

aq

2018

AQ Group Communication on Progress and Sustainability report



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AQ Group AB

AQ Group Communication on progress

Purpose

The purpose of this report is to describe AQ Group's progress with respect to the ten principles of the UN Global Compact.

Scope

This report applies to AQ Group and covers the period from joining the UN Global Compact initiative in September 2012 until December 31st, 2019.

Statement of continued support

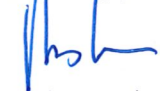
December 31st, 2018,

To our stakeholders:

I am pleased to confirm that AQ Group AB reaffirms its support of the ten principles of the UN Global Compact in the areas of Human rights, Labor, Environment and Anti-corruption.

In this annual Communication on Progress for 2018, we describe our actions to continually improve the integration of the Global Compact and its principles into our business strategy, culture and daily operations. We also commit to sharing this information with our stakeholders using our primary channels of communication.

Sincerely yours,



Anders Carlsson
CEO

Report structure

This year AQ Group has made a sustainability report that is included in its annual report. The sustainability report is made accordance with UN global compact framework and is base for our communication report.

AQ Group Sustainability report 2018

AQ Group was founded in Sweden in 1994 and consists today of about 6000 employees, with a large share working in growth countries outside Sweden. We are a global manufacturer of components and systems for industrial customers with high demands around the world. AQ Group consists of seven business areas which are Electric cabinets, Wiring systems, Precision stamping and injection molding, Sheet metal processing, System products, Inductive components and Special technologies.

We take pride in being a reliable supplier by producing products with high quality, delivered on time in a sustainable way. AQ group has been an active member of the UN global Compact since 2012.

AQ Group has set 10 principles and goals for its sustainability work. The principles correspond to the principles set forth by the UN Global Compact framework. In our sustainability report we will present the goals and principles, how they are implemented and a presentation regarding goals and results.

Human Rights Principles

Principle 1: AQ should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that we are not complicit in human rights abuses

Assessment, Policy & Goals

AQ Group's goal is for all our employees and business partners to live up to the Universal Declaration of Human Rights.

Our core values and code of conduct outlines the way each of us should behave and clarifies our responsibility to report instances of human rights violations.

The code of conduct is known to all employees within the company. Also, our immediate supply chain should adhere to the same principles. The principles are clearly stated in the AQ Supplier Code of Conduct.

AQ Group's goal regarding Human Rights is to have zero human rights violation reports.

Implementation

All employees and external stakeholders can report violations directly by sending a message to whistleblower@agg.se should there be any violations against human rights.

This year AQ Group continued implementation of its core values, which were established in early 2012, across all AQ companies. One of the cornerstones of the core values is "Courage and Respect" including the principles, "Every employee has the same status" and "We treat others as we like to be treated ourselves". A copy of the AQ "Core Values" booklet has been handed to each employee in their local language. Workshops have taken place to further strengthen the understanding of the core values across the company. This together with the AQ Code of Conduct gives guidance how to act within AQ Group in any given situation.

Suppliers are regularly audited using a standard template which contains a section on human rights and that they are required to adhere to the AQ Group Supplier Code of Conduct. Suppliers who have questionable ethics are not approved as an AQ supplier.

Measurement of outcomes

In AQ Group there has been no reported incidents of human rights abuses during the year. If any issues should occur in the future they will be recorded and brought to the attention of group management and the relevant authorities. AQ Group is fully

committed to handle any such occurrences objectively and to act quickly.

In the last four years we have had zero human rights violation reports in AQ.

In addition to this AQ is supporting a village in India through the Hand in Hand foundation. We donate money to prospective entrepreneurs in the village to help them to a better life.



AQ employees in India take an oath to comply with AQ Group Core Values

Labor Principles

Principle 3: AQ upholds the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: AQ upholds the elimination of all forms of forced and compulsory labor;

Principle 5: AQ upholds the effective abolition of child labor; and

Principle 6: AQ upholds the elimination of discrimination in respect of employment and occupation

AQ Group hires and treats its employees in a manner that does not discriminate regarding sex, transgender identity or expression, ethnicity, religion or other belief, disability, sexual orientation, age, political opinion, social origin, HIV/AIDS status and trade union membership. Diversity in the workplace is encouraged at all levels.

Assessment, Policy & Goals

Our Code of Conduct shows clearly employee rights and responsibilities.

All employees work here willingly, and no employee is forced to work overtime.

In AQ Group we have a non-discrimination policy that take stand against all kind of discriminations and this is stated clearly in our code of conduct.

