

# More fit for the future

SUSTAINABILITY REPORT - 2021

NILORN  
MORE FIT FOR  
THE FUTURE



RESPEKT  
BY NILORN

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4



# Table of Contents

- 03. CEO Statement**
- 04. Nilorn in brief**
- 05. Highlights 2021**
- 07.** 17 Years of commitment to sustainability
- 08. The Nilorn offer**
- 10.** CSR & Sustainability advisory team
- 11. Our approach to sustainability**
- 13.** Sustainability strategy
- 14.** UN Sustainable Development Goals (SDGs)
- 15.** Focus areas and activities 2021
- 16.** The SDGs and our actions
- 18.** Sustainability risk analysis
- 20.** Certifications and Standards
- 24. Focus area 1. Clients**
- 25.** Sustainable raw materials
- 26.** Nilorn's material team
- 28.** New material
- 30.** Choose more sustainable materials
- 31.** Circularity
- 32.** Bringing inspiration home
- 33.** Traceability
- 35. Focus area 2. Production and supply chain**
- 36.** Resource efficiency
- 40.** Higg index
- 41.** CO2 Emissions
- 43.** Chemical management
- 45.** Supplier requirements
- 49.** Sedex
- 51. Focus area 3. Employees**
- 52.** Business ethics and anti-corruption
- 53.** Diversity and equality at Nilorn
- 55.** Work environment, health and safety
- 57.** Employee development and growth
- 58.** Social engagement
- 59.** Nilorn participates in initiatives
- 61. The way forward**
- 62. GRI Content Index**

## ABOUT THIS REPORT

This is Nilörngruppen AB's statutory Sustainability Report for the 2021 fiscal year, prepared according to the Swedish Annual Accounts Act and UNGC's Communication on Progress requirements. It covers all Nilörngruppen's operations, unless otherwise stated, concerning reporting of specific indicators from our sites. The report has been submitted by the Board of Directors, together with the Annual Report. The Annual Report can be found on our corporate website.

Since 2017, Nilorn has been a signatory to the UN Global Compact corporate responsibility initiative. As a signatory, we voluntarily agree to align our operations and strategies with the ten universally accepted UNGC principles in the areas of human rights, labour, the environment, and anti-corruption, as part of our strategy, culture and day-to-day operations. This commitment requires us to communicate how we align our work and contribute to the ten principles.

It is Nilörngruppen's first Sustainability Report prepared in accordance with Global Reporting Initiative (GRI) standards, Core level. Nilorn applies GRI's principles for reporting, provides contextual information about the organisation and reports on all company material topics. Our GRI index is available on page 62.

The report is published digitally on the Group's website ([www.nilorn.com/sustainability](http://www.nilorn.com/sustainability)) and is the basis for the annual Communication on Progress report required from participants of the UN Global Compact.

We strive to live up to our stakeholders' expectations. Feedback on our sustainability practices and reporting are welcome. Please contact us at [csr@nilorn.com](mailto:csr@nilorn.com).





# CEO Statement

## REAPING THE REWARDS OF HARD WORK

Despite the continued presence of Covid-19 in 2021, we saw an increased demand for our products and a financial bounce back in many sectors. However, the pandemic has impacted transport capacities, raw material flow and price increases.

From the 2020 dip to a turnaround in 2021, the situation has been challenging for our organisation. However, our employees have done an admirable job adapting to these rapid and dramatic changes while sticking to our vision and commitment to integrating sustainability and delivering what our customers expect.

Highlights this year include—continuing to build and strengthen our CSR team, adding a new sourcing organisation, increasing our compliance competence, starting a new Material Team, developing digital products, and continuing to build our IT systems. All these areas are intrinsically linked and together help put Nilorn on the right path to reaching our sustainability targets and reducing any negative impact on people and the planet.

By adapting to the new normal and shifting to online meetings, we have become more efficient with less travel time. We have also strengthened our training and conferences with digital delivery, making it possible to distribute knowledge and information throughout the organisation while reducing our CO2 emissions.

Price increases of raw materials, energy, and transportation have reduced consumption and severely impacted business. We need to adapt by changing behaviour, identifying local suppliers and shifting transport from air to sea, road and rail. By doing so, we will not only gain a competitive advantage but lower our environmental impact.

This year, we deepened our strategic focus on technologies including RFID, NFC and QR-codes that provide our clients and end customers with complete transparency on products' social, environmental and governance standards. These technologies also prevent counterfeiting of our clients' products and help increase efficiency in logistics to ensure products are in the right place at the right time. Traceability also entails a better understanding of our performance and is a focus area for 2022.

Sustainability is by its nature a work in progress and under constant development. It must be integrated throughout the organisation and in all countries where we have a presence to be effective. This is challenging and requires great attention and effort, but it is also rewarding when you begin to see improvements. I am proud of what we have achieved so far, led by our skilled CSR, Sustainability and Sourcing teams.

Guided by the ten principles of the UN Global Compact, we plan for continuous improvements with close partnerships between



our employees, suppliers, and clients. We will continue to focus on improving our products by integrating innovative material options and circular thinking. We are on an exciting journey where there is still much to be done but where we have already achieved such a lot.

Krister Magnusson  
CEO  
Nilörgruppen AB

# Nilorn in brief



> 1500

Clients

89

Countries we serve clients

> 1.5

Billion labels delivered

553

Employees

788

MSEK Turnover

18

Nilorn Countries

Bangladesh, Belgium, China, Denmark  
Germany, Hong Kong, India, Italy, Japan  
Netherlands, Pakistan, Portugal, Spain  
Sweden, Switzerland, Turkey, UK, USA

## OUR OPERATIONS

Founded in Sweden in 1977, Nilorn now has an international reach. We are leaders in visualising brands and strengthening their identity through labels, packaging, trims and accessories. We strive to be future-focused in everything we do, from our design process to how our products reach our clients. We continuously innovate to meet our business and sustainability ambitions and provide better choices and solutions for clients.

## OUR SUSTAINABILITY

Sustainability is an integral part of becoming "more fit for the future" and to lay the foundation, we have built our sustainability strategy around three focus areas: Clients, Production and Supply Chain, and Employees. Each focus area has its key issues.

## OUR MISSION

**ADDING VALUE TO YOUR BRAND**

# HIGHLIGHTS 2021

## GRS CERTIFICATE NILORN EAST ASIA AND SHANGHAI

We continue our commitment to recycling and using recycled materials. In 2021, Nilorn Bangladesh, Hong Kong and Shanghai received GRS certifications. Nilorn Portugal has been GRS certified since 2019.



## WE JOINED TWO NEW ORGANISATIONS



The American Apparel & Footwear Association (AAFA) gives us access to information and insights on regulation and policy and enables us to cooperate on supply chain management. We also take part in their training program.



The Sustainable Packaging Coalition (SPC) is a membership-based collaborative that believes in the power of industry to make packaging sustainable. SPC's mission is to bring packaging stakeholders together to catalyse actionable improvements to packaging systems and lend an authoritative voice on issues related to packaging sustainability.

## SUPPLIER HANDBOOK UPDATE

The handbook is part of our package provided to all suppliers. The updated handbook supports our work with responsible sourcing and CSR. New sections include the Higg index and raw material policies. We also encourage reuse of packaging materials and use of recycled materials.



# HIGHLIGHTS 2021

## ENVIRONMENTAL CERTIFICATE SVENSK MILJÖBAS

Nilorn Sweden has the environmental certification from Svensk Miljöbas. The Swedish Environmental Base promotes sustainable development and reduced environmental impact. The association's environmental management system is directed towards smaller organisations and their need to present well-functioning and documented environmental work to clients and other stakeholders. The standard for operations is based on ISO 14001, but with simplified documentation requirements, and focuses on actual environmental improvements and open environmental reporting. Their system allows us to:

- Improve resource efficiency in areas such as energy, purchase and waste
- Create a commitment with employees
- Be more competitive for clients
- Have an independent review of environmental work and increase credibility
- Reduce our environmental impact
- Have a long-term perspective



## MATERIAL TEAM

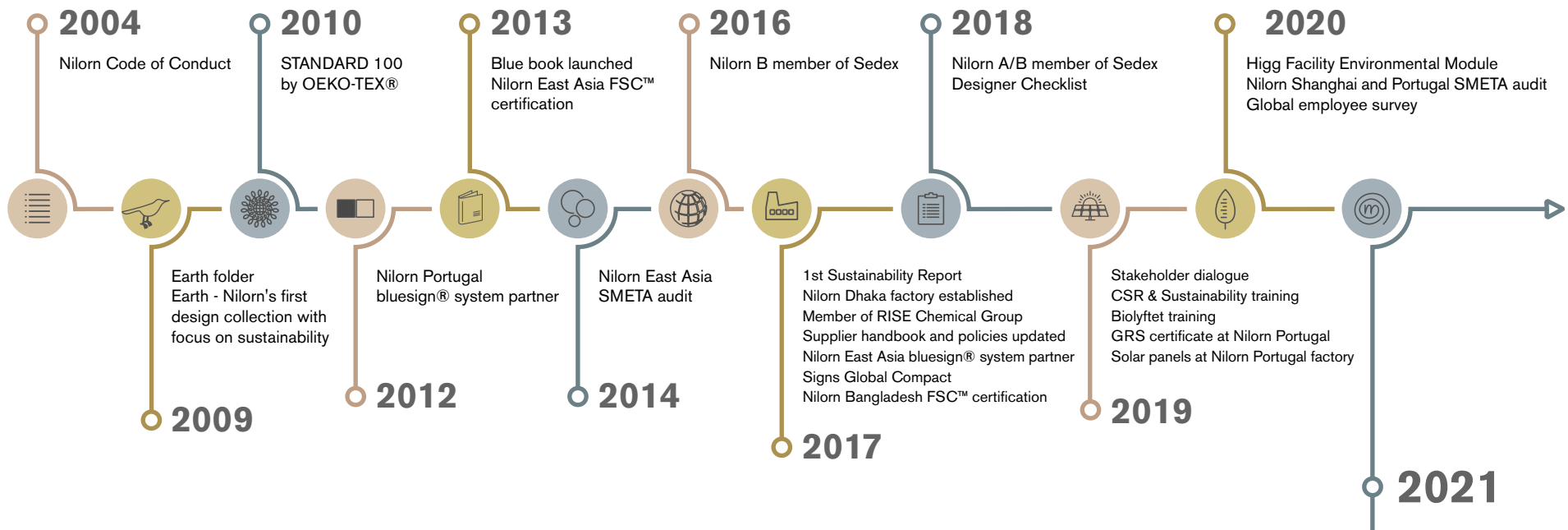
In 2021, we established our Material Team, an internal working group whose purpose is to remain abreast of developments, drive material innovation and integrate new materials into our product offering. The team makes this wealth of information available to colleagues and clients so better material choices can easily be made, for example, through our Digital Material Library.

## REPORTING

We have taken another step forward in our reporting to increase transparency and clarity on our sustainability disclosures. This year, we improved data reporting using Position Green's third-party tool and focused more on internal communication. This report now corresponds to the "Core" level in the GRI Sustainability Reporting Standards.



# 17 YEARS OF COMMITMENT TO SUSTAINABILITY



|  |  |                               |                   |   |
|--|--|-------------------------------|-------------------|---|
| GRS certificate at Nilorn East Asia, Shanghai and Bangladesh | Svensk Miljöbas, environmental certification Nilorn Sweden | Chemsec's No to PFAS movement | AAFA & SPC member | Nilorn UK, Turkey and Pakistan FSC™ certification |
|--|--|-------------------------------|-------------------|---|

## THE NILORN OFFER

Nilorn is a leading development hub focusing on strengthening our clients' identities. Our business of visualising and refining brands rests on six pillars: Sustainability, Design, Product development, Production, Logistics and Global Presence. With these building blocks, we provide a comprehensive offer to enable our clients and their brands to develop. In short, we add value to your brand.

### OUR CORE VALUES

The core values help guide every employee on a daily basis in all work situations. They form a common platform and strengthen our teamwork.

- **Passion** – encourage those around you
- **Innovation** – offer innovative and superior solutions
- **Respect** – respect and trust each other
- **Common Sense** – learn from experience
- **Responsibility** – take ownership
- **Execute** – lead by example
- **Teamwork** – learn from each other



#### SUSTAINABILITY

Sustainability is a central part of our business. Our strategy is based on Nilorn's vision, core values and the UN Global Compact's ten principles on human rights, labour law, the environment and anti-corruption.



#### DESIGN

Unique design skills create tailor-made concepts for various client sectors. An experienced and multi-skilled team deliver creative, intelligent and original solutions.



#### PRODUCT DEVELOPMENT

Based on design and high-quality technical solutions, we develop products using the latest materials and techniques in all areas of branding, like labelling and packaging. Development occurs in close co-operation with our clients and through our own design collections, which provide great opportunities to investigate and refine.



#### PRODUCTION

Thanks to our well-established network of production partners and our own production, we can collaborate with both small and large clients with a presence in several markets, which, as a rule, require local sourcing solutions.



#### LOGISTICS

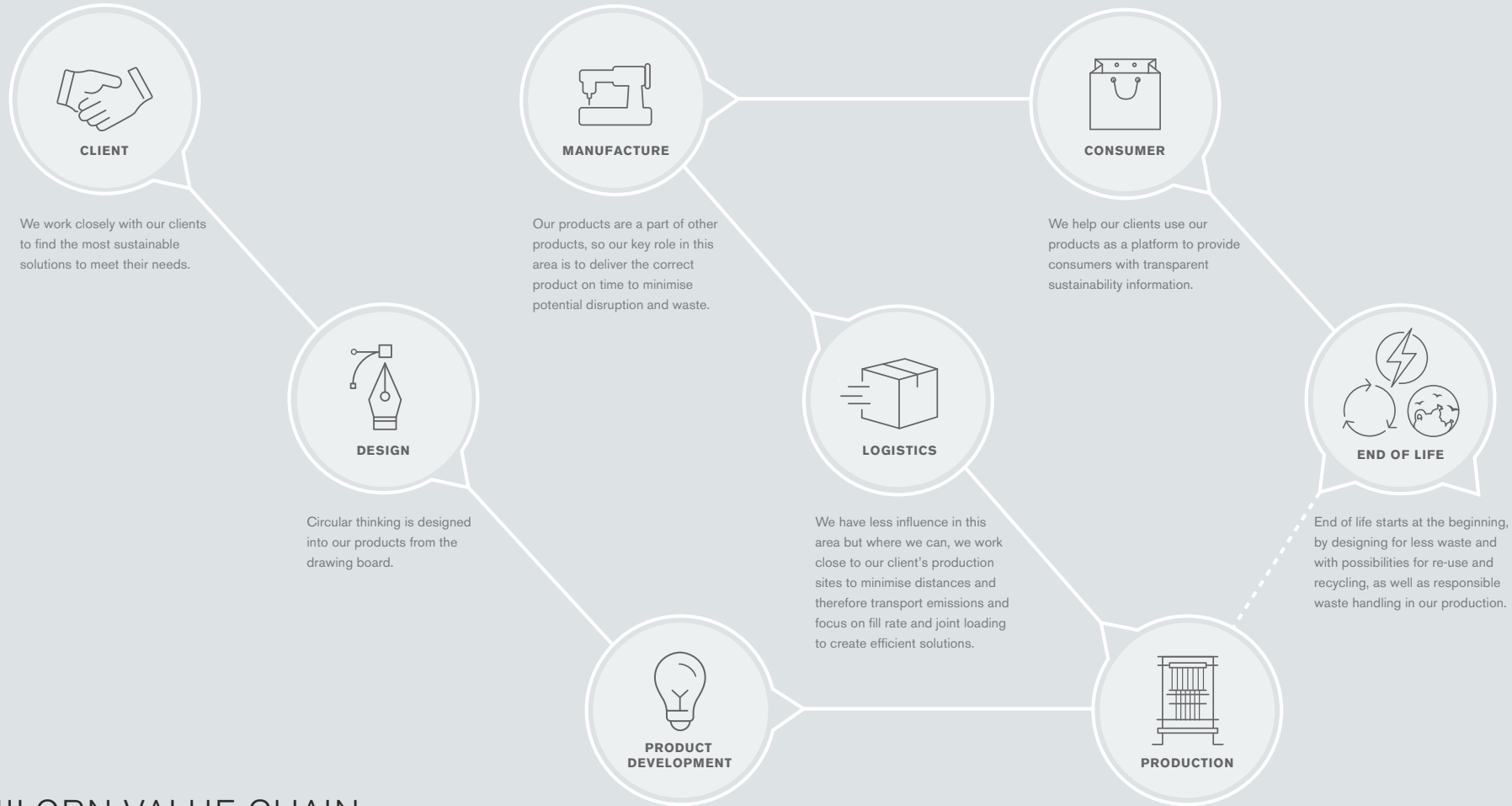
We deliver products to our clients' suppliers through our strategically located distribution units. This means local service and short lead times. Our online platform provides both clients and manufacturers with a complete overview, from an effective ordering process to follow-up and reporting possibilities.



#### GLOBAL PRESENCE

Nilorn operates worldwide with local production in several countries across multiple continents. This global presence gives us an immense knowledge of different business cultures and proximity to the market.





## NILORN VALUE CHAIN

We integrate a sustainability perspective in every part of our value chain, whether directly or by influencing our partners and spreading best practice.

## MEET THE CSR & SUSTAINABILITY ADVISORY TEAM



Ginny Jones - Key Account Manager



Mohammad Abdul Quyum - Managing Director - Bangladesh



Beatrice Kristoffersen - CSR Specialist - Social Compliance



Christin Kan - Product Development Manager



Elizabeth Sampaio - Managing Director - Portugal



Anna-Karin Wårfors - Sustainability Manager



Sylvia Voigt Le Drièzen - Purchasing Manager



Jennifer Elze - Compliance Specialist - Labeling



Fredrik Clason - Group Sales Manager



Marie Hüber - Art Director



Anne Chan - Group Purchasing Manager



Christina Walter - Material and Innovation Specialist

## HOW WE WORK

Our CSR and Sustainability Advisory Team (CSAT), aims to further integrate CSR and sustainability into daily operations, document and share knowledge, and optimise our social and environmental efforts. The team consists of staff from different Nilorn offices, representing the design department, product development, production, purchasing, sales and CSR. It anchors our objectives throughout the organisation.

