

Sustainability Report 2018

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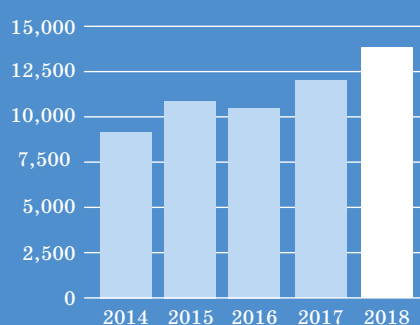
Key performance indicators 2018

Sales 2018
13,770
MSEK

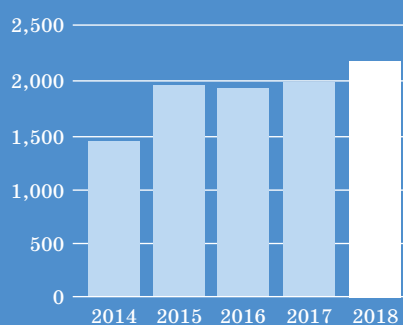
Earnings per share
4.78
SEK

Proposed dividend
2.25
SEK

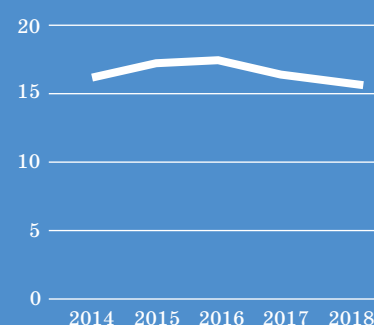
Sales, MSEK



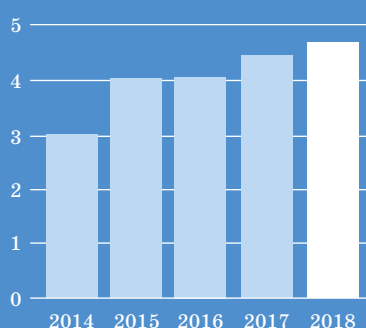
Operating profit, MSEK



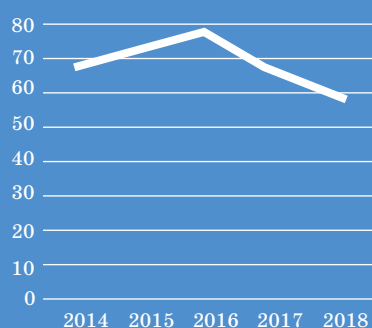
Operating margin, %



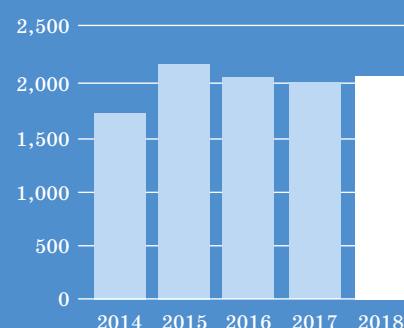
Earnings per share, SEK



Equity/assets ratio, %



Operating cash flow, MSEK



Significant sustainability events in 2018

- ▶ Energy optimization through energy surveys and investments in energy-smart lighting and production equipment.
- ▶ Purchase of fossil-free electricity, energy optimization, and increased use of biofuel, contributed to a lower carbon footprint – 24% of the energy consumed was produced from non-fossil sources.
- ▶ Continued focus on reducing the environmental impact of our products – around 15% of the polymer raw materials were produced from recycled plastic and rubber.
- ▶ Reduced number of workplace accidents and lost workdays – successful implementation of preventive measures in the HEXPOL Rubber Compounding Americas' organization.

HEXPOL in brief

The HEXPOL Group comprises two business areas: HEXPOL Compounding and HEXPOL Engineered Products, with a total of 4,635 employees and 47 production units in the Americas, Europe and Asia.

Business Area HEXPOL Compounding

Operations

The Business Area HEXPOL Compounding is one of the world's leading suppliers in the development and manufacturing of high-quality advanced polymer compounds for demanding applications and demanding end users. HEXPOL Compounding comprises five parts: HEXPOL Rubber Compounding, which is divided into the three geographical regions of the Americas, Europe and Asia and the two product areas HEXPOL TPE Compounding and HEXPOL TP Compounding.

Market

HEXPOL Compounding's market is global and the largest end-customer segments are the automotive and engineering industries, followed by the building and construction sector. Other important customer segments are the transportation sector, the energy, oil and gas sector, the consumer sector, the cable and wire industry and manufacturers of medical technology.

Customers

Customers are manufacturers of polymer products and components who impose rigorous demands on quality, global delivery capacity and product development.

Sales

12,745 MSEK

(2017: 11,326 MSEK)

Operating profit

2,006 MSEK

(2017: 1,873 MSEK)

Number of employees (31 December)

3,211

(2017: 2,955)

Business Area HEXPOL Engineered Products

Operations

HEXPOL Engineered Products holds global strong positions in gaskets for plate heat exchangers and in polyurethane, rubber and plastic wheels for forklifts and material handling. The operations are organized into two product areas, HEXPOL Gaskets and HEXPOL Wheels.

Market

Within its niche areas, HEXPOL Engineered Products operates in the global market with a keen focus on discerning customers and advanced applications. HEXPOL is a leading supplier of rubber gaskets that are used in plate heat exchangers and of polyurethane forklift wheels.

Customers

HEXPOL Engineered Products' customers are usually major global OEM manufacturers with market leading positions and for whom HEXPOL's products are frequently of vital importance for the quality and service life of the finished product.

