



SUSTAINABILITY REPORT

Communication on Progress

HGF's basic beliefs

We believe that people and organisations flourish when they evolve together as a team. The employees that chose to work for HGF and the customers and supplier who want to do business with our company all subscribe to this basic belief. It has developed a very creative business environment in which we all like to be challenged, continuously improve, solve problems, have an influence and feel like we belong.

In this context there has been no need for our corporate management to try to convince our organisation to adopt the principles of corporate social responsibility. It comes natural. It is however important for us to subscribe to a program that can help us in our sustainability efforts. We can, and should, improve in all areas related to human rights, labour relations, environment and anti-corruption. For this reason, HGF supports the UN Global Compact and its 10 principles. This communication on progress confirms our continued support and ongoing commitment to the initiative.

Halmstad, 30st of August 2018,

A handwritten signature in blue ink, appearing to read 'C. Kiks', written over a light blue circular stamp.

Christian Kiks

CEO

HGF

Human Rights

HGF supports and respects the United Nations Declaration on Human Rights and accepts its responsibility to respect the rights of employees and society to the extent they are affected by the Group's activities. We have included this commitment in our company Code of Conduct in which we also specify our policies regarding these issues. The Code of Conduct is a mandatory policy document for all HGF employees.

We have developed a Sustainable Procurement Policy that has been sent out to all suppliers and that we require them to comply with. We assess all companies that wish to become a supplier to HGF and a minimum requirement is that they commit to the 10 principles of the UN Global Compact and that they have no involvement with conflict minerals.

Measurement of outcome: no reported cases of violations of human rights, neither within HGF nor in any of our suppliers.

Labour

At HGF we understand that a healthy, safe and motivating workplace is key to our company's success. Our code of conduct is therefore very clear on the basic requirements we have for all HGF group companies:

The HGF Group strives to be a respected employer - for current as well as for potential employees. The companies in the HGF Group shall provide a good physical and social work environment. The companies in the HGF Group shall also strive to be an attractive employer with respect to the personal and professional development of its employees.

The relationship with and among the employees shall be based on mutual respect and dignity, as well as reasonable influence in areas that affect the individual's work situation. All employees of the HGF Group shall work in accordance with the Group's values.

- *The terms of employment, including financial compensation and working-hours, offered to the Group's employees shall, as a minimum, comply with the minimum requirements according to national legislation or the standard of the industry.*
- *HGF does not accept forced labour, slave labour or other forms of involuntary work in the Group's workplaces. Nor does the Group allow the use of methods that limit the free movement of its employees.*
- *HGF does not hire persons below the age of 15, and where local legislation imposes a higher age limit, no persons below such age may be hired.*
- *HGF provides all of the Group's employees equal opportunities regardless of race, skin colour, sex, age, nationality, religion, ethnicity or other distinctive characteristics. The Group permits neither discrimination nor harassment.*
- *HGF recognizes the right of employees to form or become members of unions in accordance with the laws and principles of each respective country.*
- *The work environment offered by HGF shall be safe and sound. Each Group company is responsible for ensuring that all work is conducted in such a way that injuries and illness are prevented. Written health and safety instructions shall apply to the Group's workplaces.*

At HGF we have developed extensive procedures to ensure a good work place for every employee. This includes the definition of responsibilities for health and safety with union participation, training

needs for health and safety, risk assessments for any new component or chemical, regular workplace checks to monitor health and safety, procedures to investigate and implement preventive actions for accidents and near-misses, procedures for cases of discrimination and/or harassment, procedures for the continuous improvement of the workplace, and procedures for rehabilitation of employees.

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In HGF we have had a clear strategy to increase diversity in our team and in all our sites. And at the time of this report the percentage of women in our three Management Teams (the Group Management Team, the Swedish factory Management Team and the Latvian factory Management Team) has increased to 41%: 10 men and 7 women, which is very rare in a manufacturing company.

There have been no public investigations and/or legal cases related the labour situation in any of HGF's sites during the past year. Total sick-leave is down from 11.9% in 2015, to 6.8% in 2016 and 6.2% in 2017.

Environment

According to our environmental policy, HGF shall minimise its impact on the environment through dedication to preventive actions and continuous improvement, but also by making sure everyone is properly trained and that the mandate to take action is clearly delegated.

We have been ISO14001 certified for many years and this means that we have clearly defined our areas of environmental impact and that we have established our environmental goals, or action areas if you wish. These are:

1. Reduce our use of energy.

A lot of work has been done to insulate hot oil pipes and heated presses in production.

The indicator of energy use divided by turnover shows a downward trend and improved with 2% in 2017 compared to 2016.

2. Reduce the use of dangerous chemicals

Continuous work is done by our Materials Department to reduce the use of dangerous chemicals. During the past year zinc oxide has been substituted with active zinc oxide and this has reduced our consumption by 50%. We have also phased out the hazardous chemical Diisononyl phthalate (DINP).

3. Minimise transports, both internal and external

The work we do with our production system, which is based on lean production principles, continuously challenges our logistics systems. At this point we unfortunately have no appropriate indicator to analyse the amount of transports within the HGF group.

4. Minimise our waste volume

We have implemented a quality system to continuously reduce our scrap rate and we have this year reached levels of around 1,3%, compared to 1,6% last year.

Measurements earlier this year showed that HGF's dust emissions are at one 10th of the established limits. We have also implemented a system for cardboard recycling to reduce waste going to the municipal furnaces. Overall waste volume per thousand SEK turnover decreased 10% in 2017 compared to 2016.

Our Sustainable Procurement Policy, which has been sent out to all suppliers states:

- *The supplier shall identify relevant environmental legal and other requirements and ensure continued compliance with the requirements.*
- *It is encouraged that the supplier implement and maintain an environmental management system such as ISO 14001 or comparable system.*
- *The supplier should look to minimise the use of energy and natural resources and maximise the use of renewable energy sources.*

We assess all companies that wish to become a supplier to HGF and a minimum requirement is that they commit to the 10 principles of the UN Global Compact, but they must also show that they have an environmental management system.

Anti-corruption

HGF's code of conduct is very clear when it comes to corruption:

HGF aims to be perceived as a trustworthy, long-term and reliable collaboration partner and will act professionally, honestly and ethically correct. The Group does not tolerate corruption, bribes and unfair practices that may limit competition. All sales activities and marketing of HGF's products and services shall be conducted in compliance with relevant laws and regulations in each respective country.

- *HGF shall not offer or make undue payments or give other compensation to any person or any organization for the purpose of inducing such person or organization to act in breach of prescribed obligations in order to engage HGF or to retain assignments for the Group.*
- *HGF shall not - directly or indirectly - request or accept any form of undue payment or other compensation given for the purpose of inducing the Group to act in breach of HGF's prescribed obligations.*
- *For the purpose of avoiding conflicts of interest, employees of the HGF Group may only give or accept gifts or services that are in compliance with general business practice, do not breach applicable law, do not represent any major financial gain and cannot reasonably be regarded as constituting bribes.*

Last year we developed and implemented a whistle-blower procedure to make it easier for any employee to safely report suspected cases of corruption. So far no cases have been reported and we have no reported public legal cases regarding corruption neither against the company nor any of our employees.