In 2021 we strengthened our global team with new product and labelling compliance roles. CSR staff are located in Europe and Asia, strengthening our competence and providing regional support. The team supports our sustainability work alongside local staff in our sourcing countries. Nilorn's Sustainability Manager leads the team from our Head Office in Sweden. We also have regular meetings with the management group and dialogue with the Board of Directors.

Nilörgruppen is governed by its Board of Directors, which holds between six and ten meetings a year. During 2021, the Board of Directors held ten meetings, which our CEO and selected Advisory Panel members participated in.

Nilorn's Advisory Panel consists of the Group Sales Manager, IT Manager, Chief Financial Manager, Art Director, Retail Information Service Manager, Sourcing and Production Manager and Sustainability Manager. Meetings are held monthly.

# Our approach to sustainability

We deliver products to over 85 countries worldwide and are thus part of far-reaching supply chains. Such a global presence calls for global responsibility. We aim to be leaders in sustainability in our industry and, by signing the Global Compact, commit to the continual improvement of our practices.

We focus our initiatives on areas where we have the most significant impact and the best opportunity to contribute to positive development. Therefore, we have selected three focus areas that summarise our ambitions and efforts:

- Clients
- Production and supply chain
- Employees

The areas have been selected based on materiality analysis and stakeholder dialogue, in which we assess stakeholder expectations for our sustainability initiatives.

## MATERIALITY ANALYSIS

In 2019 we conducted an extensive materiality analysis and stakeholder dialogue with an external consultancy. The following stakeholders were included: investors (one Nordic and one North American), employees (two in-depth interviews) and clients (two in-depth interviews, both European). We determined the most material topics in each of our strategy's three pillars through surveys and interviews. The dialogue was an opportunity to benchmark the industry and get feedback on whether we

QUOTE FROM THE EMPLOYEE SURVEY:

"I think product recycling and circularity is an important aspect, but the first steps to getting there is a sustainable choice of material, chemical management and resource efficiency."

are on the right track. It gave us insight into different opinions, perspectives and perceptions of our work while helping us create awareness.

An anonymous employee survey was sent to 320 employees and received 158 replies. Feedback from investors and clients allowed us to understand their requirements and expectations in the coming years. Speaking to suppliers helped engage them in our sustainability journey and appraise their own capacities and challenges.

The feedback from stakeholders was overwhelmingly positive, confirming the importance of our continuous work. The most highlighted areas were:

- sustainable materials
- resource efficiency
- anti-corruption and transparency





A workshop was held to analyse the results from a dual perspective: how relevant they were to our key stakeholders and the impact of Nilorn on those topics. This helped define future sustainability opportunities and challenges and how best to tackle them. Together with a context analysis of the industry, we have defined 2025 ambitions and aligned them with our most material issues. The outcome will also lead to a clearer set of KPIs.

Since the 2019 dialogue, we have held regular discussions with investors, suppliers, clients and employees regarding sustainability concerns and priorities. These are done through client and investor meetings and online communication, our annual employee survey and our supplier screening and audits. In 2022 we will follow up the 2019 materiality analysis to detect changes and set priorities for work going forward.



The table below outlines how we engage with stakeholders who are affected by and/or have an influence on our activities and the topics they have identified as key for Nilorn's work:

| STAKEHOLDER      | DIALOGUE/ CHANNEL   | FREQUENCY                                     | PRIORITISED QUESTIONS   | WHAT DO WE DO?  |
|------------------|---|---|---|---|
| <b>Clients</b>   | Development talks<br>Employee survey<br>Sales conference<br>Sourcing & Logistics conference | Annual<br>Twice a year<br>Annual<br>Annual    | Attractive employer<br>Health & Safety<br>Business ethics and anti-corruption<br>Development & growth | Employee development, see page 57<br>Focus on training, see page 57<br>New digital material library<br>Employee survey, see page 56 |
| <b>Employees</b> | Meetings<br>Fairs<br>Magazine   | Ongoing<br>Three times a year<br>Twice a year | Sustainable raw materials<br>Supply chain management<br>Product end-of-life                           | Using digital meeting tools<br>Attended fairs via digital channels<br>Nilorn Branding & Design Magazine                             |
| <b>Investors</b> | Financial reports<br>Interim reports<br>Annual meeting<br>Webpage                           | Annual<br>Quarterly<br>Annual<br>Ongoing      | Business ethics<br>Anti-corruption<br>Environmental issues  | Stable and long-term total return<br>Corporate governance   |
| <b>Suppliers</b> | Meetings<br>Supplier package<br>Fairs and events  | Ongoing                                       | Resource efficiency<br>Business ethics<br>Health & Safety   | Nilorn General Agreement and Supplier Handbook, see page 47<br>Supplier Code of Conduct   |
| <b>NGOs</b>      | Initiatives<br>Conferences  | Ongoing                                       | Raw material<br>Product development<br>Wages  | Participate in networks such as UN Global Compact<br>Follow initiatives such as Ellen MacArthur Foundation                          |
| <b>Industry</b>  | Memberships<br>Working groups   | Ongoing                                       | Chemicals, product development, recycling and waste management  | Membership in RISE Chemicals group, TEKO environmental group and AAFA   |

## MATERIAL ISSUES

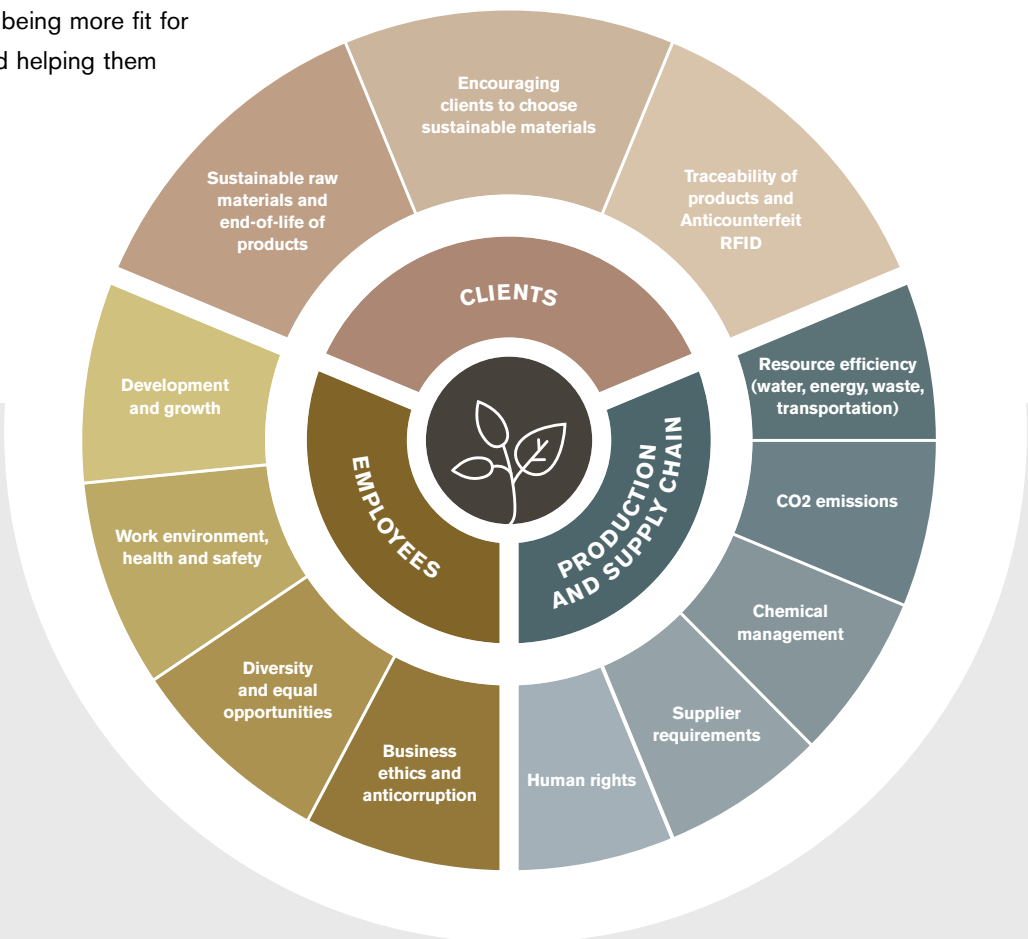
The following material issues have been assigned high priority by stakeholders or are the most relevant for Nilorn.

- Sustainable raw materials
- Product end-of-life
- Product traceability
- Resource efficiency (water, energy, waste and transportation)
- CO<sub>2</sub> emissions
- Chemical management
- Supplier requirements (social, environmental and human rights)
- Business ethics and anti-corruption
- Diversity and equal opportunities
- Work environment
- Health and safety
- Development and growth of our employees

# Supporting our clients to be more fit for the future

We see sustainability as an integral part of becoming more fit for the future. And being more fit for the future means enabling our clients to trace their in and outbound products and helping them understand how to minimise impacts through the products we create for them.

Nilorn's sustainability strategy is based on our mission "Adding value to your brand" together with the global Sustainable Development Goals (SDGs) and the materiality analysis carried out in 2019. The strategy is built around three pillars: clients, production and supply chains, and employees. Each area has its essential sustainability issues, challenges and goals described in more detail on future pages.



## POLICIES

To ensure the proper implementation of our strategy, we have developed several internal policies that support our vision and values. How we work with them is presented in each of the following sections within our focus areas.

- Animal welfare policy
- Anti-corruption policy
- Code of ethics and business conduct
- Corporate responsibility and sustainability policy
- Human resource policy
- Human rights policy
- Supplier code of conduct

# Our commitment to the UN Sustainable Development Goals (SDGs)

At the initiative of the UN, the international community formulated and adopted 17 global Sustainable Development Goals (SDGs) in 2015, aiming to eradicate poverty and malnutrition and ensure truly sustainable development across the social, environmental and economic dimensions. Businesses are explicitly called to contribute to the global sustainability agenda to meet these goals.

We are committed to minimising the way our business could, in any way, slow the transition towards the future envisioned by the 17 SDGs. We have conducted an internal analysis to identify the SDGs to which we can contribute most. While all SDGs are key to achieving a more sustainable society, we recognize Nilorn's contribution to the 2030 Agenda is most significant to six goals: SDG 5, 6, 8, 12, 13 and 17.



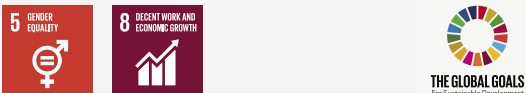
## THE GLOBAL GOALS FOR SUSTAINABLE DEVELOPMENT








# FOCUS AREAS AND ACTIVITIES 2021




For more information on how Nilorn’s material topics align with the SDGs and how we contribute to achieving the 2030 Agenda, check the table below. Each focus area later in the report describes our work in more detail.

| CLIENTS   | PRODUCTION AND SUPPLY CHAIN  | EMPLOYEES  |
|---|--|--|
| KEY ISSUES  |  |  |
| <ul style="list-style-type: none"> <li>• Sustainable raw materials and end-of-life of products</li> <li>• Encouraging clients to choose more sustainable materials</li> <li>• Traceability of products and anti-counterfeit, RFID</li> </ul>                            | <ul style="list-style-type: none"> <li>• Resource efficiency (water, energy, waste)</li> <li>• CO2 emissions</li> <li>• Chemical management</li> <li>• Supplier requirements</li> <li>• Human rights</li> </ul>  | <ul style="list-style-type: none"> <li>• Business ethics and anti-corruption</li> <li>• Diversity and equality in the workplace</li> <li>• Work environment, health and safety</li> <li>• Development and growth</li> </ul>  |
| EXAMPLE ACTIVITIES  |  |  |
| <ul style="list-style-type: none"> <li>• 48% certified claim paper<br/>Target: 80% by 2025</li> <li>• 50% recycled polyester<br/>Target: 100% by 2025</li> <li>• 80% of Nilorn internal design collections in sustainable materials<br/>Target: 100% by 2025</li> </ul> | <p style="writing-mode: vertical-rl; transform: rotate(180deg);">NILORN OWN PRODUCTION</p> <ul style="list-style-type: none"> <li>• 5 out of 9 Nilorn production and/or distribution centres are SMETA audited. Three are in non-risk countries.<br/>Target: all audited by 2025</li> <li>• 85% of waste was sent to recycling.<br/>Target: 100% landfill-free by 2025</li> <li>• 45% renewable energy.<br/>Target: 100% by 2025</li> </ul> <hr/> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">SUPPLY CHAIN</p> <ul style="list-style-type: none"> <li>• 87% of purchase value in risk countries with preferred suppliers that are social and/or environmentally audited.<br/>Target 100% 2025</li> <li>• 31% of goods delivered was by air.<br/>Target: to reduce air transportation by 50% (base year 2019)</li> </ul> | <ul style="list-style-type: none"> <li>• 79% retention rate of our employees.<br/>Target: &gt;90% retention rate</li> <li>• In 2021 we engaged with Water Aid which will include a program for employee engagement.</li> <li>• 41% female and 59% male gender split on Group level.<br/>Target: 40-60 %</li> <li>• Whistleblower function in place and training in anti-corruption policy and routines for the Group.<br/>Target: Zero tolerance for corruption</li> </ul> |
| UN SUSTAINABLE DEVELOPMENT GOALS  |  |  |
|    |    |   |

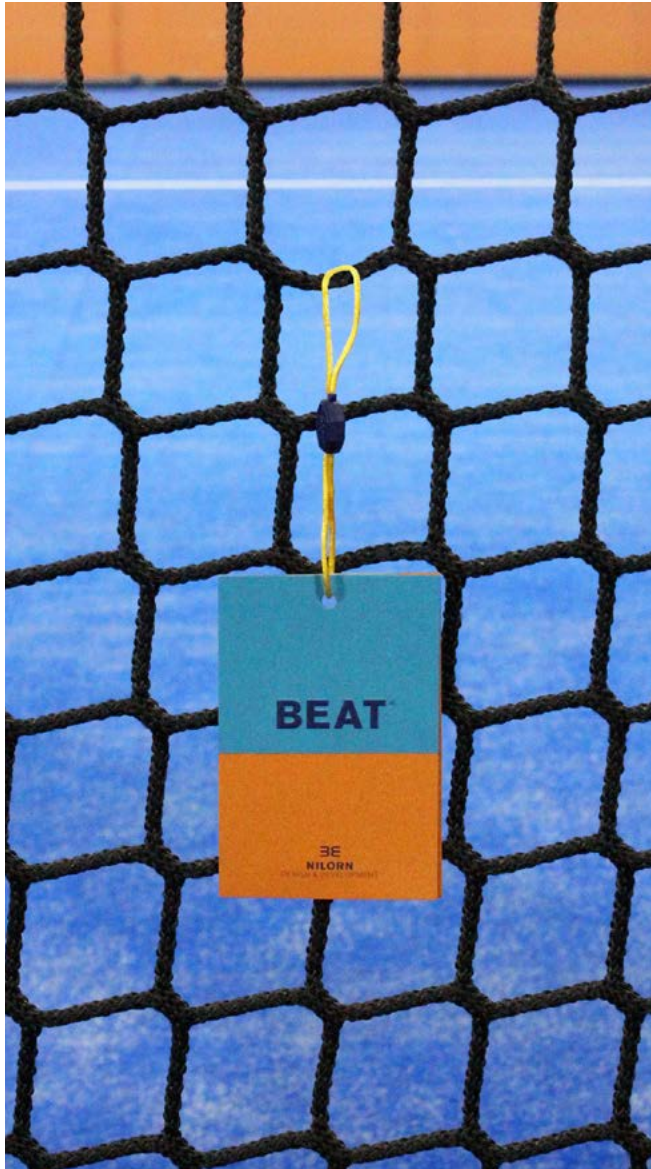
## THE SDGs, IDENTIFIED TARGETS & HOW OUR ACTIONS CONTRIBUTE

| GLOBAL GOAL   | DESCRIPTION  | TARGET  | NILORN'S CONTRIBUTION TO THE GLOBAL GOALS   | NILORN MATERIAL TOPIC   |
|---|--|---|---|---|
|    | Achieve gender equality and empower all women and girls  | 5.1 End all forms of discrimination against all women and girls everywhere  | We regularly monitor and takes active measures to prevent discrimination and to promote equal rights and opportunities regardless of gender, transgender identity or expression, ethnicity, religion or other belief, disability, sexual orientation or age. Gender equality is a critical issue for global supply chains in particular, as there is an opportunity to make a big impact by creating jobs and sources of income for women. Women hold 60 to 90 percent of global supply chain jobs, particularly in the apparel and agricultural sectors. Our share of the apparel sector is male-dominated. This requires a special focus to raise awareness about equality throughout the supply chain. | Requirements on suppliers<br>Diversity and equality in the workplace  |
|    | Ensure availability and sustainable management of water and sanitation for all                                       | 6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all<br>6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally | In our supply chain, we can work with water issues directly by being more efficient in the processes that require water and ensuring proper waste-water treatment. We also indirectly take part in projects aiming at improving the conditions further upstream, such as through our engagement with WaterAid and Cotton made in Africa, read more on page 39 and 58.   | Resource efficiency (water, energy, waste, transportation)  |
|  | Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all | 8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms  | We commit to implementing social standards, such as living wages and decent working conditions in our supply chain. New suppliers are screened, and we encourage our suppliers to adopt quality, environmental and occupational health and safety management systems and certifications and to include certification schemes used by suppliers in our criteria for the choice of suppliers.   | Business ethics and anti-corruption<br>Supplier requirements<br>Human rights<br>Work environment, health and safety |

## THE SDGs, IDENTIFIED TARGETS & HOW OUR ACTIONS CONTRIBUTE

| GLOBAL GOAL   | DESCRIPTION  | TARGET  | NILORN'S CONTRIBUTION TO THE GLOBAL GOALS   | NILORN MATERIAL TOPIC  |
|---|--|---|---|--|
|  <p><b>12</b> RESPONSIBLE CONSUMPTION AND PRODUCTION</p> | Ensure sustainable consumption and production patterns   | <p>12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse</p> <p>12.8 By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature</p>  | We have adopted policies to choose more environmentally friendly materials, increasing the use of recycled materials and acting for sound chemical management. Nilorn has joined the bluesign® system to put the whole production chain in focus and strive to protect health and the environment across the entire chain of production. Since 2020 we have implemented Higg index FEM in our production and supply chain. Read more about it on page 40. | <p>Chemical management</p> <p>Supplier requirements</p> <p>Human rights</p> <p>Sustainable raw materials and end-of-life of products</p>   |
|  <p><b>13</b> CLIMATE ACTION</p>                         | Take urgent action to combat climate change and its impacts  | 13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning   | Increasing the use of green electricity, installing solar panels on roofs and working to reduce energy consumption in our own units all help combat climate change. We are also implementing Higg FEM to better understand energy use in our supply chain.  | <p>Resource efficiency (water, energy, waste, transportation)</p> <p>CO2 emissions</p> <p>Chemical management</p> <p>Sustainable raw materials and end-of-life of products</p> <p>Encouraging clients to choose more sustainable materials</p> <p>Development and growth</p> |
|  <p><b>17</b> PARTNERSHIPS FOR THE GOALS</p>           | Strengthen the means of implementation and revitalize the global partnership for sustainable development | 17.16 Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries, in particular developing countries | The achievement of the SDGs depends on the collaboration of many different actors, including businesses. As a small but global player, Nilorn has to co-operate with others and participate in business initiatives, such as UN Global Compact, Sedex and RISE Chemicals Group. Also, by aligning with standards and certifications like bluesign®, Oeko-Tex® and GRS.  | <p>Resource efficiency (water, energy, waste, transportation)</p> <p>Sustainable raw materials and end-of-life of products</p> <p>Supplier requirements</p>  |





## Sustainability risk analysis

Nilorn's risk management approach follows our decentralised structure, which also applies to our sustainability risks. All managers with operational responsibilities are expected to ensure that risks associated with their operations are appropriately identified, evaluated and managed. The Board has overall accountability to Nilorn's owners, while operational level risks are controlled by each country CEO, its management team and other relevant employees.