Sales

1,025 MSEK

(2017: 904 MSEK)

Operating profit

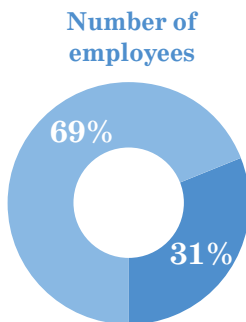
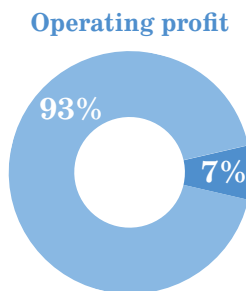
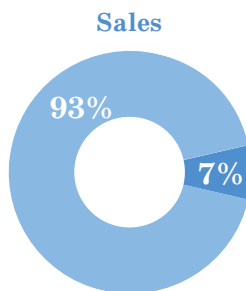
144 MSEK

(2017: 113 MSEK)

Number of employees (31 December)

1,424

(2017: 1,429)





CEO comments on the year

Welcome to our Sustainability Report 2018. It is our aim to present information in a transparent and informative way and therefore report according to best practices based. The report will give you an insight into risks, opportunities, objectives and achievements – during the previous year but also in a long-term perspective. It will also provide information about our commitment to UN Global Compact.

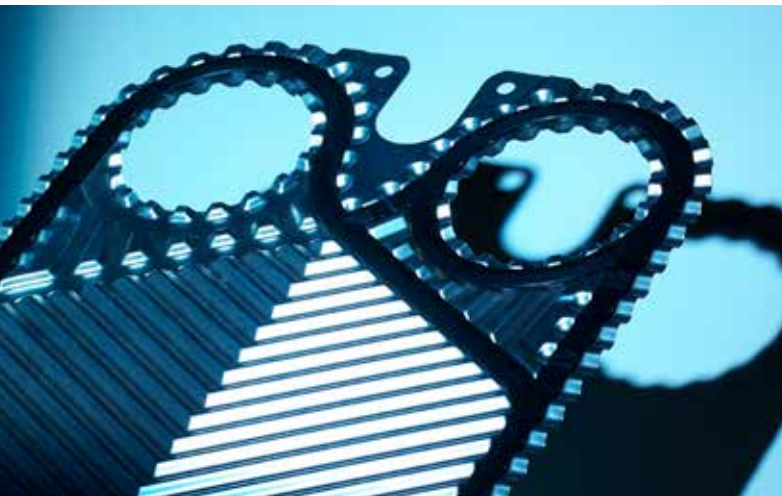
Good results in business

2018 was a strong year for the HEXPOL Group. We again managed to both increase our sales and achieve greater profit. We continued to strengthen our market positions in our main markets. We are very pleased with our two latest strategic acquisitions, Kirkhill Rubber and Mesgo Group. These acquisitions have given us a better position within advanced elastomers and have broadened our geographical presence in three new countries and have strengthened our position in western US.

Good results in sustainability work

It is pleasing to see that the entire organization exhibited considerable commitment within sustainable development, and contributed practical, concrete solutions within a number of areas while creating value for our stakeholders. Many good initiatives are presented in this report and I would like to highlight a couple areas of progress:

- ▶ It is obvious that no one should go to work to get hurt, and we are convinced that with a strong focus on health and safety the risks can be managed. One good



example is the successful program of preventive measures in the HEXPOL Rubber Compounding Americas' organization. We can now observe a downward trend in the number of accidents at work as a result of the program.

- ▶ Energy and climate-change issues are since long high on our agenda. During the year we continued with several energy optimization projects and increased purchases of fossil-free electricity and use of solar energy. Around 24 percent of the energy consumed was produced from non-fossil sources.
- ▶ We continued to work to reduce the environmental impact of our products – around 15 percent of the polymer raw materials were produced from recycled plastic and rubber. We can also see increased interest in the Dryflex Green products. Dryflex Green is TPE containing raw materials from renewable resources such as plant and vegetable crops.

Focus on greener polymers

Our concept and core business are based on manufacturing polymer compounds and products, primarily various types

of rubber and plastic materials. We are very proud of the products we make using the amazing properties of polymers. At the same time, we realize that many of the polymers we use come from oil, a non-renewable raw material that contributes to climate change.

Nonetheless, we are seeing that more customers want to move towards 'greener polymers', and I am convinced that our know-how, and experience to use bio-based and recycled materials, will create business opportunities.

Finally, I would like to thank employees, customers, suppliers and shareholders for your confidence and excellent cooperation during 2018. I am convinced that we can further develop the HEXPOL Group in a positive direction, and that responsibility for environment and people is an important part of HEXPOL's continual development process and an important part of our long-term business strategy.

Malmö, Sweden, March 2019

Mikael Fryklund



Corporate responsibility

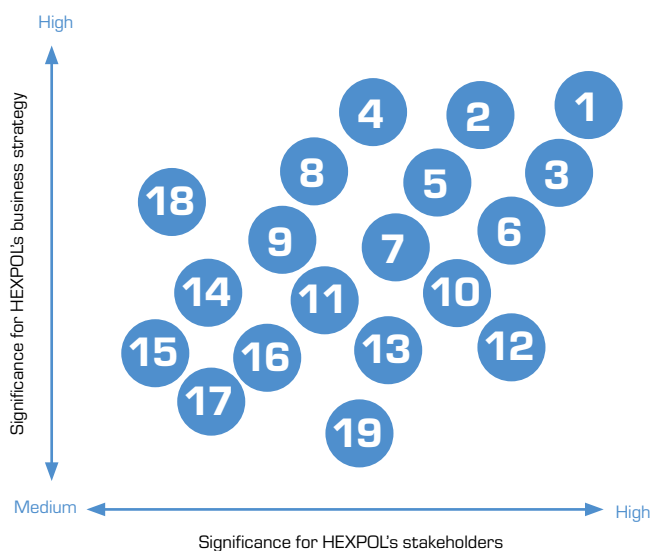
Taking responsibility for people, the environment and society is a feature of our corporate culture and sustainability work creates value for the Group's stakeholders. The environment, occupational health and safety, social responsibility and business ethics are therefore important components in the day-to-day work and long-term strategic planning. The ambition is to contribute to a better environment and to reduce climate impact, satisfy society's requirements and expectations and generate business opportunities.

Materiality Analysis

Within the framework of the ISO 14001, OHSAS 18001 and ISO 50001 standards, HEXPOL's businesses endeavor to identify and manage issues relating to environment, health and safety, and energy. This involves not only identifying risks, but also looking for opportunities within sustainable development. Analyses of risks and opportunities, combined with requirements and expectations from a range of stakeholders, provide the basis for the Materiality Analysis. This is based on sustainability reporting standards (GRI) and provides the background

for which areas are examined in greater detail in sustainability reporting and which GRI indicators are used. The end of the report (pages 37-39) contains a list of the GRI indicators to which we refer.

