing and networking within the Group. In 2020, our goal is to highlight more subsidiaries that are working successfully with sustainability, thereby sharing good examples and helping inspire others.

A Group-wide sustainability network will be set up in 2020 that will serve as a forum for employees interested in sustainability issues and help them develop their expertise in this area. Network meetings will be held a number of times each year to exchange knowledge and experience between companies. There will also be opportunities to attend specific training in various aspects of sustainability. The goal is to create a global sustainability forum that inspires others by gathering and sharing knowledge and ideas throughout the Group.

#### **Health & Safety**

To ensure a safe and sound workplace for all employees in the Indutrade Group, health and safety is one of the areas that we address specifically in the Code of Conduct. Most of the subsidiaries have operations involving

lighter workshop and assembly work, which entails a relatively low risk for injury. Nevertheless, the Code of Conduct emphasises that companies shall work proactively to prevent obvious physical risks, along with monitoring safety work and the employees' work situation. Subsidiaries' investments in improved production environments are something that we prioritise, support and encourage. It creates the best conditions for a safe workplace with fewer risks and repetitive movements at the same time that it boosts productivity and creates conditions for high performance and growth at subsidiaries. The goal is zero injuries in the workplace.

#### **Working conditions**

We want to promote lasting, inclusive and productive employment with decent working conditions for everyone. Access to national, regional and global markets is critical to our companies' ability to fully develop their potential.

The new Code of Conduct for Suppliers and Partners states requirements on respect

for human rights throughout the supply chain, including subcontractors.

#### **Environment and carbon footprint**

Indutrade's environmental impact primarily occurs via our subsidiaries. Accordingly, most of our environmental initiatives are carried out there as well. The ambition is to continually reduce our environmental impact via systematic improvement efforts. Most of our subsidiaries are engaged in environmental work, such as more efficient use of energy and natural resources, implementing systems for reuse and recycling of materials and energy, along with preventing/limiting pollution. In order to motivate and promote sustainability efforts, our subsidiaries are encouraged to participate in Indutrade's sustainability network.

For example, being ISO-certified is often a prerequisite for customers and suppliers to even begin working with our companies. The majority of our companies report that they are continuously reducing their environmental impact and actively helping their cus-

tomers do the same. At the end of 2019, 67% of the manufacturing companies were working with environmental management systems and more than 50% of all the companies belonging to the Group had various types of ISO certification, such as ISO14001, ISO9001, ISO 13485 and OHSAS 18001.

Nine of our Swedish subsidiaries conduct operations that require permits or reporting in accordance with the Swedish Environmental Code. Four foreign subsidiaries conduct operations subject to an equivalent permit or reporting obligation.

At the start of 2020, Indutrade initiated an extensive effort to calculate the Group's overall greenhouse gas emissions. Both direct emissions (Scope 1) and emissions from energy consumption (Scope 2) will be calculated. Emissions for 2020 will be calculated in accordance with the Greenhouse Gas Protocol (GHG) protocol. This protocol is considered to be the current best practice for reporting greenhouse gas emissions for companies and organisations. Our subsidiaries include both manufacturing and non-manufacturing companies. As such, there are variations as to

where the majority of emissions occur in their value chains. A significant portion of the Group's impact occurs in Scope 3 (in the supply chains of subsidiaries and from business trips). At present, however, this data is not available. We are striving to, over time, develop our calculations on greenhouse gasses such that we are able to obtain a full understanding of the Group's impact.

### Sustainable products and solutions

Through active board work we support the Managing Directors of our subsidiaries in their efforts to meet the growing demands and expectations for responsible and sustainable solutions. The components, systems and services that our companies market, sell and produce often require technical and industrial know-how in order to be beneficial for the customer. By having good knowledge about customers' systems and processes, combined with a high level of technical expertise, we aim to improve the efficiency of our customers' operations and offer solutions that reduce environmental impacts and enhance efficiency. The goal is to

stimulate development and sales of sustainable products.

### Indutrade AB's own operations

A natural starting point for our sustainability efforts is focusing on the processes where we can have the greatest impact, i.e. investment decisions and exercising active ownership via the Boards of Directors for our subsidiaries. Of equal importance is having a clear sustainability focus in Indutrade's Parent Company as well. Proactive sustainability efforts should be an integral part of the daily operations run by our 19 employees at the head office in Stockholm. Indutrade's direct environmental impact is limited. However, we must still actively strive to lower it. At present, air travel in conjunction with business trips is the Parent Company's largest source of emissions. During 2019, the work environment and IT were priority areas. We can use digital solutions to avoid travel.

Besides the Code of Conduct, Indutrade has several Group-wide internal guidelines which include such things as our tax, insurance and investment policies.

## INDUTRADE CONTRIBUTES TO FULFILMENT OF THE UN SUSTAINABLE DEVELOPMENT GOALS

In 2015, the UN introduced its 2030 Agenda for Sustainable Development supported by 17 Sustainable Development Goals (SDGs). The SDGs, which should be met by 2030, are aimed at achieving sustainable social, economic and environmental growth.

During 2019, Indutrade reviewed how its activities, primarily via its subsidiaries, can contribute to achievement of the SDGs. Below are some examples of the areas where Indutrade is able to contribute the most.



Many of Indutrade's companies provides solutions and products that help **customers** save energy, water, materials and reduce carbon dioxide emissions. As such, they contribute to fulfilment of SDG 6 (Clean water and sanitation), SDG 7 (Affordable and clean energy), SDG 12 (Responsible consumption and production) and SDG 13 (Climate action). Other companies provide solutions and products that contribute to a safer work environment and better health. As such, they contribute to fulfilment of SDG 8

(Decent work and economic growth) and SDG 3 (Good health and well-being). There are also companies supplying products and services for infrastructures and technology solutions, which contributes to SDG 9 (Industry, innovation and infrastructure).

We work systematically to ensure that our operations are run in a fair and ethical way in order to minimise the risk of corruption in the supply chain. This contributes to SDG 16 (Peace, justice and strong institutions). Many of our companies run

their operations in smaller cities and communities where they actively contribute to SDG 11 (Development of sustainable cities and **societies**) and SDG 8 (Decent work and economic growth).

Our **employees** benefit from competence enhancement and career development opportunities, along with the well-being derived from having a stable workplace. This contributes to SDG 4 (Quality education) and SDG 8 (Decent work and economic growth).