### INTERNAL CONTROL

We conduct regular internal audits of its premises activities, which includes effective implementation of policies such as the Code of Conduct, the Code of Conduct for suppliers and the anti-corruption policy.

### INSURANCE

Nilorn has Group-wide insurance that is reviewed yearly by an independent, external party. The insurance covers, among other things, property, product liability, business interruption, transport, and directors and officers liability. Insurance was renewed prior to 2021.

To ensure all Group companies follow Group guidelines, we have introduced a control system to verify the various processes and ensure that financial reporting is correct. The controls for the various processes and risk elements are assessed through self-assessment, internal audit and internal meetings. The answers are verified by the company's external auditors.

We don't have a separate internal audit function. However, we have a defined process for evaluating and monitoring internal control. A self-assessment is carried out by each Group company for key areas where they assess whether they follow the routines set for the Group. They also fill

out a questionnaire regarding the internal control for monitoring functions, including areas like governance, risk assessment, information/communication and monitoring and follow up. In addition, the companies are audited internally according to a rolling schedule, based on size and unpredictability; this helps verify that the self-assessment is accurate. The outcome of the self-assessment, questionnaire and any internal audits are presented to the Audit committee each autumn.

In 2021, Covid-19 continued to impact risk scenarios and ways of working. Priorities in these complex scenarios are human safety and the protection of life.







| RISK CATEGORY                         | RISK DESCRIPTION  | MANAGEMENT  | WHERE IN THE VALUE CHAIN IS THE PRIMARY RISK   |
|---------------------------------------|---|---|--|
| <b>Business ethics and Corruption</b> | <ul style="list-style-type: none"> <li>• Risk of unethical behaviours and the impact on people and environment.</li> <li>• Risk of corruption, especially in high-risk countries.</li> <li>• Covid-19 impact on compliance.</li> </ul>  | <ul style="list-style-type: none"> <li>• Our anti-bribery and corruption policy clearly identifies what conduct is prohibited and how to report suspected violations, the policy is signed by all employees and staff training was carried out in 2021.</li> <li>• The Supplier Handbook, including the Supplier Code of Conduct, was updated in 2021 and communicated with the suppliers.</li> <li>• Third-party social audit at production units, in 2021 87% of our purchase value was at third-party audited suppliers.</li> <li>• Nilorn Code of Ethics and Business Conduct is a guide to the values, behaviours and ways of working for all our employees. A more hybrid work environment may imply a risk of less control, compliant behaviour for both working from home and office premises are monitored by each managing director.</li> </ul> | <ul style="list-style-type: none"> <li>• Client</li> <li>• Product development</li> <li>• Manufacturing</li> </ul>                   |
| <b>Environment and Climate change</b> | <ul style="list-style-type: none"> <li>• Impact of less predictable and more severe weather.</li> <li>• Risk of our operations' impact on climate change through CO2 emissions.</li> <li>• Use of fossil-based materials like polyester, managing increased demand of more environmentally conscious products by our clients.</li> <li>• Waste from productions impact on environment.</li> </ul>                                 | <ul style="list-style-type: none"> <li>• Focus on improved efficiency to minimise environmental impact in our operations and supply chain, bluesign certification being one method and Higg FEM supporting measuring.</li> <li>• Awareness of new regulations and market demands. In 2021 we appointed a new position for product compliance.</li> <li>• Measuring emissions from energy consumption, transportation and travel and continuing to introduce more renewable energy at our production sites and offices.</li> <li>• Focus on recycled raw materials where they are available and use of bio-based alternatives to reduce dependency on fossil-based materials.</li> </ul>   | <ul style="list-style-type: none"> <li>• Design</li> <li>• Product development</li> <li>• Production</li> <li>• Logistics</li> </ul> |
| <b>Health &amp; Safety</b>            | <ul style="list-style-type: none"> <li>• Work-related injuries and sicknesses.</li> <li>• Risk that employees find the work environment unsatisfactory, resulting in difficulty in retaining and recruiting.</li> <li>• Fatal accidents, serious injuries or long-term absence.</li> <li>• Covid-19 impact on working conditions.</li> </ul>  | <ul style="list-style-type: none"> <li>• Continuous training of all employees in health and safety and effective management systems, including health and safety risk assessments.</li> <li>• Follow up on Code of Conduct via third-party audits and own inspections.</li> <li>• Screening of potential suppliers by sourcing and CSR department.</li> <li>• Safe work practices via awareness building and adjusting workspace and/or place. We enable remote and agile working styles when possible.</li> </ul>  | <ul style="list-style-type: none"> <li>• Client</li> <li>• Design</li> <li>• Product Development</li> <li>• Manufacturing</li> </ul> |
| <b>Human rights</b>                   | <ul style="list-style-type: none"> <li>• Risk of poor working conditions and discrimination in the workplace.</li> <li>• Valuable competence could be lost, thereby decreasing the innovative capacity.</li> <li>• Not demonstrating respect for human rights considering own employees and those involved in the supply chain.</li> <li>• Lack of diversity and equality.</li> <li>• Covid-19 impact on human rights.</li> </ul> | <ul style="list-style-type: none"> <li>• Code of Conduct for suppliers. Third-party social audit at own production units and external suppliers, along with own inspections.</li> <li>• Potential suppliers are screened by the sourcing and CSR department. In our Modern Slavery Statement, we report how we work to mitigate the risk.</li> <li>• When recruiting, aim to attract a more diverse workforce, including younger employees to the company.</li> <li>• Upholding our contractual commitments with suppliers despite the pandemic and thus ensuring payment for delivered goods and their employees' wages.</li> <li>• Find ways to engage with suppliers to ensure decent working conditions, we are implementing a tool for easier digital follow up.</li> </ul>  | <ul style="list-style-type: none"> <li>• Production</li> </ul>   |
| <b>Supply chain</b>                   | <ul style="list-style-type: none"> <li>• Risk of suppliers not complying with the Supplier Code of Conduct and not following national laws and regulations.</li> <li>• Lack of established supply chain of sustainable materials.</li> <li>• Covid-19 impact on supply chain with delivery disruptions.</li> </ul>  | <ul style="list-style-type: none"> <li>• Continue to build strong supplier relationships, the updated supplier manual and policies state the prerequisites for our suppliers.</li> <li>• Use digital meetings and consider the use of new supply chain technologies to follow up on supplier compliance with social and environmental standards.</li> <li>• Potential suppliers are screened by sourcing and CSR department.</li> <li>• We are members of Sedex and use the SMETA audit for suppliers.</li> <li>• Consolidate supply chain and focus on preferred suppliers.</li> <li>• Collaborate with supply chain for the development of new materials.</li> <li>• Working closer with logistic partners and increase consolidation of shipments to avoid delivery delays.</li> </ul>   | <ul style="list-style-type: none"> <li>• Production</li> <li>• Logistics</li> </ul>  |
| <b>Strategic</b>                      | <ul style="list-style-type: none"> <li>• Risk of not focusing the sustainability work appropriately, key areas are missed and/or questions are not handled properly.</li> <li>• Risk of thinking and acting only in the short term due to Covid-19.</li> </ul>  | <ul style="list-style-type: none"> <li>• The way we interact with clients and other stakeholders has changed. More digital solutions are available.</li> <li>• We communicate the sustainability strategy both internally and externally through personal meetings and digital channels.</li> <li>• We engage with the stakeholders to understand their expectations.</li> </ul>  | <ul style="list-style-type: none"> <li>• Client</li> <li>• Product development</li> </ul>  |

# Certifications and Standards

Sustainability perspectives are increasingly the focus for both our clients and us throughout our practices and business relationships. To strengthen this shift, we see a proliferation in the use of standards and labels. These tools provides third-party verification of business practices and offer transparent communication about which standards we stand by. However, with so many

quality and sustainability logos available, the system is difficult to navigate. Many standards overlap in areas like social compliance, and some are very specific to a certain topic. In the table below, we present an overview of the standards we most commonly use and their focus areas, and also our supply chain documents:

| REQUIREMENTS/<br>STANDARDS  | SOCIAL       |                 |            | ENVIRONMENTAL |           |       |       | MANAGEMENT                             |                             | ETHICS                      |                           |
|---|--------------|-----------------|------------|---------------|-----------|-------|-------|--|-----------------------------|-----------------------------|---------------------------|
|   | Human rights | Work conditions | Employment | Bio-diversity | Chemicals | Waste | Water | Environment & Social management system | Supply chain responsibility | Anti-corruption and bribery | Compliance to legislation |
|    | ✓            | ✓               | ✓          | ✓             | ✓         | ✓     | ✓     | ✓                                      | ✓                           | ✓                           | ✓                         |
|   | ✓            | ✓               | ✓          |               | ✓         | ✓     | ✓     | ✓                                      | ✓                           | ✓                           | ✓                         |
|  | ✓            | ✓               | ✓          | ✓             | ✓         | ✓     | ✓     | ✓                                      | ✓                           | ✓                           | ✓                         |
|  |              |                 |            |               | ✓         |       |       | ✓                                      |                             |                             | ✓                         |
|  |              |                 |            |               | ✓         |       |       | ✓                                      | ✓                           |                             | ✓                         |
|  | ✓            | ✓               | ✓          |               | ✓         | ✓     | ✓     | ✓                                      | ✓                           |                             | ✓                         |

| REQUIREMENTS/<br>STANDARDS  | SOCIAL       |                 |            | ENVIRONMENTAL |           |       |       | MANAGEMENT                             |                             | ETHICS                      |                           |
|---|--------------|-----------------|------------|---------------|-----------|-------|-------|--|-----------------------------|-----------------------------|---------------------------|
|   | Human rights | Work conditions | Employment | Bio-diversity | Chemicals | Waste | Water | Environment & Social management system | Supply chain responsibility | Anti-corruption and bribery | Compliance to legislation |
|    |              |                 |            |               | ✓         | ✓     | ✓     | ✓                                      |                             |                             | ✓                         |
|    | ✓            | ✓               | ✓          | ✓             | ✓         | ✓     | ✓     | ✓                                      |                             | ✓                           | ✓                         |
|    | ✓            | ✓               | ✓          | ✓             |           |       |       | ✓                                      | ✓                           | ✓                           | ✓                         |
|    | ✓            | ✓               | ✓          | ✓             | ✓         | ✓     | ✓     | ✓                                      | ✓                           | ✓                           | ✓                         |
|    | ✓            | ✓               | ✓          |               | ✓         | ✓     | ✓     |  | ✓                           |                             | ✓                         |
|    | ✓            | ✓               | ✓          |               | ✓         | ✓     | ✓     | ✓                                      | ✓                           | ✓                           | ✓                         |
|    |              |                 |            | ✓             |           | ✓     |       |  | ✓                           |                             | ✓                         |
|  |              |                 |            |               | ✓         | ✓     | ✓     | ✓                                      |                             |                             |                           |
|  | ✓            | ✓               | ✓          |               |           |       |       | ✓                                      | ✓                           |                             | ✓                         |
| Nilorn supplier CoC   | ✓            | ✓               | ✓          |               |           |       |       |  | ✓                           | ✓                           | ✓                         |
| Nilorn supplier handbook  | ✓            | ✓               | ✓          | ✓             | ✓         | ✓     | ✓     | ✓                                      | ✓                           | ✓                           | ✓                         |
| Nilorn RSL  |              |                 |            |               | ✓         |       |       |  | ✓                           |                             | ✓                         |

**Sedex/SMETA** – Sedex has created the Sedex Members Ethical Trade Audit (SMETA)—a common audit methodology and report format aiming to drive consistency of data from the auditing process. The SMETA audit checks specifically against the ETI base code and how it is distributed to employees and the supply chain, relevant local laws, environmental performance, subcontractors/home workers, eligibility to work and understanding of the ETI base code. Read more about how we participate in SEDEX on page 49.

**BSCI** – Business Social Compliance Initiative, an initiative of Amfori, is a common and standardised approach for monitoring social standards in all supplier countries for all consumer goods. It attempts to involve all stakeholders in Europe and supplier countries to ensure that there are no issues of competition between countries, suppliers and retailers. BSCI is not a certification system; rather, it provides a specific process with uniform management instruments for members, suppliers, auditors and qualifiers. Nilorn is not a member of Amfori, but we have external suppliers that are audited and part of the BSCI.

**bluesign®** – Nilorn Portugal has been a bluesign® SYSTEM PARTNER since 2012 and Nilorn East Asia since 2017. The bluesign® SYSTEM uses strict auditing and chemical management to eliminate harmful substances throughout the supply chain, including responsible use of resources, production with a minimum impact on people and the environment and the highest level of consumer safety.

**STANDARD 100 by OEKO-TEX®** – STANDARD 100 by OEKO-TEX® is a worldwide consistent independent testing and certification system for raw, intermediate and end textile products at all stages of processing. OEKO-TEX® STANDARD 100 has



been the base for Nilorn's textile product offer for many years, and today we offer woven and printed certified labels as well as some metal and plastic accessories and heat transfers. The standard is a comprehensive and strict catalogue of measures based on legal regulations, REACH, CPSIA as well as numerous harmful chemicals not yet regulated.

**LEATHER STANDARD by OEKO-TEX®** – The LEATHER STANDARD by OEKO-TEX® is an internationally standardised testing and certification system for leather and leather goods at all production levels including accessory materials. The certification supports companies along the supply chain with the implementation of high human-ecological product safety.

**GRS** – The Global Recycled Standard is an international, voluntary, full product standard that sets requirements for third-party certification of recycled content. We provide GRS certified items across several product categories, including woven labels and plastic packaging. GRS certification helps us to verify the recycled content of the products and responsible social, environmental and chemical practices in the production. The objectives of the GRS are to define requirements to ensure accurate content claims and good working conditions and that harmful environmental and chemical impacts are minimised.

**GOTS** – The Global Organic Textile Standard is a voluntary global standard for the entire post-harvest processing (including spinning, knitting, weaving, dyeing and manufacturing) of apparel and home textiles made with certified organic fibre (such as organic cotton and organic wool, and includes both environmental and social criteria. Key provisions include a ban on the use of genetically modified organisms (GMOs), highly hazardous chemicals (such as azo dyes and formaldehyde), and child labour, while requiring strong social compliance management systems and strict wastewater treatment practices. We provide GOTS-certified cotton labels produced in India.

**FSC™** – The Forest Stewardship Council™ is an international non-profit organisation dedicated to promoting responsible forestry. FSC™ certifies forests all over the world to ensure they meet the highest environmental and social standards, and products carrying the label help assure consumers that they meet the requirements. The FSC™ system also provides a way of tracking forest products through independently verified Chain of Custody (CoC) certification, which verifies that a product contains wood from a certified forest and/or recycled material. We offer FSC™ options for paper-based products.



**Cradle to Cradle Certified®** Cradle to Cradle® – is a set of design principles that stands for innovation, quality and beneficial design. We use a selection of Cradle to Cradle Certified® materials, including compostable textile fibre and stone paper. Cradle to Cradle Certified® is the global standard for products that are safe, circular and responsibly made. The certification helps companies to innovate and optimize materials and products according to advanced science-based measures.

**Blue Angel** – Nilorn applies the Blue Angel certificate for products made of recycled plastics. The Blue Angel is the ecolabel of the federal government of Germany. It sets high standards for environmentally friendly product design and has proven itself over the past 40 years as a reliable guide for more sustainable consumption. The ecolabel requires that plastic recycling follows the EUCertPlast certification scheme.

**The Leather Working Group (LWG)** – is a not-for-profit organisation that aims to improve the environmental impact of the leather industry by assessing and certifying leather manufacturers. LWG provides guidance and auditing tools so its members can make informed, sustainable choices. Nilorn sources materials from LWG certified tanneries.

**OK Compost** – The OK Compost standard is used to certify some of our packaging items. Packaging or products featuring the OK Compost label (based on European standard EN 13432) are guaranteed as biodegradable and compostable in an industrial composting plant and are applied to all components, inks and additives. Any product featuring the OK Compost logo complies with the requirements of the EU Packaging Directive.

**Higg Facility Environmental Module (FEM)** – The Higg Index was developed by the Sustainable Apparel Coalition (SAC) in 2012. It has become the leading module for the standardised measurement of value chain sustainability. The Index offers a suite of tools for different types of businesses. At Nilorn, we use the Higg FEM, which allows us to understand our environmental impact and the causes, decide where developments are required and set and follow up on objectives. Read more about how we work with Higg page 40.