The Materiality Analysis provides insight into which issues are important to our stakeholders and for the Group's business strategy. The chart shows the issues that were identified in 2018 as significant and the Sustainability Report describes how these issues are managed and monitored. As a background to the overall analysis, feedback is regularly sought from the Group's companies.



1. Good business ethics
2. Customer requirements in sustainable development
3. Attractive employer
4. Legal requirements in sustainable development
5. Use of chemical products
6. Polymers in a life-cycle perspective
7. Energy and climate
8. Safe and stimulating work environment
9. Sustainability issues in connection with acquisitions
10. Suppliers' sustainability work
11. Social commitment
12. Emissions to air and water
13. Sustainability issues in developing countries
14. Equality, human rights
15. Soil contamination
16. Environmental impact of transport
17. Requirements from investors
18. Waste
19. Nuisance to surroundings (noise, odour)

The Group's priorities in sustainable development are based on the analysis, with areas considered particularly important being customer requirements in sustainable development, good business ethics, being an attractive employer, and legal requirements. Other priority areas are energy, climate, safe working environment, human rights and hazardous chemical substances. Other issues taken very seriously are polymer products in a life-cycle perspective, and sustainability in the supply chain. For several of the key areas, long-term targets and key performance indicators have been established.

Sustainability strategy

Assessing raw materials, processes and products from a lifecycle perspective is a prerequisite for responsible business. Accordingly, preventive environmental and work environment efforts are part of the management systems. Social responsibility and sound business ethics are other strategic issues that create fundamental prerequisites for the Group's business operations. The long-term strategy builds on stakeholders' requirements and expectations with the intention of:

- ▶ Integrating sustainability issues into strategic planning and budgeting.
- ▶ Reducing risks and costs through preventive measures, risk assessments and investments in effective technical solutions.
- ▶ Generating business opportunities through responsible conduct, and developing resource-efficient production methods and products.
- ▶ Working systematically aided by certified management system for the environment, quality, work environment and energy.
- ▶ Being an attractive employer and an active corporate citizen.
- ▶ Applying sound business ethics and preventing corruption.
- ▶ Communicating openly about sustainable development.

Governance and follow-up

Sustainable development is part of the Group's strategic planning and budget process. The practical work is decentralized with managers within the Group's companies being responsible for policies, targets and results. The activities are followed up by Group management through dialogues with the companies' management and through internal and external audits. In connection with the Sustainability Report, an in-depth analysis is conducted of compliance with legislation, goal fulfillment and how the companies performed and of key performance indicators

during the year of operations. At the Group level, matters related to strategy, risks, follow-up and sustainability reporting, as well as sustainability issues, are addressed in conjunction with corporate acquisitions.

Open communications

HEXPOL aims to provide shareholders, and other players on the capital market, with relevant information that offers a basis for accurate valuation of the Group. The objective is to apply a candid and factual approach and provide a high level of service in financial reporting. This is aimed at strengthening confidence in the company among existing and potential shareholders.

The Group complies with customary accounting policies, applies internal controls and drives processes to ensure that accounting and reporting comply with legislation, ordinances and listing agreements. We apply a policy of transparency in its reporting and, in line with the Group's Communication Policy, provides well-founded, comprehensive information to the market. Corporate governance is described in the Corporate Governance Report in the Annual Report 2018 on pages 64–69 and is available at www.hexpol.com. All published financial information is also available on the website, as are presentations, press releases, financial statements, annual reports and sustainability reports.

The sustainability work is communicated in several ways. The legal requirements and the GRI standards' (Global Reporting Initiative) requirements regarding content, structure and indicators, are used as the foundation for the Sustainability Report. In the area of climate, a separate report is submitted in accordance with the Carbon Disclosure Project (CDP). According to the requirement in the Global Compact, a report is submitted to the UN each year and, since 2018, sustainability data (ESG: Environment, Social, Governance) is presented at the Nasdaq Listing Center. The sustainability performance is reviewed regularly by independent institutions and investors, and expectations regarding transparency and measurable performance have increased considerably in recent years.

The basis for sustainability work

Laws, guidelines, standards, global objectives and voluntary initiatives form the foundation for sustainability work. The Group's fundamental values are applied in the same way in all operations worldwide:

- ▶ Materializing Our Values is the Group's Code of Conduct and functions as an ethical compass in matters involving legal responsibility, accounting, conflicts of interest, working conditions, the environment, social responsibility and business ethics. The

EXAMPLES OF ACTIVITIES THAT CONTRIBUTE TO SUSTAINABLE DEVELOPMENT

2013

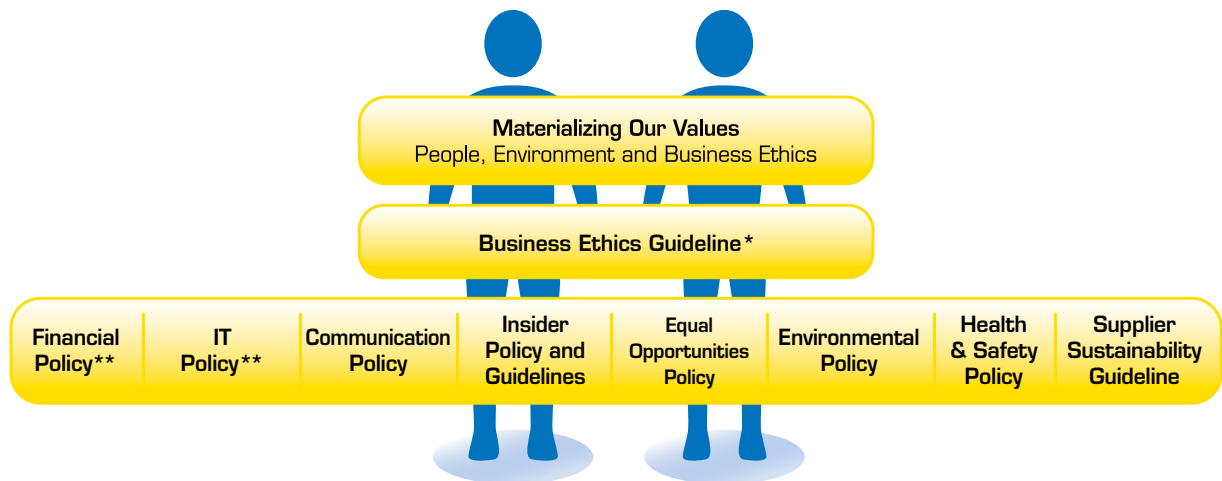
- Materializing Our Values introduced.
- Increased use of biofuels.
- Energy-efficiency enhancements yield positive results.
- Continued phase-out of hazardous chemicals.
- Activities to rouse the interest of students in the polymer industry.
- Adaptations to GRI G4 initiated.