We uphold the law and our ethical responsibility by only employing people of a legal working age.

The AQ Group goal for Labor Principles is to have an average self-assessment score higher than 2.5 and that no subsidiary should score below 2 in our yearly self-assessment where the lowest score is 0 and highest is 3.

Implementation

The labor unions in AQ Group are working well. AQ applies collective agreements that are negotiated by the parties and follows laws and regulations in the countries where we operate.

With regards to the safety of our employees we evaluate, and audit working conditions and make sure that the correct protective clothing and equipment is used.

We fully commit to providing a safe working environment. New employees receive relevant orientation training to carry out their tasks safely and existing employees receive continuous training at various intervals based on their need to be able to perform their respective tasks.

We have during the year increased our focus on health and safety as an important part of our core values. Special focus has been put on working with identifying risks earlier and getting more people involved with safety related work.

Measurement of outcomes

AQ Group Board of directors consists of five men and two women. In the AQ Group management team three are women and three are men. Within the entire AQ Group, we have an even gender distribution with 47% women and 53% men. During 2018, according to the Allbright report, AQ has placed itself as the eight most equal company listed on Nasdaq Stockholm.



AQ has since 2015 implemented a company self-assessment that is done by the management of every subsidiary within the group. This gives the group management a good understanding of how well the principles in UN Global Compact are adhered to. The results from the survey 2018 show high scores on average. A gap analysis is also made to strengthen the subsidiaries where the score is considered low. In 2018, we developed AQ's self-assessment analysis with more questions on environmental health and safety

In 2018 the score for Labor principles was on average 2.84 where 3 is highest. No subsidiary within the group has scored lower than 2.

AQ Group's subsidiaries are continuously being audited by our customers. During 2018 we have passed audits from but not limited to, Audi, Volvo, Scania, Siemens, Bosch, Alstom, GE, Ericsson, Bombardier, ABB, Tetra Pak, Volkswagen and Mitsubishi. These companies focus strongly on corporate social responsibility which helps us to comply with Labor Principles.

Environmental Principles

Principle 7: AQ supports a precautionary approach to environmental challenges;

Principle 8: AQ undertakes initiatives to promote greater environmental responsibility; and

Principle 9: AQ encourages the development and diffusion of environmentally friendly technologies

Assessment, Policy & Goals

In our Environment Policy, available on our web site, we publicly share our environmental viewpoint: "Our business and processes are designed in such a way that energy and resources are used efficiently, and waste and rest products are minimized over the life cycle of our products".

We shall comply with rules and legislation and constantly work with improvements to reduce or prevent our environmental impact, from design to delivery.

The AQ environmental goals are to have all AQ production sites certified in accordance with ISO 14001 and to have a score higher than 2.5 on our annual self-assessment.

Implementation

Environmental concerns and improvements are part of our daily work and continuously discussed during regular follow-up meetings in our subsidiaries. We conduct risk analysis when necessary and work according to our management systems. We work according to the precautionary principle by avoiding materials and methods related to possible environmental- and health risks when other alternatives are available.

We also share best practices between our sites through our CEO's weekly newsletter. One

example of this is the widespread implementation of LED lighting in most of the AQ production units and offices to reduce electricity consumption. Another example is the use of heat exchangers in our plants to reuse excess heat from production processes.

A major environmental impact is the truck transports that takes place between our suppliers, our factories and our customers. Here we work to reduce our truck transports through more efficient transport solutions. We offer production in many countries close to customers and suppliers. We also participate as a supplier in the transportation industry's transition to new fuels and technologies.

Measurement of outcomes

79 % of the group's production units are certified according to ISO 14001. All units are securing that national environmental laws are followed. This is secured on group management level through the AQ Group Self-assessment procedure. The environmental score for 2018 was 2,90 where 3 is highest.

Some of the concrete actions that have been done in the past years to improve the environment,

- AQ is supporting the World Wildlife Foundation
- AQ is supplier to companies with purifying ballast water that protect the biodiversity of our oceans
- AQ is using electrical vehicles to transport goods to and from our production facilities in Västerås and Uppsala.
- Many of the AQ factories have implemented LED lighting in the workshop.