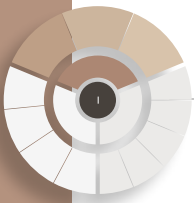
**Higg Facility Social & Labour Module (FSLM)** – The Higg Index was developed by the Sustainable Apparel Coalition (SAC) and has become the leading module for the standardised measurement of value chain sustainability. The Index offers a suite of tools for businesses. The FSLM measures the social impact of manufacturing across areas such as wages, working hours, health and safety and employee treatment.

**Nilorn Supplier Code of Conduct** – The Code of Conduct is based on the ETI Base Code. It is a non-negotiable requirement from our side that all suppliers commit to our standards and follow the Code of Conduct.

**Nilorn Supplier Handbook** – Communication within the supply chain is key to ensuring the high standards that our clients and customers expect. The Supplier Handbook is one tool for communicating our ambitions and requirements, and it is a guideline for how to carry out daily business with Nilorn. Read more on page 46-47.

**Nilorn Restricted Substance List (RSL)** – The RSL defines limits of hazardous substances in raw materials, finished goods and their components to ensure they are safe and comply with international laws. The list is a compilation of the AFIRM Group and the Swedish Chemicals Group. Our suppliers must ensure compliance with the Nilorn RSL.





# Approach to focus area 1. Clients

We live up to our mission to add value to our clients' brands through collaboration and helping them make more informed and sustainable decisions. This includes developing products in close cooperation with our clients, together reducing their environmental impact. Today, materials are at the core of many of our clients' product design and sustainability strategy. Some of them strive for a more circular business model, which will naturally lead to sourcing and producing with materials that are easier to repurpose, reuse and recycle.

Considering the end-of-life of these products becomes a cornerstone and ensures that the circularity loop is closed. We understand these challenges, and we embrace them as a source of sustainable growth for our business.

We see that this focus area can substantially contribute to four SDGs. By designing and using renewable fibres and alternatives to conventional plastics, we hope to substantially reduce the impact of our products on water sources, reuse materials and decrease the amount of waste they generate. Likewise, when

supporting our clients to choose alternative materials, we aim to foster sustainable consumption with a lower impact on the planet. This can only be achieved through partnerships with industry players and initiatives that guarantee high standards among the materials and technologies that we use. This section focuses on how we work with sustainable materials to support clients in their product decisions.



## KEY ISSUES

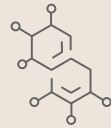
- Sustainable raw materials and end-of-life of products
- Encouraging clients to choose sustainable materials
- Traceability of products and anti-counterfeit, RFID

| TARGET 2025   | STATUS 2021   |
|---|---|
| 100% certified claim paper, of which 80% is FSC™  | 48% are certified claim paper, of which 46% is FSC™ certified.  |
| 100% recycled polyester   | 100% recycled polyester in weft and warp are available in all our production markets.<br>51% of all delivered polyester labels was in recycled polyester. |
| 100% of Nilorn internal design collections in sustainable materials                     | 80% off the design collections represent a more sustainable product.  |
| Map our supply chain back to raw material level enabling full supply chain traceability | Initiated but not completed, dependent on the implementation of common ERP system.  |



**TEXTILES WOVEN & PRINTED**

We increase the content of recycled yarns and fabrics and introduce bio-based options. Examples are recycled polyester, nylon, organic cotton and TENCEL™.



**PLASTIC TRIMS**

We increase the content of recycled plastics for trims and introduce bio-based options. Examples are recycled TPU (Thermoplastic Polyurethane), PLA (Polylactic acid), WPC (Wood Plastic Composite).



**NATURAL MATERIALS**

We supply natural materials for trims as an alternative to plastic: Examples are corozo and coconut.

# Sustainable raw materials AND END-OF-LIFE OF PRODUCTS

Our clients seek alternatives, both for labels and packaging, many of them setting clear targets to increase the use of sustainable materials. Our role is to support and guide them and fulfil an increasing demand for renewable, recyclable and fossil-free materials. Not only do we hope to support clients who have already welcomed sustainability into their business, we also wish to encourage and guide clients who are comparatively new to these issues. We encourage the latter to choose alternative solutions and inform them about the benefits to help them in their transition.

## Choosing and offering sustainable raw materials

Being a producer and working with labels, packaging and trims for the textile industry, we use a broad selection of materials. Our responsibility lies in choosing and offering sustainable raw materials. We also wish to support our clients in making responsible choices. Therefore, we integrate circular thinking into our design and continuously increase our co-workers' knowledge.

Our material categories for our trims, labels and packaging include woven and printed textiles, plastics, natural materials, metals, heat transfers, leathers, leather alternatives and paper. Within each category we offer various sustainable options, certifications and standards (see all our standards on pages 20-23). Materials is a fast-moving sector, with innovations and alternatives for more sustainable options constantly emerging. We are constantly scanning the market for innovative options to complement our material offer.

We rely on material certifications to guide our choices. Material certifications and standards relevant for materials are Oeko-Tex®, FSC™, GRS, Cradle to Cradle and bluesign®.



**METALS**

We offer recycled metal and stainless steel as alternative options to conventional metal.



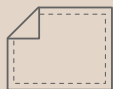
**HEAT TRANSFERS**

We encourage the use of heat transfers based on recycled ink, glue and carrier material.



**LEATHERS**

We aim to ensure high animal welfare standards and increase the use of LWG leather. We supply recycled leather as an alternative to virgin leather.



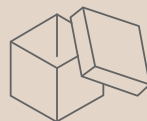
**LEATHER ALTERNATIVES**

We introduce new materials in the area of vegan leather alternatives. Examples are plant based fabrics like Jacron or Pinatex® and imitation leathers with biobased or recycled content.



**PAPER**

We increase the use of certified and recycled papers for our products. We introduce paper materials made from alternative and waste fibers. Examples are sugarcane paper, papers made from agriculture waste or waste cotton.



**PACKAGING**

We supply solutions for packaging in both certified or recycled qualities. For polybags and mailers we use recycled LDPE from pre or post-consumer plastic waste or fiber-based options like Kraft paper, glassine paper or Paptic®.

## NILORN'S MATERIAL TEAM

- A task force to accelerate material development and innovation

Materials are at the heart of what we do at Nilorn, and we strive to offer not just a wide and varied choice but also an informed and sustainable one. In our 2019 stakeholder dialogue, our clients ranked materials and their end-of-life options as their number one area of interest. This wasn't a surprise for us, as our clients have been increasingly engaged in data-driven information about materials and their origin, how they are made and specifically how they can help reduce the environmental impact associated to materials. The dialogue results demonstrated even more clearly that we need to stay ahead of market demands and trends and lead in material excellence for branded products. That's why, at the beginning of 2021, we established the Nilorn Material Team, an internal working group dedicated to accelerating innovation and new developments.

It comprises people from several Nilorn business areas to incorporate a broad spectrum of competencies and experiences. These include CSR and sustainability, product compliance, product development, sales, sourcing and design.

The team's functions include trend & market research, evaluating the feasibility of new materials and how they can be incorporated

into our products, new material and product developments, collecting and sharing data, supporting sales and helping clients to choose more sustainable materials.

The team is led by Christina Walter, Nilorn's Material & Innovation Specialist:

"In order to remain at the forefront of sustainable material choice for the brands that we partner with, we know we need to stay at the forefront of developments. That's why we put together this team to drive forward material innovation at Nilorn and make this information accessible both within our organisation and for our clients."

Since we founded the team, we have implemented some promising initiatives such as our Digital Material Library – a catalogue of materials with detailed information on properties, limitations, sustainability benefits, certifications and end-of-life alternatives. The library is available to anyone at Nilorn, so whether it is someone from sales, marketing or design, they can find relevant information and help our business partners make more informed choices. We have also started to develop a range of products based on insights from the Materials Team, using new and innovative elements for textile labels and packaging. Additionally, we began running internal webinars to keep our colleagues informed about material advances, and we are actively engaged in the circular textile economy and its impact on Nilorn products.



We are also planning an indexing system where all the materials we offer are given a sustainability score to help make processes more transparent and easier to compare and choose materials. We are excited to continue building on the Material Team's function in what we see as a vital component of our business and our clients' business.





AMOUNT OF RECYCLED MATERIAL SOLD IN PERCENT OF TOTAL MATERIAL FOR TEXTILES AND PLASTIC PACKAGING

| PRODUCT TYPE/MATERIAL                | % OF TOTAL SOLD 2021 | COMMENTS   |
|--------------------------------------|----------------------|--|
| Textile labels in recycled Polyester | 51                   | Recycled polyester is now more widely available in both warp and weft  |
| Garment bags/poly-bags recycled LDPE | 91                   | Using recycled plastic material in transport packaging used for garments during transportation is today standard |

### ANIMAL WELFARE

For Nilorn and our clients, animal welfare is a high priority, so we guide our choice of materials by ensuring that animals in our supply chain are protected, and we strive to meet a growing demand for vegan materials.

Our animal welfare policy covers material use. As we use materials that are sometimes of animal origin, we recognise our responsibility to protect animal welfare. Nilorn works to secure materials from responsible sources and with respect for animals. All suppliers or companies subscribing to this policy must follow national and international legislation. Animal-based materials are only obtained as a by-product and not as the sole purpose of the slaughter of an animal and never from vulnerable or endangered species.

### VEGAN

Brands wishing to market vegan products are looking for assurances from the supply chain in the form of certification, labelling, or other statements. Classing a product as vegan not only rules out using leather, wool and natural silk, but also many glues, dyes, and chemicals derived from animals. We are mapping and controlling affected parts of our production and supply chain to be able to assure compliance with these requirements.

### RECYCLED MATERIALS AND RECYCLING

Sourcing materials that are either already recycled, or that are easy to recycle again, as well as focusing on new material innovations, is a top priority in our journey towards circularity.

We believe that by using recycled materials in our products, we are involved in and drive demand for recycled material, which in turn can lead to better waste management and increased

recycling rates. We see a growing interest from clients about recyclability. A common challenge for most brands and retailers in the global market is the differing availability of recycling. There are also both national and regional differences in recycling and waste systems, therefore, standardised and effective practices across the EU are needed to make product recycling easier.

In the meantime, Nilorn has identified options for paper products. For instance, we have an extensive offer of paper products and fibres that are easy to recycle up to seven times before the fibre is unusable. These are used among our offer of hangtags and paper packaging, FSC™ certified and recycled papers.

Recycling plastics used in packaging is controversial. While most materials can be recycled, many are still not because the process is expensive, complex and sometimes results in lower-performing recycled material. Nilorn has chosen to introduce bio-based plastics in its offer, which allows us to move away from fossil-based alternatives and ensure the high quality our clients need. We only choose to work with recycled and compostable plastics when we can ensure that they perform as well as other alternatives.

Our goal is always to increase the recycled content of our products and introduce bio-based options over fossil-based ones where possible.



## NEW MATERIAL & INNOVATIVE PRODUCT DEVELOPMENTS

We aim to keep ourselves up-to-date and open to trying more sustainable materials and production processes as they emerge. Testing and evaluating often takes several months and our Material Team strengthens this work. These are just a few new materials that we are evaluating and testing for our product ranges:



### Glassine paper

#### DESCRIPTION

Glassine is a semi-transparent paper with an enamel-like finish that gives a high-end look and feel. The quality is achieved through "supercalendering", where the paper's surface is smoothed between metal cylinders. Glassine paper protects against grease, water and moisture.

#### BENEFIT

Glassine paper is 100% renewable and fiber-based and we source FSC™ certified options. Glassine is available only in virgin quality and it is recyclable with paper waste.

#### APPLICATION AT NILORN

Glassine bags offer a fiber-based alternative to plastic bags. We recommend glassine paper for garment bags requiring a high-end look and feel.

### Paptic®

#### DESCRIPTION

Paptic® is a patented fiber-based packaging material available in various grades and weights. It contains a minimum of 80% renewable material, including wood cellulose fibers and wood cellulose-based manufactured fiber (chemically treated for durability). Paptic® is lightweight and durable and is water, moisture and crease-resistant. The fine texture adds a high-end look and feel.

#### BENEFIT

Paptic® is based on renewable resources and is available as FSC™ certified. Paptic® is recyclable with paper waste and is tested and certified for industrial compost according to EN 13432.

#### APPLICATION AT NILORN

We recommend Paptic® for high-end, durable and reusable packaging: Mailer bags, shopping bags and dust bags.

### Mushroom Leather

#### DESCRIPTION

Mushroom Leather is a next-generation leather alternative that is 90% biobased. The main content is rejected white oyster mushrooms, manufactured cellulosic fibers and natural polymers (latex).

#### BENEFIT

Mushroom Leather can be a substitute for both real leather and fossil-based imitation leather and is vegan approved since no animal-based materials are used. The regenerated cellulosic fibers are certified biodegradable in soil, water and marine environments, while the biodegradability of the finished fabric is currently being tested. All pulp and fiber are FSC™ certified.

#### APPLICATION AT NILORN

We are evaluating the potential of mushroom leather for Nilorn products. We plan to use this material for badges and patches instead of leather.

## We aRe SpinDye®

### DESCRIPTION

We aRe SpinDye® offer a dope-dyed polyester yarn made from 100% GRS certified recycled post-consumer bottles and garments. In the waterless dyeing process, raw materials - granules and colour - are mixed and melted before the yarn is extruded.

### BENEFIT

An LCA by Swedish reseach institute, RISE, concludes that the dope-dyeing method used offers significant water, chemical and energy savings compared to conventional polyester dyeing:

- 75% water consumption
- 90% chemical use
- 25% energy consumption
- 30% CO2 emissions

### APPLICATION AT NILORN

We plan to use this yarn for woven and printed textile labels.

## PaperWise

### DESCRIPTION

PaperWise products are made from agricultural waste (leaves and stems) using 100% green energy. PaperWise Natural Paper contains 100% agricultural waste and PaperWise White Paper contains >85% agricultural waste, plus wood fibres from small-scale certified forestry on wasteland in the factory's vicinity.

### BENEFIT

By only using waste content, the material is diverted from incineration and fewer trees need to be felled. Green energy reduces fossil fuels use and CO2 emissions.

### APPLICATION AT NILORN

We use PaperWise for tags and various paper packaging.

## TENCEL™ Lyocell

### DESCRIPTION

TENCEL™ Lyocell is a manufactured cellulose fiber. It is commonly used in the textile industry due to its environmental benefits and smooth, soft feel that blends well with cotton and other natural fibers..

### BENEFIT

TENCEL™ fibers are certified biodegradable in soil, water and marine environments. Compared to cotton, TENCEL™ Lyocell has a significantly lower environmental impact in terms of water, fertilizer and pesticide use. The raw material used to make the cellulose pulp comes from FSC™ certified wood. TENCEL™ Lyocell and TENCEL™ Lyocell blended with natural fiber can be chemically

### APPLICATION AT NILORN

We use both pure TENCEL™ Lyocell and blended with cotton for woven and printed textile labels.



# Encouraging clients to choose more sustainable materials

Our collections allow us to share with clients the products we can develop and deliver. These collections are developed by the design team located in Europe and presented twice a year. The interest in alternative materials is becoming increasingly important both for our clients and for our own commitment to producing sustainable products. We see many possibilities for integrating better solutions with a lower environmental impact in the products we deliver. These options must be carefully evaluated to ensure we are making sound decisions.

## DESIGNER'S CHECKLIST

Three principles guide our product development, reduce, recycle and rethink. The checklist below has been prepared by our design department as a tool to guide the product development process and ensure we focus on sustainability and circularity. We ask ourselves:

- Does the product serve its purpose and is it functional?
- Could we use recycled or certified materials?
- Is the material suitable for the product?
- Will the item be easily recyclable?
- How can we reduce resource use and create less waste?
- Is longevity or reuse possible instead of single-use?
- Will it age with beauty?

80 percent of a product's environmental impact is determined at the design stage.

*Source: European Commission, Sustainable Product Policy*

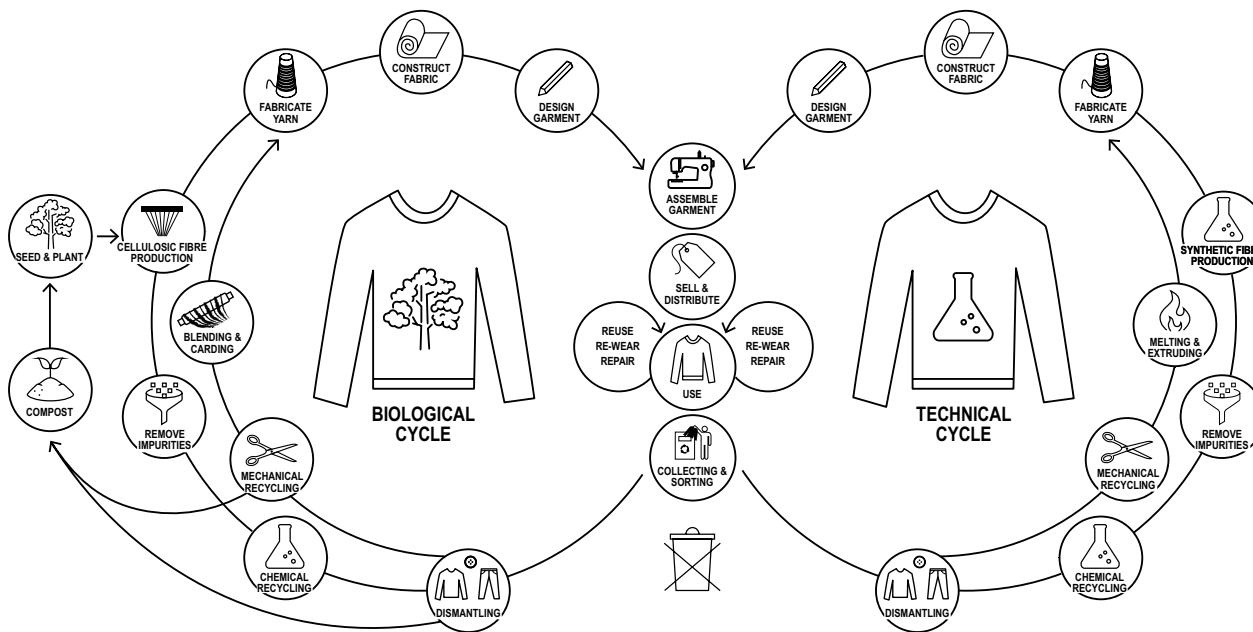


# CIRCULARITY

Integrating circular practices is not only relevant to our clients, it is also a way of thinking, designing and producing. We see it as a necessary transition to meet our internal goals to use materials that have a lower environmental impact and that can be recycled or reused.