2014

- Supplier Sustainability Guideline introduced.
- Sustainability objectives updated.
- Update of Materializing Our Values – whistleblowing.
- Successful energy-efficiency projects implemented.
- Additional units ISO 14001 certified.
- The use of biofuels is increasing.

2015

- Supplier Sustainability Guideline implemented and more than 800 suppliers evaluated.
- Energy-efficiency measures and continued introduction of ISO 50001.
- DryFlex Green introduced – TPE from renewable resources.
- Carbon impact reduced through increased use of biofuels.
- Group-wide training in business ethics conducted.



* Supported by a Compliance Program relating to Competition and Anti-trust law.
 ** Policies available for all employees but not externally distributed.

Code of Conduct also contains policies within the environment, work environment and other areas.

- ▶ The Business Ethics Guidelines guide employees in matters concerning what is and what is not permitted in commercial contacts with customers, suppliers, competitors and distributors. More in-depth guidelines are provided in a detailed Compliance Program, in which all managers in the Group confirm with their signatures that they are complying with the rules. The managers participate in compulsory training programs in the area.
- ▶ Whistleblowing empowers all employees to sound the alarm, bringing irregularities concerning the Code of Conduct to the attention of the Board of Directors and company management.
- ▶ Global Compact entails the Group having undertaken to support ten fundamental principles in respect of human rights, labor conditions, environmental consideration and anti-corruption. Global Compact is an initiative by the UN.
- ▶ The Global Sustainable Development Goals are applied in formulating the Group's targets.
- ▶ Management systems for the environment, quality, work environment and energy have been introduced at the production facilities. The standard for social responsibility (ISO 26000) provides guidance in Group-wide sustainability work.

- ▶ Supplier Sustainability Guideline guides the company's suppliers in environmental and work environment matters, human rights, business ethics and the supplier's value chain.

Materializing Our Values

HEXPOL's most important business objective is to create profitable growth and by doing that the long-term success of the Group is ensured. To be able to grow and develop the business we must demonstrate a responsible and accountable approach. The commitments in Materializing



2016

- Group objectives were linked to the UN Sustainable Development Goals.
- Focus on efficient use of resources – energy, materials, waste.
- Community engagement through activities in local communities and contacts with schools and universities.
- Update to ISO 14001:2015 began.
- Continued education in business ethics.

2017

- HEXPOL participates in the UN Global Compact at Signatory level.
- Good outcome from energy optimisation through energy audits and technical measures.
- Increased use of fossil-free electricity and biofuel.
- Several activities together with schools and universities.
- Continued good results from the Americas Safety Programme.

2018

- Environmental management systems updated according to ISO 14001:2015.
- Positive trends concerning energy efficiency and carbon footprint.
- Increased interest in DryFlex Green and other environment-friendly products.
- Update of the Code of conduct – Materializing Our Values.
- Reduced number of workplace accidents.

Our Values are deeply rooted in HEXPOL's culture and strategy, meaning that we strive to limit the Group's impact on the environment and to offer a secure and stimulating work environment for all employees worldwide. It is equally important that HEXPOL is associated with credibility and healthy values in the contacts with customers, suppliers and other interested parties.

Materializing Our Values is primarily based on the Ten Principles of the UN Global Compact and the International Guideline for Social Responsibility (ISO 26000). HEXPOL recognize the fundamental principles of Human Rights, as defined by the Universal Declaration of Human Rights (UN), the eight core conventions defined in the Fundamental Principles of Rights at Work (ILO Declaration), and other relevant conventions and guidelines. Materializing Our Values is also based on laws and regulations that are applicable to public companies that are listed at the Swedish stock market.

In a number of areas covered by Materializing Our Values, a practice of zero tolerance is applied to non-conformity. This applies, for example, to the need to comply with legislation, to respect human rights, the prohibition of bribery and other forms of corruption, and the fact that competition law must be complied with. In other areas, the code of conduct provides an approach that is based on preventive measures and continuous improvement, such as in the environmental and work environment areas.

The Board of Directors, the CEO and the Executive Management Team have the overall responsibility for ensuring that Materializing Our Values becomes a natural feature of the way to work. In the daily operations, the responsibility rests with managing directors and all other managers at HEXPOL. The role of the individual employees in the practical application of the values is very important. The Annual Report and the Sustainability Report outline how work related to these values is progressing.

Materializing Our Values – together with the package of policies and guidelines – provides guidance and support and shall be applied in the same way wherever we are in the world. Materializing Our values was updated during 2018 and the document is found at www.hexpol.com.

Business Ethics Guidelines

This document guides the employees in matters concerning what is and what is not permitted in business contacts with customers, suppliers, competitors and distributors. Deeper guidelines are provided in a detailed Compliance Program, in which all managers in the Group confirm with their signatures that they are complying with the rules. The managers participate in compulsory training programmes in the area. There is zero tolerance of non-compliance in respect of business ethics.

Online training courses are implemented, which includes an examination on international legislation concerning cartels, competition and prohibited forms of business cooperation. So far, more than 150 managers and employees in purchasing and sales attended the training.