- AQ has three production sites that have installed solar panels or solar heating devices.
- All AQ's facilities in Sweden are powered with renewable energy.
- Many of AQ's production facilities reuse the heat generated from production processes to heat the factory.
- AQ is as a supplier actively taking part in the conversion from conventional to electric commercial vehicles.
- During the year we have increased our recycling of used plastic
- Improved automation in our painting plants for more demand-driven energy use

Anti-Corruption Principle

Principle 10: AQ works against corruption in all its forms, including extortion and bribery

Assessment, Policy & Goals

AQ Group puts great emphasis on building trust and long-lasting relations with our employees, customers and suppliers. It lies in our business ethics to always follow laws and regulations as a minimum requirement in all countries we operate.

We do not, under any circumstances, accept bribery, extortion or any other kind of corrupt activities. It is stated in our code of conduct that we shall always conduct good business ethics and that we do not offer rewards or benefits, which conflict with laws or regulations, to customers, suppliers or authority representatives.

Every employee that is involved in business transactions receive training on our code of conduct and our supplier code of conduct which clearly indicates our stance on corruption: "If an

employee is offered a gift, a bribe, an illegitimate commission, or any other form of personal payment, it must not be accepted." A preliminary evaluation of the risk of corruption has been made. The biggest risks come in the form of gifts and bribes from suppliers. Therefore, we have made this clear to our suppliers that it is strictly forbidden to give personal gifts to our employees

The AQ Goal for anti-corruption is to have zero reported corruption cases.

Implementation

It is all managers' responsibility to inform employees about our anti-corruption policy and code of conduct. All managers shall furthermore encourage employees to report on indications of any type of violation regarding these policies. Such reports can be done anonymously to the whistleblower@agg.se in accordance with our Whistleblower Policy.

To prevent the identified risks, we commit to several actions:

- Implementation of a rigorous procurement process including cross-functional approval of suppliers.
- Periodic market research of prices of key materials to be compared against existing purchasing prices.
- Reviews of personal expense claims.
- Addition of the Global Compact logo and description into our company presentation to our supply chain partners and customers

Measurement of outcomes

We make it clear to our employees and supply chain partners that we will not accept corrupt behavior. If it were to happen in AQ Group, the relevant disciplinary and/or legal actions would be taken against the guilty parties.

Audits from senior management take place at various intervals to check that standard procedures are being followed. And to cement these principles the management of each subsidiary need to commit to our principles in our yearly self-assessment. The score from the 2018 self-assessment was 3.0.

Whistleblower function

In 2016 the whistleblower@aqg.se email and policy was implemented to make it safe to report violations for internal and external stakeholders.

In 2018 we have received two reported cases. The AQ group management team has analyzed them and found that one was without ground. One case is still under investigation.

Sustainability risk assessment

AQ group has a process where the group and each subsidiary of the group makes an annual self-assessment. This is the foundation for our sustainability risk assessment. AQ Group has below identified the risks that could cause a probable negative effect on the sustainability of the company.

Risks related to Human rights, Anti-corruption and Labor principles

It is a potential risk that breaches of our principles could occur, if AQ Group fails to ensure that every employee understands and follows our AQ Code of Conduct. In 2018, initiatives were taken to ensure that each employee signs AQ's Code of Conduct, where they need to commit that they have understood and will follow its opinion. In Sweden we have implemented sign-off of Code of Conduct and AQ Core Values as part of the employment agreement.

AQ is doing its upmost to control that the full AQ supply chain respects and follows the rules set forth in the AQ Group Supplier Code of

Conduct. We perform regular supplier audits and every supplier need to respect our code of conduct. It is a risk that our suppliers willfully or by lack of knowledge break our rules. AQ is committed to mitigate this risk by constant monitoring of the supply chain.

Risks to the Environment

AQ has several surface treatment facilities with notifiable operations. An accident at a surface treatment facility can affect the environment. Furthermore, there is a risk that current and previous activities may have resulted in contamination of land where the activities have taken place from time to time. AQ Group is constantly monitoring the impact its operations have on the environment through the ISO 14001 management system approved productions sites. This should mitigate most of the risks for that our operations may harm the environment.

References

For a deeper understanding how, we work in AQ Group. Please visit our website. Below you can find some guidance to where you can find our different policies and core values.

AQ Group Core values, Code of Conduct and Supplier Code of Conduct can be found here,
<http://aqg.se/en/core-values>

AQ Sustainability guidelines
<http://aqg.se/en/aq-group/sustainability>

AQ Policy's
<http://aqg.se/en/aq-group/policies>

AQ Whistleblower
Please contact us at whistleblower@aqg.se if you would like to report a violation of the AQ Code of Conduct or national laws and legislation. Your identity will be protected.