Although labels, trims and packaging are only a small part of a garment, they can make a big impact. Providing the right trims

is key to ensuring its cyclability. Labels encourage durability by providing instructions on how to wash, dry and repair to minimise damage. Furthermore, clear instructions that remain visible on a label until a garment's end of use help ensure recyclability. Design and material choices play an integral role in creating products that can continuously be circulated back. Materials are broken down into two categories – biological and technical materials.



The two material cycles in a circular fashion and textile industry

## BIOLOGICAL MATERIALS

Biological materials come from renewable sources. They are natural materials like cotton, Tencel™ or viscose. They can either be recycled or safely decompose into the natural environment (soil, water, etc.) without affecting it in a negative way, providing food for bacteria and microbiological life.

## TECHNICAL MATERIALS

Technical materials originate from non-renewable resources. They are inorganic or synthetic and manufactured by humans – such as nylon, polyester, plastics and metals – when optimally recycled they can be used many times without loss in quality, remaining in a continuous cycle.

If you want an easy way to find out about all our materials, standards and sustainability offer, take a look at our Blue Book, an easy-to-use guide to sustainability at Nilorn.



## BRINGING INSPIRATION HOME

During the pandemic, when fairs were cancelled and possibilities to meet clients were limited, we decided to bring inspiration to our clients' home offices instead.

We arranged an online collection presentation of "More fit for the future", showcasing our alternative material offer and our new collection of product development concepts to clients. Our first one was with our German clients after the Munich Fabric Start trade fair was cancelled. Their overall feedback was very positive, and they appreciated a way to stay connected in these difficult times. So, our second event had an international scope and was streamed live and recorded for clients to watch later. This led to successful client contact with several follow-up conversations, while ensuring the health and safety of our clients and employees and following local pandemic recommendations.

When it comes to travelling, we've come to understand that less is more. During the year we have created various tools and marketing material enabling our sales team to present our products online. We will keep using these tools in the future. While this will not replace all our personal meetings, which are important for fostering exchange and common learning, we see it as a smart way to build client relationships and to decrease our climate impact linked to travel.



Credit; Roberto Nickson on Unsplash



# Traceability

Among the benefits of modern technology, traceability is one that we welcome. Using techniques like RFID, we provide transparency and help our clients prevent counterfeiting of their products. These smart solutions not only add value to our clients' brands, they also give them and their end consumers access to reliable information and assurance that the products they receive meet high environmental, social and anti-corruption standards.






## DIGITALISATION

Nilorn's Retail Information Systems team has developed digital solutions to help our business partners make their products and materials easier to trace and more transparent. With the unique identities used in RFID-tags, NFC-tags and QR-codes, detailed information can be stored and shared between companies and with consumers. Information can be provided on materials, emissions, suppliers, care, responsible disposal and more, simply by scanning the code with a mobile device. These developments help our clients to promote circularity and sustainability, for example, manage their logistics to avoid overstocking and overproducing. They also allow clients to certify the quality of their products and avoid counterfeiting.

We offer RFID labels in the form of adhesive labels, hangtags and textile labels. These require a software and hardware solution, which we deliver in collaboration with specialist partners. We ensure that it is as easy to order RFID labels as it is to order barcode labels.

## GLOSSARY

- RFID is short for Radio Frequency Identification. Radio waves are used to identify and count RFID-tags attached to products/garments, either with RFID-handhelds or fixed RFID-readers.
- NFC – Near Field Communication 13.56 MHz. Only reads up to a few cm. Used for access control, contactless payments, connected products etc. Not for logistical purposes.
- QR-code is a two-dimensional barcode which often holds a web address if on a product or packaging. When scanned by smartphone it can take a consumer to e.g., extended production information, installation guides etc.

|   |  |  |
|---|--|--|
| <p><b>Create value with RFID</b></p>  | <p><b>SUPPLY CHAIN</b></p> <ul style="list-style-type: none"> <li>• Efficient inbound &amp; outbound processes</li> <li>• Increase stock accuracy</li> </ul>                               | <p><b>INVENTORY</b></p> <ul style="list-style-type: none"> <li>• Efficient stocktaking</li> <li>• Increase stock accuracy</li> <li>• Reduce out-of-stock</li> </ul>  |
| <p><b>SECURITY</b></p> <ul style="list-style-type: none"> <li>• EAS – Anti-theft</li> <li>• Reduce shrinkage</li> </ul>  | <p><b>SUSTAINABILITY &amp; TRACEABILITY</b></p> <ul style="list-style-type: none"> <li>• Less overproduction and overstock</li> <li>• Traceability across entire supply chain</li> </ul>  | <p><b>IN-STORE EXPERIENCE</b></p> <ul style="list-style-type: none"> <li>• Intelligent mirrors</li> <li>• Smart fitting rooms</li> <li>• Self-checkout</li> </ul>   |

By attributing products with a unique digital identity, it is possible to know where products are to ensure stock accuracy and availability. This allows for ordering precision and helps avoid over and under stocking in warehouses and increases efficiency throughout the supply chain and in stores.

Intelligent labels don't just make businesses smarter, they also have environmental and social benefits. With the unique identities used in RFID-tags, NFC-tags and unique QR-codes, detailed information can be stored in supporting systems and shared between companies and with consumers. What is my garment



made of? Are the materials sustainable? Who made my t-shirt? Can I give my clothes a second life? How should my old jacket be disposed of? Where can I take my old clothes for resale? All this information and much more can be contained in and made available through these technologies.

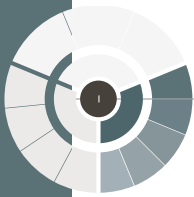
Martin Arvidsson, Retail Information Systems business area manager:

“People are asking for greater transparency, and companies with a sustainability focus want to be able to show their consumers that they are listening to them. Smart labels will become common practice among companies, and many of our clients want to be front runners in this area. Those that don't embrace them will risk falling behind their competitors.”

We continue to launch our Nilorn Crib Sheets - an easy way to get information on the latest topics. One example is our RFID Crib Sheet from 2021



**8800**  
Web order system users



# Our approach to Focus area 2.

## Production and supply chain

Engaging in a meaningful way with our entire supply chain is essential to ensuring that both our company and our suppliers hold the highest standards in labour, human rights and environmental matters. We have production sites in both Europe and Asia. The advantage of having multiple locations are shorter delivery times, lower freight costs and reduced environmental impact. Yet, we also recognise the challenges associated with being a global company. We strive to hold the highest labour standards for our co-workers around the

world. We also systematically monitor our production's environmental impact, while working to ensure efficient use of resources and favouring renewable energy.

Nilorn combines its own production with external suppliers that manufacture and deliver key components of our offer. As a result, we can be more flexible and adapt to various locations, which represents a strong added value for our clients. But this also comes with the responsibility to collaborate with our partners and ensure responsible business practices, including adequate labour conditions and respect for human rights.

Through our commitment to a more sustainable production and supply chain we can make a substantial contribution to five SDGs. We aim to ensure that we use all the resources required for our business in an efficient way, whether it is water, waste, energy or transport. We are also committed to ensuring that our suppliers provide their own employees with the highest labour standards. This can only be achieved by collaborating with our business partners to collectively achieve the global goals.



### KEY ISSUES

- Resource efficiency (water, energy, waste)
- CO2 emissions
- Chemical management
- Supplier requirements
- Human rights

|                       | TARGET 2025  | STATUS 2021  |
|-----------------------|--|--|
| NILORN OWN OPERATIONS | 100% SMETA audited (Sedex)   | Nilorn Bangladesh, Hong Kong, Portugal, Shanghai & Turkey are SMETA audited. Still to be audited are Nilorn Pakistan, India, Germany and UK.                           |
|                       | 100% landfill-free   | 85% of our waste is currently sent to recycling.   |
|                       | 100% renewable energy  | 45% of our electricity in 2021 came from renewable sources*.   |
|                       | 100% of waste water from our operations returned to the environment safely | Our Bangladesh factory is the only Nilorn production unit which requires an ETP. Remaining Nilorn production units dispose the water to municipal waste water systems. |

\*Renewable energy is limited in some countries, but we are actively looking for alternatives in our remaining production units as example Bangladesh.

# Resource efficiency

Nilorn is committed to optimising the use of resources, minimising waste and ensuring that materials and products comply with our own and our stakeholders' standards. We focus on reducing climate impact across the value chain, however, so far, our main work has been concentrated on our own production. For Nilorn's owned production facilities, we oversee and have control over energy and water consumption and waste management. Our biggest direct impact on water is the wastewater we discharge at our production sites. The company's environmental impact is also attributed to the energy consumed by our offices and factories, some of which are in countries where renewable energy is not yet widely available.

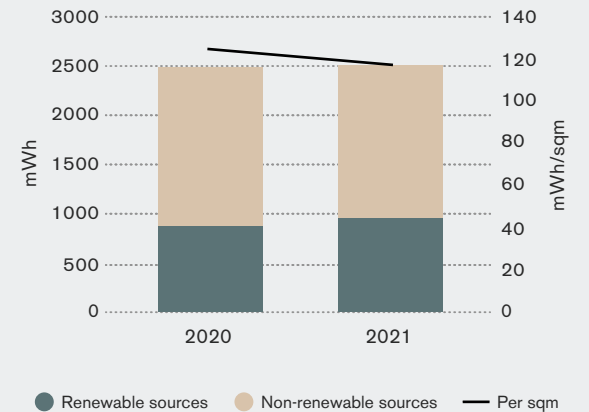
Our CSR and Sustainability policy is our internal guide and basis for how we work with social, environmental and ethical responsibility. It covers all Nilorn employees, and we commit to evaluating, reducing and preventing the environmental risk and impact of our activities, products and services. The initiatives and goals described below are important steps in finding ways for us to operate more efficiently and improve resource efficiency.

## ENERGY

We monitor our energy consumption and sources in all our offices and production facilities to ensure that we meet our goals on renewable energy. We check the availability of renewable energy in all our locations to enable the transition. Our operations in Belgium, Denmark, Germany, Portugal, Sweden and the UK all use renewable energy through agreements. In Hong Kong, where we have production and warehouse operations and in some of the other countries we operate in, there is a limited supply of renewable energy. In Hong Kong, our team started by acquiring the renewable energy certificate (REC) from CLP for parts of the total kWh usage in 2020.

More than 40 percent of our total energy consumption comes from renewable sources, and we continue to investigate options to increase that number with the goal of achieving 100 percent by 2025. Our total energy

consumption increased in 2021 by 1% compared to 2020, which is mainly explained by improved reporting. The usage per square meter is reduced.



## RENEWABLE ENERGY PARTNER

Nilorn East Asia takes part in the renewable energy scheme to support the renewable energy sources and developments in Hong Kong. Today the main renewable energy sources are coming from solar panels and landfill gas. Developments are ongoing to further develop the wind power availability in Hong Kong and Nilorn will continue to support the program.

Beatrice Kristoffersen, Nilorn Compliance Specialist, at the CLP Smart Energy Award 2021 in Hong Kong





## NILORN PORTUGAL

Nilorn Portugal uses the most energy out of Nilorn Group's production units 716 000 of total 1 177 000 kWh. They installed 460 solar panels in 2019. In 2021 the solar panels produced 21% of the factory's total electricity consumption; the remaining is purchased electricity from renewable sources. Logistics warehouses and production units are usually well suited for the installation of solar panels, as they are equipped with large flat roofs on which solar panels can easily be installed, without causing aesthetic damage to local communities. In 2021 we had hoped to be able to start using some renewable energy in our Bangladesh factory, however due to limited supply we have not succeeded yet. Nilorn Bangladesh will move to a new building and our ambition is to install solar panels and provide a proportion of renewable energy for production.





## WASTE

Waste efficiency is part of our approach to managing our waste impacts during production phase. As a manufacturing company, we purchase, use and transform materials in production, which in turn creates waste.

We are working toward the goal of zero waste going to landfill by 2025, an ambitious goal considering the current international environment we operate in and the complex waste streams and management. The amount of waste shall be minimised and sorted as much as possible. The collection, transportation, recovery, and disposal of waste is outsourced and managed by each of our production units, and they assure all relevant permits, including waste disposal is available. In 2021 we continued to increase the amount of waste sent to recycling, but 15 percent is still not being recycled (20 percent in 2020). This is critical for us to improve. We continue to promote waste reduction and sorting, including improved sorting capacity in our production units. The products produced contain mostly polyester, paper and plastics, and the most common waste stream from our production units is non-hazardous textile waste, e.g. polyester yarn and fabric. We are searching for alternatives to enable recycling and production of new yarn, but until now there has been no interest from textile recycling plants for this waste. As described on page 30, the design process is important to reduce waste and simplify recycling.



## WATER

To reduce our water impacts, we have the goal of safe wastewater discharge. Although most of our manufacturing processes do not consume significant amounts of water, we nonetheless commit to reducing our impact on water resources. In our supply chain, however, there are processes like dyeing that are water-intensive, and as part of the textile industry, we need to be mindful of water usage. We are also operating in areas with high water stress.

Our greatest direct impact in this area is wastewater discharged during production. We annually follow up our water consumption in all our facilities through reporting sustainability data, but water is also an area in both the SMETA audits and Higg FEM assessments. A majority of Nilorn's total water withdrawals were used for manufacturing processes and the remainder for cooling domestic purposes such as sanitation, cooking or garden maintenance. In our Bangladesh factory, we reuse some of the water from the effluent treatment plant for gardening and fire drills. In our remaining locations, wastewater is sent to municipal treatment plants.

## WATER USAGE AND DISCHARGE

|                               | BD          | HK                    | PT                    | UK                   |
|-------------------------------|-------------|-----------------------|-----------------------|----------------------|
| Source                        | Groundwater | Local water authority | Local water authority | Municipal water      |
| Volume used (m <sup>3</sup> ) | 451         | 306                   | 780                   | 34                   |
| Discharge method              | ETP         | Municipal wastewater  | Municipal wastewater  | Municipal wastewater |



Credit; WaterAid, Dhiraj Singh

Water is a fundamental human right, but one tenth of the world's population does not have access to clean water.

Lack of clean water has severe consequences in many areas. Women and children are often hit the hardest. In many parts of the world, it is the responsibility of women and girls to find and fetch water. Collecting water takes so much time and energy that girls miss important school time and women find it difficult to work or be active in society.

Nilorn has production in water scarce areas, and we also provide brands and retailers with plastic packaging to protect garments where we focus on providing packaging that are from recycled material and that is recyclable, to avoid it ending up in the nature.

In 2021 Nilorn decided to increase our focus on water related topics. In addition to carrying out activities with the goal of increasing knowledge about the subject both for our staff and for our suppliers, we will enhance the support of WaterAid. It means that we will emphasise training related to water issues, look closer into productions' waste-water discharge and we will also participate in the "March for Water" 2022.

 We support  
**WaterAid**



#### THE HIGG **FEM** ASSESSES THE FOLLOWING:

- Environmental Management Systems
- Energy
- Water
- Wastewater
- Air Emissions
- Waste
- Chemicals

#### THE HIGG **FSLM** ASSESSES THE FOLLOWING:

- Recruitment and Hiring
- Working Hours
- Wages and Benefits
- Employee Treatment
- Employee Involvement
- Health and Safety
- Termination and Retrenchment
- Management Systems
- Above and beyond

## HIGG INDEX

The Higg Index was developed by the Sustainable Apparel Coalition (SAC) in 2012. It has now grown to become the leading module to measure brands', retailers', and facilities' environmental and social impact and performance. The modules use a scoring system based on self-assessment and verification. The Higg Index provides a holistic overview that empowers businesses to make meaningful improvements to protect the wellbeing of factory workers, local communities, and the environment. It also enables and encourages the industry to become transparent by communicating sustainability information publicly.

Higg has three tools for different types of businesses: Product, Facility and Brand & Retail tools. We work with the facility tools while several of our clients use the Brand & Retail tools. The Higg Facility Tools offer yearly social and environmental assessments that facilitate conversations among value chain partners to improve socially and environmentally at every tier in the global value chain. Within the facility module we work with the Higg Facility Environment Module (FEM) and the Higg Facility Social Labor Module (FSLM).

The FEM module supplies information about the environmental performance of individual facilities, empowering them to scale improvements. The Higg FEM assessment tool standardizes how facilities measure, evaluate and improve their performance every year, providing facilities with a clear picture of their impacts.

In 2020 we applied the Higg Index for both internal and external production units, and in 2021 we continued to include more external production units and took the next step towards external verification of our self-assessment in Nilorn Bangladesh, Nilorn East Asia and Nilorn Turkey. By working with the Higg Index and the measurable data, we can set objectives that can easily be followed up. When seeing our environmental impact and its sources we can make decisions about where developments are required.

In 2021 we also implemented the Higg Facility Social & Labour Module (FSLM) in our Nilorn production units in Hong Kong, Bangladesh and Turkey. This FSML module measures the social impact of manufacturing across areas such as wages, working hours, health and safety, and employee treatment. At the end of 2020, Sedex and Higg announced they formed a partnership with the goal to create one of the largest supply chain platform integrations, representing social and environmental sustainability assessments. As we use both the Higg and the Sedex tools, we anticipate significant benefits of the cooperation.



# CO2 Emissions

Measuring and reducing our climate impact is an area we prioritise. We measure our business's own climate impact, both direct (Scope 1) and indirect (Scope 2 as well as parts of Scope 3). We have a complex organisational structure, which makes our emissions mapping and follow-up challenging but we see the benefits of implementing Higg Index FEM and we are looking into how to use the data as a first step.

## CLIMATE CHANGE

Nilorn strongly believes in the vast scientific consensus that man-made emissions are a major contributing factor to climate change. We also recognise that businesses, as major emitters of greenhouse gases, have a significant role to play in reducing emissions.

The biggest challenge in developing our targets will be with the inventory of our Scope 3 emissions, especially the upstream and downstream product lifecycle emissions. We are already

In 2019, we adapted our internal car policy to encourage electric and hybrid cars with lower missions when replacing a car. Charging stations for electric cars have been installed at Nilorn's units in Portugal, Sweden and UK.

**7 cars replaced with electronic or hybrid in 2021**

working with key suppliers to develop transparency on emissions caused by materials and finished products that we buy, but we still have some way to go before we have a full picture.