Under "Materializing Our Values", and the tenth principle of the UN Global Compact, integrity and responsibility shall characterize our business practices. HEXPOL take a zero-tolerance approach to bribery, corruption and cartel formation. For a global company, these matters are complex and the perception of "normal business practice" varies between countries and cultures.

The following methods for governance and monitoring of corruption-related issues are used:

- ▶ HEXPOL spread shared values in the form of Materializing Our Values. Group company management teams are responsible for further conveying the values in their organization. As mentioned above, senior executives are targets for an advanced on-going training program.
- ▶ HEXPOL monitor costs, expenditure and revenues on an on-going basis.
- ▶ Particular attention is paid to ethical issues in our relationships with partners. Standard business practice must be observed in each individual country, but if business practice does not comply with Materializing Our Values, we must refrain from doing business or take alternative relevant actions.
- ▶ As a part of the sustainability-reporting scheme, management at every company must reflect on actions that have been taken to reduce the risk for corruption. The questions are based on a questionnaire from Global Compact.

No breaches concerning corruption were identified during 2018.

Whistleblowing

The whistleblowing system empowers all employees to blow the whistle to bring irregularities concerning the code of conduct to the attention of the Board of Directors and company management. During the year no cases were registered.

Management systems

The concept of continuous improvement is an integral feature of the corporate culture and encompasses many areas. Product quality is a key competitive factor, and the systematic quality work is conducted in accordance with the requirements of the international standard ISO 9001 and various industry standards. All units are certified according to ISO 9001 and continuous improvement is a fundamental requirement of the quality management system. The purpose of quality work is to ensure the right quality, fulfil safety and legal requirements and to exceed customer needs and expectations. For this reason, customers and suppliers are frequently involved in the development of new products or changes in existing products.

Within the management systems ISO 14001, ISO 50001 and OHSAS 18001, continuous improvement is a core concept and the manufacturing units work systematically with targets and follow-ups. The Group also applies continuous improvement system such as 5S, Kaizen and Lean manufacturing. Several of the units within Engineered Products, is working according to the integrated management system HEPS (HEXPOL Engineered Products Production System), a concept first introduced at the Group's facilities in Sri Lanka. HEXPOL Compounding in USA apply the HEXPOL Continuous Process Improvement Model. The system contains eight powerful components that helps us collaborate with customers to measure and improve their process quality, productivity and performance.



Global Sustainable Development Goals

Within the framework of Agenda 2030, the UN presented its Global Sustainable Development Goals (SDGs) in 2017. The 17 goals provide a clear and useful framework for meeting global challenges and have achieved considerable impact in society. At the same time, they serve to inspire innovation and business opportunities in the area of sustainability. Private and public organizations have an important role to play and the business sector is expected to contribute responsible business, transparent reporting of its own targets and results, as well as developing products and services that contribute to sustainable development.

The Global Goals help us to identify areas of importance within sustainable development and we have identified several Global Goals with a clear bearing on the Group's operations. Based on the Goals, we perceive opportunities to both reduce the environmental impact and create business opportunities. We have therefore linked the Group's sustainability work to seven of the Global Goals. We can, in this way, contribute to a more sustainable world while generating profitable growth for HEXPOL.

An important starting point for achieving the goals is to minimize the Group's use of resources. We bring this about by working with innovations, efficiency enhancements, investments in new technology, increased use of renewable energy, and investments in bio-based and recycled polymers. The Global Goals also inspire measures in social responsibility, social engagement and business ethics.

Supplier Sustainability Guideline

This document informs HEXPOL's suppliers about the Group's view on environmental and occupational health and safety matters, human rights and business ethics. HEXPOL expect that the suppliers comply with the Guideline. Compliance is confirmed by self-declarations and/or audits and inspections.

Creating value for stakeholders

The stakeholders' requirements and expectations are important, and we actively participate in appraisals, dialogues and exchanges of views. The intention is to add value for the stakeholders and, with this in mind, the Group is working to:

- ▶ Fulfil customer requirements in respect of quality, delivery precision, sustainable development and other areas. HEXPOL's relationship to its customers is characterised by professionalism, a high service level, quality awareness and good business ethics.
- ▶ Subject the suppliers to relevant requirements and implement constructive follow-ups.
- ▶ Communicate on a regular basis with the capital market, including shareholders, investors, analysts, banks and media.
- ▶ Listen to and co-operate with the Group's approximately 4,600 employees. This is accomplished through measures such as performance reviews and Human Resources surveys.
- ▶ Maintain good contacts with neighbours, authorities, mass media, schools, universities and other representatives of society.

The table on page 12–13 shows value created for various stakeholder groups during 2018.

HEXPOL's contribution to increased value for stakeholders

Stakeholder Group

Aims, requirements and expectations

Customers



HEXPOL is convinced that being ambitious in sustainable development reinforces its relationship with customers. Many customers demand a Code of Conduct and certified environmental management systems. Other requirements concern the phasing out of hazardous chemical substances and sustainability issues being implemented in the supply chain.

Employees



It is important that the Group retain and develop employees, and also attract new ones. For employees, health, safety, financial compensation, personal development, social conditions and good business ethics are important.

Suppliers



HEXPOL strives for open and long-term relationships with its suppliers. The objective is to guarantee suitable quality, financial stability and active sustainability work for both parties.

Shareholder



For our shareholders, growth and dividends are central in generating value. Integrating sustainability issues into the business strategy reduces risk and generates business opportunities, for example through the development of environmentally-adapted products and through resource-efficient production and investment in environmentally adapted technologies.

Society



Social commitment is an important aspect and is expected by local communities in which the Group operates. As a global company, the Group is expected to take measures contributing to national and global goals for sustainable development.

Authorities



Compliance with legislation is essential for HEXPOL.

Value created

With cutting-edge expertise in polymer materials and solid knowledge of applications, technical support and constant development, we strengthen our customers' competitiveness in their markets. Our sustainability efforts are assessed regularly by customers. Last year, surveys and audits were conducted at 20 (19) facilities. The outcome was favourable and the companies received positive reviews of their efforts.