## EMPLOYEE TRAVEL

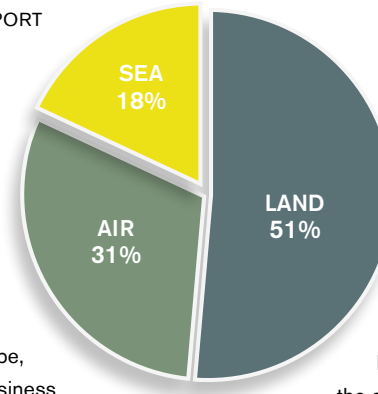
Nilorn operates from Asia to western Europe, Northern Europe and the Americas. Business travel is normally one of our largest sources of emissions, and air travel generates more emissions per kilometre travelled than any other mode of transport. In 2020, we saw a dramatic decrease in travel due to the pandemic and the situation has been similar for 2021, resulting in a reduction in our emissions linked to business travel. We plan to continue to use online meeting tools and practices in the future.

## LOGISTICS AND TRANSPORTATION

We are close to the ready-made garment industry in many parts of the world through our own companies and a network of strategic partners. We have warehouses in Dhaka, Hilden, Hong Kong, Istanbul, Karachi, Cononley, New Delhi, Recare and Shanghai. Being present in multiple locations together with Nilorn Auto Order System helps us face the logistic challenges posed by the pandemic.

We are dependent on the transport sector and therefore, our ability to deliver on time was impacted by national lockdowns that slowed down the flow of raw materials and finished goods, as well as logistic partners working with less capacity. Our network

SHIPMENTS BY MODE OF TRANSPORT



of production units made it possible to mitigate some of the risks by re-planning and moving some production, but there is still an impact on logistics. Efficient transport to ensure the distribution of goods is essential for our business, and in 2021 the work of mapping Nilorn's complex global distribution network gave us a better understanding of the flow of goods, 57% of the distributed goods are in Asia and 43% in Europe.

## GHG EMISSIONS, tCO2e

|  | 2021*                                    |
|--|--|
| <b>Scope 1</b>   |  |
| Company cars   | 94 (108)                                 |
| <b>Scope 2</b>   |  |
| Purchased electricity, steam, heating, and cooling<br>Kg/sqm 38 (41) | 822 (814)                                |
| <b>Scope 3</b>   |  |
| Business travelling  | 22 (18)                                  |
| Waste generated in operations  | 16 (18)                                  |
| Transportation & distribution**                                      | 13 970<br>(no comparable data available) |
| <b>Total tCO2e</b>   | <b>14 924</b>                            |

\* Figures for previous year in parentheses.

\*\* Including air and land transportation data from 6 out of 8 distribution centers. Work is ongoing with a group reporting structure to include all transportation of goods. Aim to be ready in 2022.



## AIR TRANSPORT

Air transport is often required to meet clients' deadlines, but we believe that through better dialogue and planning, together with clients, we can reduce the share of air transport and use it only when there are special needs regarding time requirements. The dialogue with clients had a different focus in 2020 and 2021 due to the challenging environment caused by lockdowns and bottlenecks impacting logistics and transportation. The reliance on air transportation increased in 2021 due to the uncertainty and difficulties caused by the pandemic. For our central European warehouse, air transport accounted for approximately 43 (40) percent of the transported parcels. Our goal is still to reduce air transport by 50 percent by 2025 (base year 2019).

## SEA TRANSPORT

The forwarder used for sea freight is part of the Getting to Zero Coalition, a global alliance of over 150 companies with the aim to develop zero-emission vessels and make them commercially available by 2030. The strategy is to reduce greenhouse gas emissions from shipping by at least 50 percent by 2050 (compared to 2008 shipping emissions). At this stage the forwarder provides Less-than-container-load (LCL) -shipments that are carbon dioxide (CO<sub>2</sub>) neutral from 2020 onward through a "Net Zero Carbon program" that leverages three fields of action: detection, reduction, and compensation. Sea transport accounted for approximately 5(7) percent of the transported parcels to and from the central European warehouse in 2021.

## RAIL TRANSPORT

For Nilorn, it is relevant to see how we can move more transportation to less carbon-intensive alternatives. The land route through Central Asia is relatively short. A container ship too large for the Suez Canal has to make a 24,000 km journey to reach Europe. Trains travel approximately 10,000 km to reach the same destination. Compared to sea freight, rail transport saves ten days, and it also implies reduced logistics costs and a reduction of the environmental footprint by a >90 percent reduction of CO<sub>2</sub> emissions compared to air freight. We have the ambition to use rail transport more frequently, however, due to the challenges in the logistic system during the pandemic, we have not been able to prioritize this work.



# Chemical management

Nilorn produces a range of products in varied materials at our six production sites and through external production. The manufacture of products requires the use of chemicals, especially dyeing and printing processes. We continuously phase out chemicals based on legal requirements, and requests by authorities and non-governmental organisations. Our operations must be compliant with all regulations relevant to our business.

We use the implementation of Higg Index FEM as a tool to understand and improve the responsible chemical management programs in our manufacturing facilities. The program covers inventory and purchasing, the production floor, and storage and waste locations. For example, in 2021, it led to new investments in chemical storage containers in Nilorn Hong Kong and improved handling of chemical waste containers in Nilorn Bangladesh.

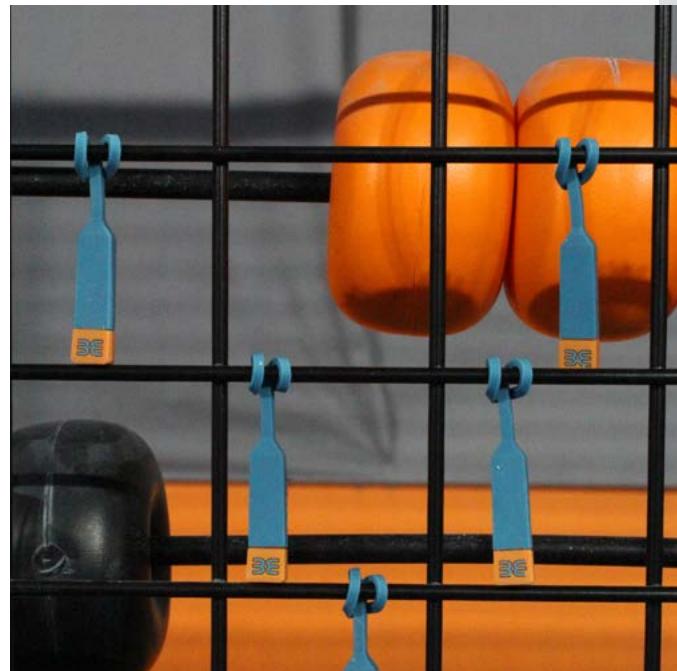
We participate in the Research Institutes of Sweden's (RISE) Chemicals Group for textile companies. The group exists to disseminate the latest findings related to chemicals and their potential impact on the environment and human health, to its member companies.

The chemical guidance developed by the initiative helps members avoid importing products containing unwanted substances. Nilorn Restricted Substance List (RSL) is based on the AFIRM Restricted Substance List and



The Chemicals Guidance provided by The Textile Importers' Association in Sweden and RISE.

Our operations must be compliant with all regulations relevant to our business together with the clients' requirements. Chemical testing is done as part of our responsible sourcing program but also for specific clients' requirements. Bureau Veritas is the nominated laboratory but we also work with client nominated laboratories.



One hazardous chemical we have groundwork on is PFAS (Per- and poly-fluoroalkyl substances). PFAS are commonly used in the textile value chain to achieve desired properties like oil, water, stain, and grease resistance. When used, they are easily discharged into the environment, contaminating groundwater and soil. Several PFAS substances have proven to be cancerous, toxic, harmful for foetuses' and can disrupt the body's endocrine, or hormonal, system.

At the start of 2021, an online survey was completed by 29 Nilorn suppliers in China, India, Italy, and Turkey. The survey comprised 31 questions asking about production, chemical management, regulations and specifically the use and knowledge of PFAS compounds. There was also on-site audits at two of the largest production units. The substances have not been detected or found in any Nilorn products however, we still think it's necessary and important to carry out spot checks and chemical-use control in our production.

Through the survey answers, it was clear that the issues regarding these substances are often due to a lack of knowledge, training and understanding. Moving forward we aim to better educate and inform our suppliers about these issues and create awareness throughout the supply chain. Nilorn is part of Chem-Sec's corporate PFAS Movement, which informs and assists in the phasing out of toxic PFAS chemicals.



## REGULATIONS

As many of our clients act on a global market, there are several regulations to consider in production, REACH and California Proposition 65 being two of them.

### REACH

REACH, Registration, Evaluation, Authorisation and Restriction of Chemicals, is an EU regulation adopted to improve the protection of human health and the environment from risks posed by chemicals while enhancing the competitiveness of the EU chemicals industry. It also promotes alternative methods for the hazard assessment of substances to reduce the number of tests on animals. In general, REACH applies to all products including apparel and textiles products.

It is the responsibility of all manufacturers, importers and users of substances within the EU to ensure that the substances they manufacture, import or use do not pose any risk to human health and the environment. REACH affects all EU actors that professionally manufacture, import, sell, buy, distribute or use chemicals as they are or in products. If goods contain restricted chemicals, it is mandatory that the manufacturers and importers are informed. The REACH Annex XVII regulation provides a list of the restricted substances. Our membership in the Swedish Chemicals Group helps us stay up to date with the regulation.

### CALIFORNIA PROPOSITION 65

California's Proposition 65 (Prop 65) was enacted with the intention of educating Californian consumers about the risks to which they may be exposed by purchasing certain products. Prop 65 created a list of chemicals that the state of California believes can cause cancer, birth defects, or other reproductive harm if consumers are exposed. The list of chemicals regulated by Prop 65 is updated annually and currently regulates more than 900 chemicals. It requires businesses to provide warnings to Californians about significant exposures to the listed chemicals and it prohibits Californian businesses from knowingly discharging significant amounts of listed chemicals into sources of drinking water. The official name of Prop 65 is the Safe Drinking Water and Toxic Enforcement Act of 1986. Through our membership in AAFA we get valuable information about the status of Prop 65.



# Supplier requirements

## MANAGING SUPPLIER RELATIONSHIPS

Our goal is to have a fully compliant supply chain and proactively ensure our suppliers adhere to the same high standards we do to achieve a truly sustainable end product. We conduct a variety of CSR-related activities and, urge suppliers to do the same.

Most of our first-tier suppliers are in Asia and Europe, and we actively work with them to ensure they commit to all aspects of a sustainable business, from sourcing materials to offering employees a safe working environment. They are expected to keep accurate information regarding their activities, structure and performance and disclose these in accordance with applicable regulations and industry benchmark practices. Business partners should neither participate in falsifying such information nor in any act of misrepresentation. Monitoring suppliers across a nationwide or global supply chain can be difficult, but we aim to ensure that our suppliers protect human rights, provide safe workplaces and reduce their environmental impact.

In 2021 we developed a supplier presentation of Nilorn's ambition in CSR & sustainability to communicate the way we work and what our clients can expect from us and our supply chain. It is available in 5 languages to be broadly accessible.

### POLICIES

Our Human Rights Policy and Supplier Code of Conduct enable us to reach our goals. Through our Human Rights policy, we work proactively in line with the UN Guiding Principles on Businesses and Human Rights. Nilorn aims to avoid causing or contributing to adverse human rights impacts in areas we can directly influence through our management control and addressing such impacts if they occur. Wherever possible, we also identify, prevent or mitigate adverse indirect human rights impacts that may be linked to our operations, products and services through business relationships. The Human Rights policy applies to all Nilorn employees and as far as reasonably achievable, to our upstream and downstream supply chain through suppliers and business partners.





## NILORN SUPPLIER CODE OF CONDUCT

Our Supplier Code of Conduct is part of the agreement and serves as a common foundation for us and our suppliers in terms of acting in a responsible manner, including focusing on social responsibility and good working conditions. The Supplier Code of Conduct requirements are based on the ETI Base Code. The ETI Base Code is founded on the conventions of the International Labour Organisation (ILO) and is an internationally recognised code of labour practice.

This Code of Conduct is mandatory to all suppliers, their sub-contractors and other business partners that do business with Nilorn. Companies applying this code are also expected to comply with national and other applicable laws, the provisions of this code constitute minimum and not maximum standards.

### THE ETI BASE CODE IS BUILT AROUND NINE PRINCIPLES

- Employment is freely chosen
- Freedom of association and the right to collective bargaining are respected
- Working conditions are safe and hygienic
- Child labour shall not be used
- Living wages are paid
- Working hours are not excessive
- No discrimination is practised
- Regular employment is provided
- No harsh or inhumane treatment is allowed



New suppliers are to be reviewed by the CSR department, and the 'Nilorn New Vendor Guideline' must be followed. The first assessment includes checking social audits the factory may previously have been subjected to together with environmental information through Higg FEM and other areas such as production capacity and product quality. New suppliers should preferably be visited prior to production however, due to travel restrictions the last two years, we now depend more on

self-assessment and third-party audits. Contractual agreements are entered into with suppliers, including their commitment to abide by Nilorn policies and guidelines.

Total number of new suppliers 2021 assessed according to both social and environmental criteria: 28

## QARMA – OUR TOOL FOR PRODUCT QUALITY CONTROL

Our growing business, together with a high ambition level, demanded a change from our previous internally developed quality-control system and during 2021, we started to use Qarma's powerful software. Our internal system had reached its limitations, for example, in Nilorn East Asia the AQL system (Acceptable Quality Level) handled over 15 000 inspection reports yearly, and monthly statistics reports had to be done manually.

Using Qarma's system for quality control in the production of labels and packaging brought us some new challenges. However, now fully integrated with our ERP Microsoft Dynamics NAV and it enables us to efficiently plan, report, review and improve our performance.

### QARMA INSPECTION TOOL BENEFITS INCLUDE:

- **Automated order-to-inspection**  
All orders are uploaded to Qarma database regularly. Suppliers apply inspections on Qarma web. Less manual work and no more spreadsheets.
- **Standard checklist and defects list**  
Provides guidance during inspection and aligns inspections worldwide. Automatic translation of comments from local language to English.
- **Visual reporting**  
Picture notations with high-resolution video images provide visual proof.
- **Transparency and traceability**  
All reports/data/changes are saved in one place and are easily accessible from anywhere anytime.

- **Statistics and analysis**

Different analysis reports are available on Qarma Dashboard, including inspection overview, defects' overview, and defects contribution, which help us evaluate defect trends and supplier performance.

The routine is now implemented in Nilorn East Asia, Shanghai and Turkey. In 2022 we will roll out country-by-country to our remaining production and distribution locations. Nilorn's product development, CSR and QC teams are working closely to optimize the inspection procedure, improving checklists and defect lists regularly. By doing so, we will streamline the quality check process, benchmark suppliers and continue to improve our quality level globally.

## THE SUPPLIER HANDBOOK

In 2021 the Nilorn Supplier Handbook was updated. The handbook is part of a package for all new suppliers, and it covers:

- Ethical Business Practices - Nilorn's Code of Conduct and other requirements of social compliance
- Chemical Management and Product Safety - Nilorn's requirement on RSL, ZDHC, REACH, and other chemical regulations
- Quality and Testing - quality requirements and testing routines
- Product Development and Production Guidelines - development, production, delivery and packing guidelines







## SUPPLIER INSPECTIONS

We carry out internal inspections in combination with third-party audits through BSCI, SEDEX and other initiatives. Most importantly, we focus on having close-dialogue and frequent meetings with all prioritised suppliers. Given the travel limitations imposed by the pandemic, our plan to conduct inspections of our own sites and suppliers has been slower than planned. In 2021 no business relationships were terminated with suppliers due to non-compliance.

It is important for us to continue reducing our supply chain for greater control, visibility, improved communication and buying power. Whilst reducing our supply chain, we also build relationships with existing suppliers, some of which we have been working with for over 20 years.

### Number of suppliers 2021 229\* (217)

We have implemented a digital tool to support the inspection process, it is being tested and will be rolled out to our sourcing offices in 2022. It will facilitate planning, follow up and administration. In 2021 72 suppliers were visited.

\* Figures are not comparable with the previous periods due to changes in ERP system and registration of suppliers

In 2021, we strengthened our CSR team in Turkey with the support of an external consultant. The focus is on aligning external production with our ambition and assuring compliance. Forty-eight visits were completed (including both initial and follow-up visits).



## SEDEX

Sedex, Supplier Ethical Data Exchange, is a non-profit membership organisation and online database used by more than 60,000 members in over 180 countries, which allows companies to store and view data on ethical and responsible business practices. Members also have access to a range of resources and reports, including industry-specific questionnaires and risk analysis tools. Sedex does not set any standards or determine the policy of its members. Sedex provides a place to store all ethical audit reports, with a summary of non-compliances held in a common format.

The Sedex Members Ethical Trade Audit (SMETA) is a common audit methodology and report format aiming to drive consistency of data from the auditing process. SMETA is the world's most used ethical audit format. The audit checks specifically against the ETI base code and how it is distributed to employees and the supply chain, relevant local laws, environmental performance, subcontractors/home workers, eligibility to work and understanding the ETI base code.

For Nilorn, Sedex supports the management of our complex supply chain and allows us to share data with clients. We are an A/B-member (buyer/supplier). The platform produces valuable insights into labour conditions along the supply chain. Since all social audits, such as BSCI, SA8000 and ICTI, can be uploaded to the Sedex platform, it also reduces administration.

Our production in Bangladesh, China, Hong Kong, Portugal and Turkey is audited according to SMETA. Nilorn India moved to a new location in 2021 and this will be audited in 2022 together with Nilorn Pakistan.

In 2021 we managed to engage more of our external supply chain in Sedex and now more than 87% of our buying volume in risk classified countries is third-party audited. Small suppliers can be a challenge, with bespoke products that are not part of the core business. However, our program to reduce the number of suppliers will also support our goal of 100% third-party audits by 2025. In 2022 we will further develop how we use Sedex to improve visibility in our supply chain.

### THE STEPS IN AN AUDIT

#### 1. Submit a self-evaluation form

All sites that are to be audited are required to complete a self-evaluation form prior to the audit.

#### 2. Conduct a Sedex audit on site

Auditors check if the social and environmental management documentation meets the SMETA criteria. The duration of any given audit depends on the number of employees and locations.

#### 3. Issue a report and CAPR

Once the Sedex audit is done, a corrective action plan is created together with a detailed audit report (SMETA Report & CAPR), these can be uploaded to the Sedex database.



### MODERN SLAVERY

Modern slavery is a term that captures a range of human rights issues, including forced labour, bonded labour, human trafficking and child slavery. Since 2017, Nilorn has published a statement in line with the UK Modern Slavery Act 2015, detailing the steps we take to ensure that modern slavery and human trafficking are not taking place in our operations and in the supply chain. The statement is published on the Nilorn website. It reflects our zero-tolerance approach to modern slavery in every form, and the different forms of modern slavery are covered by the focus areas of our supply chain audits. Employees or third parties who identify a potential or actual violation of these commitments or requirements are encouraged to file an anonymous report to our whistleblowing tool.



## HUMAN RIGHTS

Through our Human Rights policy, we seek to work proactively in line with the UN Guiding Principles on Businesses and Human Rights. Nilorn aims to avoid causing or contributing to adverse human rights impacts in areas we can directly influence through our management control and addressing such impacts if they occur. Wherever possible, we also strive to identify, prevent or mitigate adverse indirect human rights impacts that may be linked to our operations, products and services through business relationships. The Human Rights policy

applies to all Nilorn employees. It also applies, as far as reasonably possible, to our upstream and downstream supply chain through suppliers and business partners.

Our Supplier Code of Conduct includes human rights issues like the prohibition of child labour, discrimination and inhumane treatment at the workplace. All our first-tier suppliers are required to sign this document before we begin our business relationship.

## SUPPLIER EVALUATION AND VENDOR RATING

All our preferred suppliers are evaluated annually. Topics evaluated include delivery reliability, product quality, service, product development, economy and environmental approach. Third-party standard certifications, together with site visits are normally part of this evaluation process. The supplier is graded per the evaluation, and, if necessary, an action plan is developed for improvements. The evaluation is used for follow-up activities, such as supplier training and development.

As a part of our continuous work in developing and increasing the standard of our supply chain a Vendor Rating was introduced in 2021. The Vendor Rating is a tool connected to our business system Microsoft Dynamics NAV for categorising suppliers. It gives an overview of all suppliers and the possibility to categorise suppliers using an internal rating. There are ten criteria included in the rating and for each criterion achieved the score increases. At this initial step we are focusing on soft criteria, for example, third-party social audit status, Higg Index involvement and Nilorn site visit reports. The total score is converted to a letter from A-D, where A is the highest rating. The tool will support us to track and improve supplier's performance and it is also communicated internally to our purchase organisation when placing orders. This is both beneficial for our suppliers and us, as we strive towards working with higher-rated suppliers and it pushes suppliers to strive for the highest rating. In 2022 "hard-criteria" will be added to the vendor rating, e.g. delivery reliability and partial deliveries.



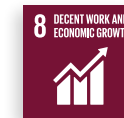
# Our approach to Focus area 3. Employees

Competent and committed employees form the basis for Nilorn to be innovative and competitive. The company strives to offer a workplace characterized by diversity where employees can reach their full potential and contribute to developing a high-performing organisation. By creating good workplaces and optimal and diverse environments for our employees in all our locations, we can strengthen the wellbeing of and generate positive effects for our most important asset, our employees. We also strive to ensure the highest ethical stan-

dards in our workplaces and in our relationships with business partners to provide an ethical environment for our employees. In 2021, Nilorn had 553 employees in 12 countries

In this area, we see the great potential in contributing to two SDGs. By ensuring diverse and equal opportunities at Nilorn, we aim to provide a workplace where all our employees feel welcome and cherished, regardless of their gender identity, sexual orientation, ethnicity, creed or background. Moreover, our employees' physical and psychosocial health and safety are a

cornerstone to conduct our business responsibly and ethically. We also focus on upholding our business ethics, guiding co-workers to behave accordingly, and nurturing diversity at our offices, from the very beginning of the recruitment processes to our employees' growth and promotion.



## KEY ISSUES

- Business ethics and anti-corruption
- Diversity and equality in the workplace
- Work environment, health and safety
- Development and growth

| TARGET 2025  | STATUS 2021   |
|--|---|
| 90% retention rate of our employees                            | 79% retention rate.   |
| 100% of Nilorn units will offer an employee engagement program | In 2021 we engaged with a program together with Wateraid, including all Group employees.  |
| 40-60% gender balance  | We currently have a 41% female and 59% male gender split. Striving to reach greater gender balance at all levels of the organisation. |

## BUSINESS ETHICS AND ANTI-CORRUPTION

Being present in various locations, we meet different cultures and preferences. Our core ethical values apply to all locations where we operate, which is why we have developed governance documents that guide all Nilorn employees' behaviour at work, setting high ethical standards and good practices to prevent improper conduct.

This area of work is material to Nilorn given that our business is spread in 18 countries where different cultures and social norms may affect business behaviour. To avoid unethical behaviour from our employees and in our business relations, we see it as our responsibility to uphold the highest ethical standards wherever we conduct business. For this, we have developed a set of policies and business practices.

Our Code of Ethics, company core values, practices and policies guide the actions and behaviour of our employees to act in an ethical manner that goes beyond compliance. It also means fostering an environment where our employees can speak up if they have questions or encounter violations. All our employees receive information about business ethics and anti-corruption through our policies, which are available on our intranet. Every Nilorn office and facility manages its own system or mechanism for reporting irregularities as well as dissenting opinions and concerns at the workplace, whether relative to corruption or discrimination, so that employees are heard and to identify areas that require special attention. Depending on our offices, the HR or Finance Manager is responsible for collecting cases or suspicions of unethical



Nilorn sales conference 2021, guided tour at Textile Fashion Center, Borås Sweden

behaviour. They are also in charge of managing and following up to take the measure required to resolve each case.

In accordance with the 2021 Swedish Whistleblowing Act, we have integrated a centralised whistleblowing function to enable employees to report suspected serious irregularities or misconduct. This will allow for a more homogenous process to voice inappropriate conduct and help us maintain our strong values and Code of Ethics. Our employees and suppliers have been informed about the new function. The effective use of the whistleblowing system will be reviewed every year to make sure that employees are aware of and feel comfortable using it. This will be done by the group CFO and communicated internally. One incident was reported in 2021.

100% of Nilorn employees signed the anti-corruption policy 2021. To ensure effective implementation of the Code of Ethics and the anti-corruption policy, we held online training for all employees in 2021. No incidents of corruption were registered in 2021, neither at local locations, at Group level, via our whistleblowing system or in connection with suppliers.

### NILORN CODE OF ETHICS AND BUSINESS CONDUCT

This Code shall guide our daily work within Nilorn and it covers areas like:

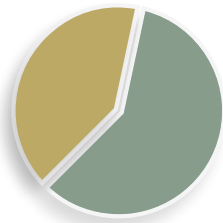
- Compliance with laws and regulations
- Respect in the workplace
- Protection of company property
- Professionalism

Nilorn's principles and work to prevent bribery and other types of corruption are summarised in the global anti-corruption policy. The policy contains the organisation's mandatory rules and restrictions regarding gifts and other appreciations. It also describes the procedures for employees to raise any ethical questions or report any breaches or suspected breaches of the company's Code of Conduct.

GENDER DISTRIBUTION 2021

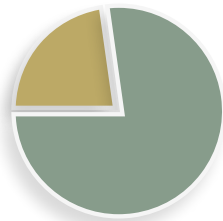
Number of employees: 553

ALL EMPLOYEES



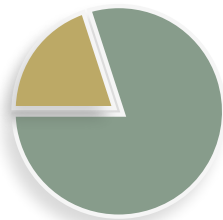
● WOMEN 41% (40) ● MEN 59% (60)

MANAGEMENT



● WOMEN 23% (4) ● MEN 77% (60)

BOARD



● WOMEN 20% (25) ● MEN 80% (75)

Previous year in parentheses.

# Diversity and equality at Nilorn

To be an attractive employer in all countries where we have offices and production, we take our responsibility to create fair and equal opportunities for men, women and non-binary seriously in the countries where we are present. We have internal policies and business practices that incorporate this vision in everything that we do, from our facilities to our management team, in all our locations.

Diversity and equality at Nilorn are paramount. These are part of our values, they support our business goals and are considered a key aspect of our employee wellbeing. Our focus lies in creating a diverse workplace where all employees have equal opportunities, regardless of their socio-economic background, religious beliefs, gender, sexual orientation or ethnicity.

Our Human Resource Policy regulates what the company expects of its employees and what employees can expect of the company. The HR policy mainly regulates management responsibility for developing staff, information supplied to all employees, annual performance reviews, payments and IT usage. The overall objective is that work on gender equality should be a natural and integral part of all our activities and apply to all staff at all levels.

We also believe it is important that Nilorn employees feel comfortable voicing dissenting opinions and concerns at the workplace. Our employees can communicate their concerns to managers, through our employee surveys and anonymously via the Whistleblowing channel.



Employees of Nilorn Belgium, Denmark and the worker committee in Nilorn Bangladesh are covered by collective bargaining agreement (5%). Nilorn Sweden is following the agreement of Unionen. We also have internal system that ensures proper implementation of our policies and routines. To find out more about our internal controls on policy implementation, go to page 18. No incident of discrimination was identified in 2021.



Nilorn continues to grow, and the employee headcount increased by 4 percent in 2021. This growth is principally due to recruitment in our Bangladesh factory and the Swedish head office. The gender distribution in the entire Group is 41 percent women and 59 percent men. 23 percent of managers are women. The long term target is that neither men nor women will account for less than 50 percent. The focus for the coming years is to increase the age balance and improve the gender distribution in the

total workforce and among senior executives, it is a high priority throughout the organisation. Challenges for a more even gender distribution include low staff turnover in some regions, structural factors in our industry and that the business is conducted in countries where gender roles are largely traditional.

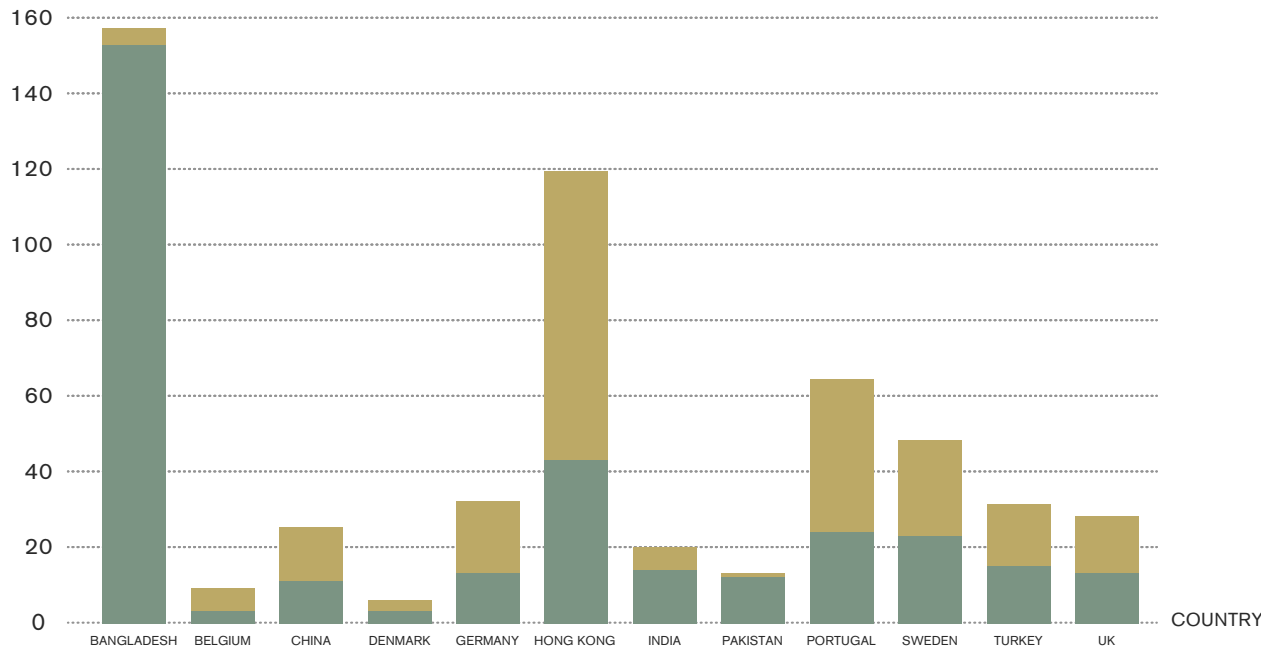
We actively promote Human Rights and proactively respect the rights everyone is entitled to basic rights and freedoms,

regardless of nationality, gender, religion, race or any other status. Nilorn aims to avoid causing or contributing to adverse human rights impacts in areas we can directly influence, through our management control and addressing such impacts if they occur. Wherever possible, we also strive to identify, prevent or mitigate adverse indirect human rights impacts that may be linked to our operations, products and services through business relationships. This is part of our Human Rights Policy.

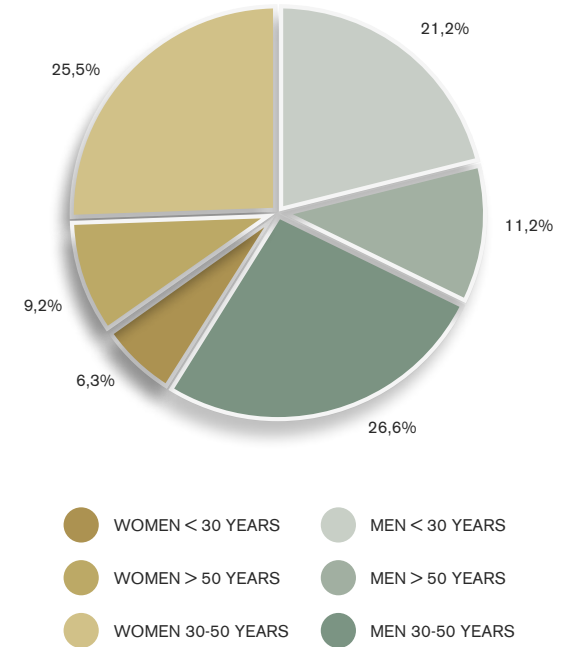
GENDER DISTRIBUTION PER COUNTRY



EMPLOYEES



AGE DISTRIBUTION



# Work environment, health and safety

Nilorn aims to be an employer of choice by offering a more sustainable, caring and safe working environment.

According to the Swedish work environment act, we as employer are responsible for occupational health and safety. We cooperate with employees and safety representatives about the work environment and occupational health and safety management in our headquarter. This means that we systematically identify, prevent, investigate and follow-up on work-related activities that may lead to work-related illness or accidents. This includes both the physical and psychosocial wellbeing of all our employees. We do this through an external health service provider and safety representatives. Each Nilorn unit has a process for worker consultation, it can be as example worker committee, suggestion box or worker representative. In Bangladesh there is a Worker Participation Committee elected according to legal requirements.

There are different wellness programs and initiatives among the group, some examples are wellness grants and access to fitness club, regular health examinations and additional consultancy for those who need, enhanced coverage for health-care professionals, health insurance, eyesight test, e-bikes and service for personal support and life management.

Occupational health and safety is currently managed by each Nilorn location and based on national legal requirements. All production units are expected to adhere to the available standards and they cover areas such as emergency procedures, risk assessment, safety training program, risk assessments, chemicals

Reporting incidents is one way of identifying risks and working to make improvements. In 2021, 5 incidents were reported. All reported incidents occurred in production and warehouse departments and most common is fall and crush injury.

management and personal protective equipment. Nilorn has a decentralised approach to identifying and investigating risks and hazards at the workplace. Each facility within the group is responsible for defining action plans that prevent and mitigate the risks identified and follow-up their implementation. Employees can also report potential issues directly to each Managing Director, and safety rounds are conducted on a regular basis at our production facilities. We promote a safe, healthy and secure environment in our own offices and production as well as our external suppliers' activities. Occupational health services are provided for employees. In the Bangladesh factory there is a doctor and nurse available during work hours, while in other countries the service is provided either by external service provider or the public health system. The focus of occupational safety at Nilorn is on preventive actions and raising awareness, i.e., risks and hazards are to be eliminated in advance where possible. Risk assessments are carried out, and training programs are managed by each production unit. In 2022 we will look more into a group level focus and common routines.



Total hours of training in Nilorn factory, Dhaka, Bangladesh 2021: 90 hours  
Including: First aid, Occupational health & safety, PPE, Fire & electrical safety, MSDS, Risk assessment and Grievance mechanism.

## FOLLOW-UP OF EMPLOYEE SATISFACTION

The company also conducts a biannual employee survey, which gives a voice to employees and includes questions about well-being at the workplace and employee satisfaction. The survey, which consisted of five multiple-choice questions (scale 0 – 10) and one open question, was anonymous; only the country of the person who replied was revealed. The average was very uniform among the questions, but with major variation between

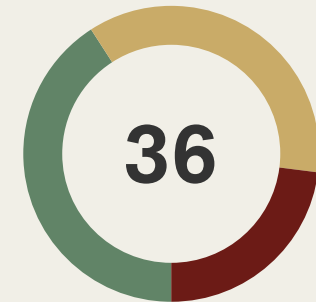
some companies. Areas where we received the highest/best values included the corporate values and stress level. Three countries were identified as an area for improvement thereafter, action has been taken and will be followed up. We monitor and follow the trend in the different countries to be able to act if it does not go as planned.



Covid-19 continues to have a significant impact on our work with employee health and safety. We switched to a hybrid, flexible model in our sales offices. This lets people work from home and allows for split team schedules with better physical distancing for those who need to be in the office. For production units, the focus has been on communication and education, for example regarding mandatory use of face masks and good hand hygiene. Each Nilorn location has been responsible for implementing proper workplace controls to help mitigate the spread through, for example, temperature screening, mandatory face covers, disinfection of common areas and remote working.

## EMPLOYEE NET PROMOTER SCORE

On a scale of 0-10, how likely are you to recommend this workplace to a friend or someone from your professional network?



eNPS score (Employee Net Promoter Score), describes the extent to which the employees are ambassadors for our organization. Twice per year, we measure the eNPS for all five questions. Employees anonymously answer the questions and the focus is on “How likely are you to recommend working at Nilorn to a friend or acquaintance?” and that eNPS is what we communicate above.