During the year, HEXPOL had 1,785 MSEK (1,569) in personnel costs. The accident rate declined over the year. The number of training hours was 118,200 (94,200). Some 3,200 (3,200) employees participated in development interviews. Surveys regarding employee satisfaction in the workplace gave good results.



During the year, the guidelines on sustainable development for suppliers were applied. Over the past three years, more than 1,200 suppliers of raw materials have been assessed.



The dividend to shareholders amounted to 671 MSEK (1,635) and, over the past five years, HEXPOL's Class B shares had an average total return of 10.5 percent annually. During the year, dialogues were conducted with investors and the Group was evaluated by several independent institutions. We facilitate such analyses through transparent sustainability reporting.



As described elsewhere in the Sustainability Report, the Group's companies contributed in so many ways to local communities. HEXPOL's tax expense for 2018 amounted to 515 MSEK (441).



In 2018, some minor violations of emission conditions and other environmental and occupational health and safety legislation occurred. The infringements resulted in marginal penalties and did not result in any further actions by the regulators.



Meeting customer requirements

HEXPOL's relationship to its customers is characterized by professionalism, a high service level and quality awareness. In accordance with Materializing Our Values, HEXPOL focus on sound business ethics and thus competes fairly in business activities, including marketing and advertising. HEXPOL complies with prevailing competition regulations in the geographical markets in which the company is active. Business decisions are taken in accordance with the Group's interests and are not based on personal considerations or relations.

Requirements related to sustainable development are presented by the majority of our customers, and in 2018, 94 percent (94) of HEXPOL's companies reported various types of requirements. For example, ISO 14001, hazardous substances, product declarations, conflict minerals, social responsibility and compliance with the customer's code of conduct. At 57 percent (53) of the manufacturing units, customers conducted evaluations (audits, questionnaires) to check compliance with the requirements. The outcome was positive and no material issues were revealed.








Sustainability requirements from customers

| Type of sustainability requirement | % of total number of plants reporting sustainability requirements | | | |
|-------------------------------------|---|------|------|------|
| | 2018 | 2017 | 2016 | 2015 |
| Implementation of ISO 14001 | 71 | 61 | 58 | 48 |
| Phasing-out of hazardous chemicals | 60 | 61 | 65 | 59 |
| Compliance with REACH and RoHS | 40 | 47 | 47 | 27 |
| Environmental product declarations | 57 | 64 | 50 | 45 |
| Code of conduct | 71 | 67 | 67 | 48 |
| Conflict minerals | 80 | 67 | 70 | 55 |
| Code of conduct in own supply chain | 37 | 31 | 21 | 3 |
| Other requirements | 60 | 31 | 32 | 31 |

Objectives and performance measures

HEXPOL has implemented Group-wide objectives to reduce its environmental impact, to create safe and secure workplaces and to be a good corporate citizen. The work is conducted systematically and the objectives are linked to

UN's Agenda 2030 and the Global Sustainable Development Goals (page 11). Performance measures showing the trend are briefly presented in the table below. More details are found elsewhere in the Sustainability Report.

| Objective | Sustainable Development Goals | Status | Trend |
|---|---|--|---|
| Energy consumption (GWh/net sales) is to be reduced continuously. The production units work within the framework of ISO 14001 and/or ISO 50001 with detailed targets for increased energy efficiency. |  | The installation of energy-efficient production equipment, LED lighting, infrastructure and energy monitoring equipment contributed to more efficient energy consumption. In a five-year perspective, energy efficiency has increased and the key performance indicator for energy consumption has decreased by about 25 percent since 2010. | Blue |
| Emissions of carbon dioxide (tonnes/net sales) are to be reduced by 15 percent by the end of 2018 compared with the average for 2010–2011. This target pertains to carbon dioxide emissions resulting from the use of energy. There are various types of local targets and it is common for Group companies to have introduced a joint goal for climate and energy. |  | Currently, about 24 percent of energy use consists of fossil-free electricity and biofuels. Over a five-year perspective, the key performance indicator has developed in the right direction and the objective has been achieved with a good margin. A new objective will be presented in 2019. | Green |
| All facilities are to have certified environmental management systems (ISO 14001). Acquired companies must implement the environmental management system within a period of two years. |  | Two companies were certified in accordance with ISO 14001 during the year and 97 percent of the plants are now certified in accordance with ISO 14001. There are favorable opportunities to achieve the objective. | Blue |
| The use of hazardous chemicals must be identified, controlled and, wherever possible, hazardous substances are to be phased out. HEXPOL should be viewed as a frontrunner in the polymer industry as a supplier of environmentally compatible products. |   | Work to limit the use of particularly hazardous substances is conducted continuously. During the year, approximately 15 substances were replaced, including several phthalates (plasticizers). The development of environmentally compatible products continued in 2018 (page 22-23). About 15 percent of the polymer raw materials consisted of recycled plastic and rubber. | Blue |
| The vision is that no accidents will occur at our workplaces. The target is that the number of accidents will be reduced. Systems for reporting near misses are to be in place in all operations. |  | The number of accidents with absence and the number of lost working days decreased compared with the preceding year. The outcome was the lowest in the past five years. Systems for reporting near misses are in place in most of the units. | Blue |
| Supplier Sustainability Guideline is to be applied in the supply chain. |  | During 2018, approximately 470 assessments were performed, of which approximately 35 were audits. | Blue |

Green: Objective already achieved; Blue: Positive trend, objective possible to achieve; Yellow: No change; Red: Negative trend, objective not achieved.

Environmental responsibility

Climate change affects the Group and the transition to a society with a lower carbon footprint brings risks and opportunities. By increasing energy efficiency and phasing out fossil fuels, the carbon footprint is reduced. Measures also prepare the company for higher fees and taxes on activities that impact the climate. Increased use of recycled and bio-based raw materials are other measures that are positive from the perspective of climate. Environmentally compatible product development is another priority area in which the Group's expertise and technology can contribute to the customers' climate and environmental work. In the environmental area, we have several long-term targets, which are reported on page 14.

Core technologies, products and environmental aspects

Rubber compounding

We manufacture advanced rubber compounds with an extensive product range for a wide range of customer segments and application areas:

- ▶ Rubber Compounding – development of custom compounds and recipes.
- ▶ High-performance elastomers, such as silicone and fluoro-carbon rubber.
- ▶ Specialty Products – a comprehensive range of custom and standardized chemical additives and color concentrates. Curing envelopes and tubes for retreading. Products with specific properties in terms of high temperatures, cooling, static electricity, electrical insulation.

Mixing rubber in a closed mixer is what is termed as a batch process and, accordingly, all ingredients must be prepared in compliance with the weight specified in the recipe or formula. The various weighing stages are monitored by IT systems to ensure maximum precision and enable traceability of the entire batch. Since the formula and the mixing process are both critically important to product quality, our research and development engineers are responsible for creating the formulas and for the mixing process in accordance with the intended application, ingredients and quality requirements.

The rubber compounds that leave the production plants are processed further by customers through, for example, extrusion, injection molding and compression molding to give the components their final shape. Continuous or discontinuous vulcanization gives the products their elastic properties.

TPE compounding

The TPE market includes a number of material classes, each based on different chemistries and technologies. The various classes display different properties and end-use applications. HEXPOL TPE Compounding offers TPE compounds in the marketplace covering the following technologies:

- ▶ Styrenic block copolymers (TPE-S or TPS).
- ▶ Polyolefin compounds (TPE-O or TPO).
- ▶ Elastomeric compounds (TPE-V or TPV).
- ▶ Thermoplastic polyurethanes (TPE-U or TPU).

The expertise in this diversified TPE offering positions HEXPOL so that each customer can get the right compound for their application or indeed multiple compounds from different classes.

TP compounding

In the major TP Compounding market there are many different material areas that are based on different types of chemistry and technology. HEXPOL TP Compounding is specialized in reinforced polypropylene compounds (PP), high quality polyamide compounds (PA) and colour additives. The production is highly automated with

modern twin-screw extruders and efficient material handling systems.

Gaskets

HEXPOL Gaskets is a product specialist for the manufacture of rubber gaskets for plate heat exchangers. The technology content is high and the end product is characterized by high quality requirements. The gaskets consist of rubber and are delivered in a variety of sizes from a few decimetres in length up to several meters depending on the plate heat exchanger's size. Temperature, pressure and media determine the choice of gasket type and rubber material in the heat exchanger. Performance of the gasket is dependent on the composition of the rubber material and the geometric design of the gasket.

Wheels

HEXPOL Wheels offers a range of polyurethane wheels for electric-powered warehouse and hand pallet forklifts, rubber wheels for castor wheel applications, as well as tires and special wheels in natural rubber and thermoplastics. Five types of products are produced:

- ▶ Polyurethane wheels.
- ▶ Thermoplastic wheels.
- ▶ Rubber wheels and tires.
- ▶ Solid rubber tires.
- ▶ Various special products comprising the aforementioned materials.

Environmental aspects

Significant environmental aspects that affect HEXPOL's core technologies and operations include the use of resources in the form of mainly fossil-based polymer raw materials (rubber, plastics), chemical products, energy and water. Other significant aspects pertain to emissions into the atmosphere and waste generation. Indirect environmental aspects comprise the environmental impact of suppliers, transportation of raw materials and complete products, and customer use of the Group's products. Further information about how environmental aspects are ranked is found in the Materiality Analysis on page 7.

Environmental aspects of polymer compounds

Polymer compounds, such as rubber and plastics, are semi-finished products and can be seen as homogeneous mixtures of different ingredients that have previously been designed in a specific formulation or recipe. These ingredients, or raw materials, can be subdivided into the following main categories: polymers, fillers, plasticisers, accelerators, cross-linking agents and many other special products. Only the right composition and a perfect mixing process result into optimum properties of the final product.

The rubber and plastic polymers used in HEXPOL interact with the environment in a number of ways. A certain amount of impact occurs at our plants, while other impacts occur during production of raw materials, transports and disposal of the waste that

occurs in various places. The environmental impact – in a life-cycle perspective – of polymers is shortly described below.

Synthetic rubber

About 60 percent of world production of synthetic rubber is used for tire manufacture. HEXPOL's rubber product portfolio contains around 84 percent (85) synthetic rubber, the remainder being natural rubber. Synthetic rubber is a product of the petroleum industry and our experience is spread over a large number of polymer types, for example, EPDM, SBR and NBR.

The environmental impact from the production and use of synthetic rubber derives primarily from energy consumption, use of fossil raw materials, ▶

▶ emissions to air and water, and waste products. The positive environmental aspects of synthetic rubber is, for example, associated with products that contribute to energy saving and reduction of noise and vibration.

Natural rubber

The rubber tree *Hevea brasiliensis* requires a tropical climate. Today, more than 90 percent of all natural rubber comes from South-east Asia, although there are also plantations in South America and Africa. Nearly 70 percent of natural rubber production is used in the tire industry.

An overview of the production process for natural rubber shows that the environmental impact are associated with clearing of forest, the use of energy, chemicals, nutrients and biocides, and from emissions to water. HEXPOL has no rubber plantations of its own and natural rubber makes up around 16 percent (15) of the total use of rubber polymers and around 11 percent (11) of the total use of polymers.

Thermoplastic Elastomers

Thermoplastic elastomers (TPEs) are a family of rubber like materials that combine the performance of thermoset rubbers with the processing ease of plastics, to deliver enhanced design possibilities for a diverse range of markets including household, automotive, industrial, medical, construction,

electronics, sports, toys and caps and closures. One thing that TPEs materials have in common is that they are completely recyclable. TPEs can also be combined with natural materials, for example, cork.

Thermoplastics

A thermoplastic (TP) is a plastic material that can be repeatedly softened by heating and hardened by cooling. Examples of thermoplastics include polythene (polyethylene), polypropylene and polyamide nylon. Thermoplastics are fully recyclable and in ideal situations thermoplastics can be repeatedly melted and remoulded into new products.