In the last survey the questions were translated into the local language and also made available for all employees to reply. Then number of responses increased from 210 to 466.

eNPS can range from -100 to 100. However, any score above zero is usually seen as a positive. Generally, a score within the bracket of 10 to 30 is considered good and a score of 50 is excellent.





Nilorn sales conference, Walk and talk, Borås Sweden 2021

## Employee development and growth

Attracting and retaining highly skilled employees gives us a strong competitive advantage and to do that we need to offer an excellent work environment that supports our employees' growth and development.

We believe all employees should enjoy their work and have job satisfaction. We want all employees to develop and grow along with the company. Training opportunities are an important tool to continuously increase skills and professional development. This is also a way to retain our experienced co-workers and attract new talent. Furthermore, capacity-building is key to increasing all employees' knowledge and awareness of issues that are important for the sustainable growth of Nilorn and our clients. Managers are responsible for employees' training agenda. Nilorn regularly monitors employees' general motivation and well-being

### BUILDING WINNING TEAMS

In November part of the Nilorn's global sales team met in Borås, Sweden. We held workshops, training and an outdoor team-building activity. One training focused on reporting tools and one workshop looked at how to exceed our clients' requirements in CSR and sustainability. This topic will be continued in webinars during 2022.

Want to work with us? All our job opportunities are available at <https://www.nilorn.com/about-us/career/>

through annual development talks. All employees are to be offered annual performance reviews, in 2021 51% completed their annual performance reviews with their manager. Due to the pandemic certain offices have postponed the review to beginning of 2022.

### TRAINING DURING THE PANDEMIC

Prior to the pandemic, capacity-building and training was arranged at our own production sites in each country, for example, around topics such as first aid and occupational health and safety. In 2020, we integrated more digital tools to meet, train and share experiences within our organisation. In 2021 we continued with our online training, with 9 webinars covering topics as CSR, new materials and Higg Index, allowing for certain training to continue while physical meetings and travelling were not possible. The average hours of training per employee was 8 hours.

Our induction program ensures that new employees receive a broad understanding of Nilorn and how we operate. It sets the tone for our collaboration. Part of the program is the Code of Ethics and Business Conduct, the practices every employee should be guided by daily. As part of the Nilorn Sweden environmental certification, there was a mandatory requirement for basic environmental training for all employees. The training material will now be translated and shared with all other offices and production units.



## Social engagement

Nilorn participates in two initiatives run by the German Aid by Trade Foundation (AbTF) – The Good Cashmere Standard® (GCS) and Cotton made in Africa (CmiA). Instead of collecting donations, AbTF forms an alliance of textile companies and brands that purchase the sustainable raw material at standard market prices and pay a license to use the seal. The foundation reinvests income from licenses in line with its goals.

### THE GOOD CASHMERE STANDARD® (GCS)

The GCS is an independent standard for sustainably produced cashmere wool. Developed in 2019 in close collaboration with animal welfare specialists and cashmere production experts, it aims to improve the wellbeing of cashmere goats, the working conditions of farmers, and their living environment. Before verification, each farm must complete a self-assessment, and farmers and cashmere producers need to meet social, environmental and animal welfare criteria. Certificates are reviewed on an annual basis.

The standard focuses on cashmere production in Inner Mongolia, and in 2020 the first cashmere farmers were certified. In 2021 14 cashmere producers with 7,900 farms and around 3.3 million goats participated in the verification process. The certificate authorises them to label their cashmere with The Good Cashmere Standard®. Partnering brands can then communicate to consumers that the cashmere wool used has been sustainably produced. Nilorn is proud to be a nominated producer of all standard labels.



### COTTON MADE IN AFRICA (CmiA)

CmiA is an internationally recognised standard for sustainable cotton from Africa. Since it started in 2005, CmiA has had the goal of protecting the environment and helping Sub-Saharan African smallholder cotton farmers and ginnery workers improve their living and working conditions. For example, regulating pesticide use in favour of botanical pesticides and natural fertilisers, such as compost or manure, that contribute to sustainable agriculture. Instead of collecting donations, the initiative follows the principle of helping people help themselves through trade. Nilorn has been a CmiA partner for eight years.



Credit; Martin J. Kielmann for CmiA

# Nilorn participates in initiatives

We participate in numerous initiatives and collaborations to demonstrate our commitment to social engagement and it give us the opportunity to exchange knowledge and experiences with representatives from across the industry.

## THE AMERICAN APPAREL & FOOTWEAR ASSOCIATION

In 2020 Nilorn became a member of The American Apparel & Footwear Association (AAFA), which represent more than 1,000 brands, retailers, and manufacturers. AAFA provides exclusive expertise in trade, brand protection, and supply chain and manufacturing to help its members navigate the complex regulatory environment. AAFA was formed in August 2000 through the merger of the American Apparel and Manufacturers Association (AAMA) and Footwear Industries of America (FIA).

## FEDUSTRIA VZW

Fedustria VZW is the merger federation of the former non-profit organisations Febeltex and Febelhout and represents companies from the Belgian textile, wood and furniture industry. Fedustria's mission is to assist companies in successful development by safeguarding and strengthening their competitiveness. Nilorn Belgium has been a member since 2001 and the membership give us access to information, support and training in areas like communication, sales, environment and sustainability.



## DANSK FASHION AND TEXTILE

Dansk Fashion and Textile (DM&T) is the trade association for Danish textile and clothing companies, representing more than 375 companies. DM&T is nationally responsible for GINETEX in Denmark and gives its member advice, inspiration, networking and political work for the industry as well as its marketing. Nilorn Denmark has been a member since 1979.



## SWEDISH TEXTILE IMPORTERS ASSOCIATION

The Swedish Textile Importers Association provides importers of textiles and related businesses with industry-specific service, helping us keep track of important regulations and information, such as customs duties, rules of origin, labelling and CSR. Nilorn has been a member since 2004.



## SWEDCHAM HONG KONG

The objectives of the Swedish Chamber of Commerce in Hong Kong are to promote, study, extend, advance and protect business relations, investments and interests of Swedish and other organisations in Hong Kong. Swed-Cham participates actively in the International Business Committee (IBC), which provides a sounding board and forum for lobbying and discussion for international business representatives with the Government on matters of interest for Chamber members. Nilorn East Asia has been a member since 2017.



## UK FASHION AND TEXTILE ASSOCIATION

The UK Fashion and Textile Association (UKFT) is a British network for fashion and textile companies, bringing together designers, manufacturers, agents and retailers to promote the business and industry in the UK and throughout the world. UKFT has a unique position, representing businesses from spinning, weaving and knitting to catwalk and aftercare. UKFT is the UK representative of GINETEX, the international association for textile care labelling. Over 2,500 companies hold membership, and by being a member, we get access to industry-specific business information, export advice and networking. Nilorn has been a member since 2017.

## TEKO

TEKO is the Swedish trade and employers' association for companies working in the textile and fashion industry with over 300 member companies. They represent the sector, both nationally and internationally, in all questions of common interest and inform clients, suppliers, media, the public and the government about the Swedish textile and clothing industry, its companies and its products. TEKO is also the national member for Sweden to GINETEX – the international association for care labelling. Sustainability is a high priority focus area for TEKO. TEKO's Environmental and Energy Group is responsible for this, and the group includes member companies, of which Nilorn is one and authorities.





## TAXONOMY

The European Commission describes the EU Taxonomy as a classification system that establishes a list of environmentally sustainable economic activities. It gives companies, investors and decision-makers appropriate definitions for which operations can be considered sustainable. The Taxonomy will play an essential role in scaling up sustainable investments in the EU and implementing the EU Green Deal.

Nilorn is obliged to report according to the EU directive on non-financial reporting and must state the extent to which the activities carried out meet the EU Taxonomy

criteria. Nilorn's principal economic activity, the sales and production of labels, is not yet included in the Taxonomy. Therefore, Nilorn's share of turnover covered by the Taxonomy regulation is 0%. Furthermore, we have analyzed Nilorn's investments and concluded that the share of the capital expenditure and operating costs covered by the Taxonomy is 0%.

Sustainability is a priority for Nilorn, so our goal is to increase the proportion of compliant activities as the Taxonomy develops.

# THE WAY FORWARD

Our long-term commitment to sustainability helps shape the way we work. Our strategy going forward is focused on involving the entire organisation, supporting our employees in driving change and working closely with our suppliers as they have a significant impact on our performance.

We have been refining the information included in our sustainability reports and aim to keep improving the data and standards we use to disclose our sustainability work.

## OUR PRINCIPAL FOCUS AREAS:

- Consolidate supply chain
- Sustainable materials, continuing the development of alternatives to fossil-based materials
- Mapping transportation and reducing the use of air transport



# GRI Content Index

| Disclosure Number                        | Disclosure Title   | Comments  | Page            | Disclosure Number             | Disclosure Title   | Comments   | Page              |
|--|--|---|-----------------|-------------------------------|--|--|-------------------|
| <b>GRI 102: General Disclosures 2016</b> |  |   |                 | <b>STAKEHOLDER ENGAGEMENT</b> |  |  |                   |
| <b>ORGANISATIONAL PROFILE</b>            |  |   |                 | 102-40                        | List of stakeholder groups   |  | 12                |
| 102-1                                    | Name of the organisation                                     | Nilörngruppen AB  | 2               | 102-41                        | Collective bargaining agreements   |  | 53                |
| 102-2                                    | Activities, brands, products, and services                   | <a href="http://www.nilorn.com/products/">www.nilorn.com/products/</a>  |                 | 102-42                        | Identifying and selecting stakeholders                                   |  | 11-12             |
| 102-3                                    | Location of headquarters                                     | Borås, Sweden   | 65              | 102-43                        | Approach to stakeholder engagement                                       |  | 12                |
| 102-4                                    | Location of operations                                       |   | 4, 65           | 102-44                        | Key topics and concerns raised   |  | 11-12             |
| 102-5                                    | Ownership and legal form                                     | <a href="http://www.nilorn.com/investors/the-company/">www.nilorn.com/investors/the-company/</a>  |                 | <b>REPORTING PRACTICE</b>     |  |  |                   |
| 102-6                                    | Markets served   | <a href="http://www.nilorn.com/about-us/#our-offer">www.nilorn.com/about-us/#our-offer</a>  |                 | 102-45                        | Entities included in the consolidated financial statements               | Annual Report 2021, <a href="http://www.nilorn.com/investors/reports-and-presentations">www.nilorn.com/investors/reports-and-presentations</a> | 2                 |
| 102-7                                    | Scale of the organisation                                    | "Number of employees: 553<br>Consolidated annual sales: 788 MSEK"   | 4               | 102-46                        | Defining report content and topic Boundaries                             |  | 12-13             |
| 102-8                                    | Information on employees and other workers                   |   | 53              | 102-47                        | List of material topics  |  | 13                |
| 102-9                                    | Supply chain   |   | 9, 35, 48       | 102-48                        | Restatements of information  | No restatements  |                   |
| 102-10                                   | Significant changes to the organisation and its supply chain | No significant changes  |                 | 102-49                        | Changes in reporting   | No significant changes   |                   |
| 102-11                                   | Precautionary Principle or approach                          | Nilorn is committed to the UN Global Compact's ten principles. We address the precautionary principle, especially in areas involving health and safety and environmental risks. |                 | 102-50                        | Reporting period   | Fiscal year 2021   | 2                 |
| 102-12                                   | External initiatives   | Have signed UN Global Compact   | 2               | 102-51                        | Date of most recent report   | April 2021   |                   |
| 102-13                                   | Membership of associations                                   | Members of Sedex, Sustainable Packaging Coalition, RISE Chemicals Group.  | 5, 20-23, 59-60 | 102-52                        | Reporting cycle  | Annual   | 2                 |
| <b>STRATEGY</b>                          |  |   |                 | 102-53                        | Contact point for questions regarding the report                         | Anna-Karin Wårfors, Sustainability Manager, <a href="mailto:anna-karin.warfors@nilorn.com">anna-karin.warfors@nilorn.com</a>                   |                   |
| 102-14                                   | Statement from senior decision-maker                         |   | 3               | 102-54                        | Claims of reporting in accordance with the GRI Standards                 | This report has been prepared in accordance with the GRI Standards: Core option  | 2                 |
| <b>ETHICS AND INTEGRITY</b>              |  |   |                 | 102-55                        | GRI content index  |  | 62                |
| 102-16                                   | Values, principles, standards, and norms of behaviour        | <a href="http://www.nilorn.com/sustainability/responsible-business-and-governance/">www.nilorn.com/sustainability/responsible-business-and-governance/</a>                      | 8               | 102-56                        | External assurance   |  | 64                |
| <b>GOVERNANCE</b>                        |  |   |                 | <b>200 ECONOMIC</b>           |  |  |                   |
| 102-18                                   | Governance structure   | Annual Report 2021, <a href="http://www.nilorn.com/investors/reports-and-presentations">www.nilorn.com/investors/reports-and-presentations</a>                                  |                 | <b>Anti-corruption 2016</b>   |  |  |                   |
|  |  |   |                 | 103-1/2/3                     | <b>Management Approach 2016</b>  |  | 13, 19, 20-23, 51 |
|  |  |   |                 | 205-2                         | Communication and training about anti-corruption policies and procedures | Part of Induction training   | 52                |

| Disclosure Number                             | Disclosure Title   | Page                    |
|---|--|-------------------------|
| <b>300 ENVIRONMENT</b>                        |  |                         |
| <b>Materials</b>                              |  |                         |
| 103-1/2/3                                     | <b>Management Approach 2016</b>                                | 13, 19, 20-32           |
| Own indicator                                 | Total polybags, textile and paper labels in recycled materials | 27                      |
| Own indicator                                 | Total amount of FSC certified paper of total paper             | 24                      |
| <b>Energy 2016</b>                            |  |                         |
| 103-1/2/3                                     | <b>Management Approach 2016</b>                                | 19, 20-23, 35-36        |
| 302-1   | Energy consumption within the organisation                     | 36                      |
| 302-4   | Reduction of energy consumption                                | 36                      |
| <b>Water and Effluents 2018</b>               |  |                         |
| 103-1/2/3                                     | <b>Management Approach 2016</b>                                | 19, 20-23, 35-37, 38-40 |
| 303-1   | Interactions with water as a shared resource                   | 38                      |
| 303-2   | Management of water discharge-related impacts                  | 38, 40                  |
| 303-5   | Water consumption  | 38                      |
| <b>Emissions 2016</b>                         |  |                         |
| 103-1/2/3                                     | <b>Management Approach 2016</b>                                | 19, 20-23, 35, 40-42    |
| 305-1   | Direct (Scope 1) GHG emissions                                 | 41                      |
| 305-2   | Energy indirect (Scope 2) GHG emissions                        | 41-42                   |
| <b>Waste 2020</b>                             |  |                         |
| 103-1/2/3                                     | <b>Management Approach 2016</b>                                | 19, 20-23, 36, 38, 40   |
| 306-1   | Waste generation and significant waste-related impacts         | 38                      |
| 306-2   | Management of significant waste-related impacts                | 38                      |
| 306-3   | Waste generated  | 38                      |
| <b>Supplier Environmental Assessment 2016</b> |  |                         |
| 103-1/2/3                                     | <b>Management Approach 2016</b>                                | 13, 19, 20, 23, 45-48   |
| 308-1   | New suppliers that were screened using environmental criteria  | 46                      |

| Disclosure Number                           | Disclosure Title  | Page                     |
|---|---|--------------------------|
| <b>400 SOCIAL TOPICS</b>                    |   |                          |
| <b>Occupational Health and Safety 2018</b>  |   |                          |
| 103-1/2/3                                   | <b>Management Approach 2016</b>   | 13, 19, 20-23, 51, 55-56 |
| 403-1                                       | Occupational health and safety management system  | 55                       |
| 403-2                                       | Hazard identification, risk assessment, and incident investigation  | 55                       |
| 403-3                                       | Occupational health services  | 55                       |
| 403-4                                       | Worker participation, consultation, and communication on occupational health and safety                       | 55                       |
| 403-5                                       | Worker training on occupational health and safety   | 55                       |
| 403-6                                       | Promotion of worker health  | 55                       |
| 403-7                                       | Prevention and mitigation of occupational health and safety impacts directly linked by business relationships | 55                       |
| 403-8                                       | Workers covered by an occupational health and safety management system  | 55                       |
| <b>Training and Education 2016</b>          |   |                          |
| 103-1/2/3                                   | <b>Management Approach 2016</b>   | 13, 20-23, 57            |
| 404-1                                       | Average hours of training per year per employee   | 57                       |
| 404-3                                       | Percentage of employees receiving regular performance and career development reviews                          | 57                       |
| <b>Diversity and Equal Opportunity 2016</b> |   |                          |
| 103-1/2/3                                   | <b>Management Approach 2016</b>   | 13, 20-23, 51, 53-54     |
| 405-1                                       | Diversity of governance bodies and employees  | 51, 53-54                |
| <b>Human Rights Assessment 2016</b>         |   |                          |
| 103-1/2/3                                   | <b>Management Approach 2016</b>   | 13, 19-23, 45, 49-50     |
| 412-1                                       | Operations that have been subject to human rights reviews or impact assessments                               | 48                       |
| <b>Supplier Social Assessment 2016</b>      |   |                          |
| 103-1/2/3                                   | <b>Management Approach 2016</b>   | 13, 19, 20-23, 45-50     |
| 414-1                                       | New suppliers that were screened using social criteria  | 46                       |

Sustainability data for 2021 has been collected using a web tool developed by Position Green.





*Translation from the Swedish original*

## **Auditor's opinion regarding the statutory sustainability report**

To the general meeting of the shareholders in Nilörngruppen AB, corporate identity number 556322-3782

### **Engagement and responsibility**

It is the board of directors who is responsible for the sustainability report for the year 2021 and that it is prepared in accordance with the Annual Accounts Act.

### **The scope of the examination**

Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 *The auditor's opinion regarding the statutory sustainability report*. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

### **Opinion**

A statutory sustainability report has been prepared.

Göteborg 2022-04-07

KPMG AB

Mathias Arvidsson  
Authorized Public Accountant

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Nilorn has been recognised as a Nasdaq ESG Transparency Partner since 2019. The recognition is presented to companies that display a high level of transparency to its investors in regard to Environmental, Social and Governance (ESG) issues.

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