Conventional thermoplastics are produced from fossil petroleum products and the main environmental aspects are the use of non-renewable raw materials, emissions of climate-changing gases and generation of waste. In recent years composite materials have been obtained from the combination of recycled thermoplastics and biodegradable waste of little economic value, for example, rice husks and recycled cotton. Life-cycle analyses show that such composites exhibit a significantly reduced environmental impact during the materials acquisition and processing phases compared to conventional virgin thermoplastics. In HEXPOL, the RheVision line utilises bio-fibre reinforced polypropylene and the result is a lower carbon footprint compared to traditional thermoplastic products.

Environmental legislation

The Group is affected by national and international environmental legislation. The majority of the producing units require various types of permits and all the facilities in Sweden are subject to official approval or reporting pursuant to the Swedish Environmental Code. The units in the Czech Republic, Belgium, Spain, the US, Mexico, Sri Lanka and China have environmental licenses that either cover all areas of their operations or that apply to specific environmental aspects, for example, emissions to the atmosphere. A few minor operations in the UK and one facility in Germany are not subject to any specific environmental permits. Compliance with permits and emission conditions is monitored through measurements and inspections, and in excess of 30 units submit specific environmental reports to supervisory authorities. Roughly half of the units are planning to apply for minor updates of applicable permits in the near future.

Environmental legislation in the form of EU directives (REACH, RoHS, CLP, WEEE, energy optimization, sustainability report) or other national or international legislation affects most of the Group's operations and products. One third of the units are subject to producer responsibility legislation for packaging. The following events related to legislation and ordinances occurred during the year:

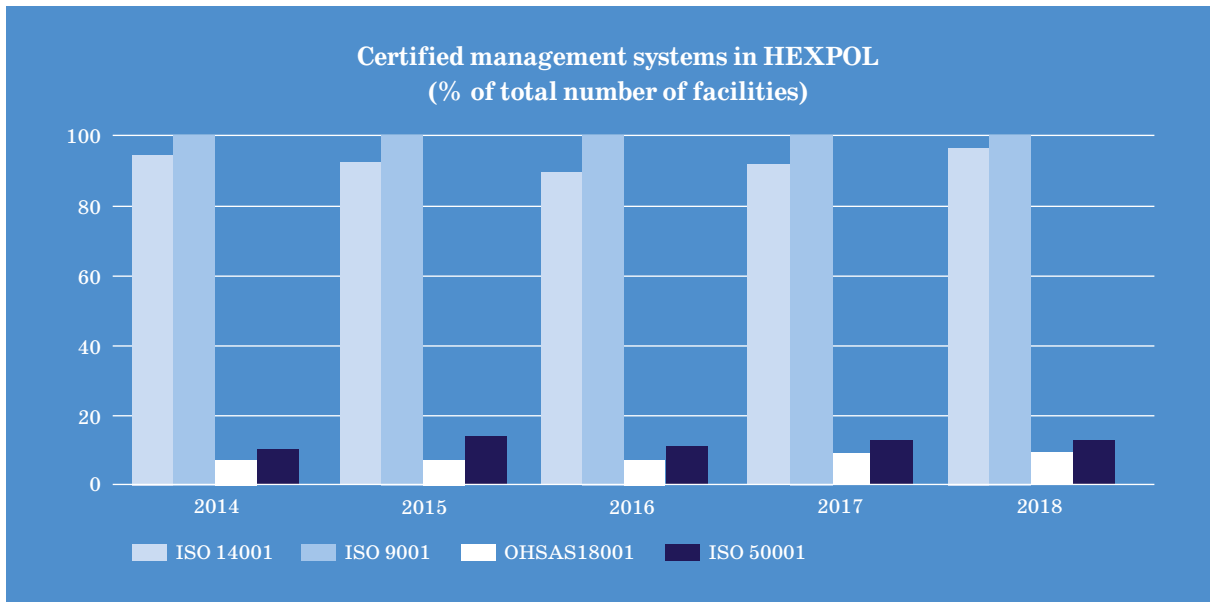
- ▶ Energy audits were performed in accordance with the EU directive on energy efficiency.

- ▶ Supervisory authorities conducted inspections at 18 facilities. No significant deviations were identified.
- ▶ At two facilities, limits for pollutants in wastewater were exceeded. These events did not result in any legal action. In one case, the infringement resulted a very marginal penalty fee.

Environmental Management systems

The international standards ISO 14001 (environment) and ISO 9001 (quality) are implemented at the Group's manufacturing units. In addition to this, OHSAS 18001 (work environment) and ISO 50001 (energy) standards are used at a number of sites. The standard for Social Responsibility (ISO 26000) provides guidance on the overall approach to sustainable development.

One of the Group objectives aims at certification of the environmental management systems at all operational units. The outcome of ISO 14001 is positive, with risks and costs diminishing, while confidence among interested parties is rising. During 2018 two companies (in UK and USA) were certified and another company (in USA) will be certified during 2019. All environmental management systems are now updated in accordance with the requirements of the latest version of ISO 14001 (ISO 14001:2015). Internal and external environmental audits are frequently conducted, and in 2018, 146 internal (184) and 48 external (47) environmental audits were conducted. The recently acquired Mesgo Group and Kirkhill Manufacturing will implement ISO 14001 during the coming years.



The standard applied for the work environment (OHSAS 18001) is implemented at two units in Sri Lanka, at one site in the UK and one site in the Czech Republic. In the coming years OHSAS 18001 will be converted to ISO 45001 at the certified sites. Two companies in Germany, one in the Czech Republic, and the companies in Sri Lanka, are certified in accordance with the standard for energy management systems (ISO 50001). All HEXPOL units are certified under the ISO 9001 quality standard.

Energy consumption

The use of energy is a key environmental aspect for HEXPOL. In 2018, 379 GWh (379) was used for our operations. The energy cost was 248 MSEK (221) and caused emission of 126,000 tonnes (141,000) of the greenhouse gas carbon dioxide. Mixing equipment, presses, and other heavy production equipment, have a major contribution to the energy consumption, but, in this context, compressed air, cooling, lighting, ventilation and moving of materials are also important factors. Around 73 percent (73) of the energy usage was based on purchased electricity, 16 percent (16) on natural gas and the rest derived from other sources. The use of biofuels and fossil-free electricity amounted to 24 percent (17).

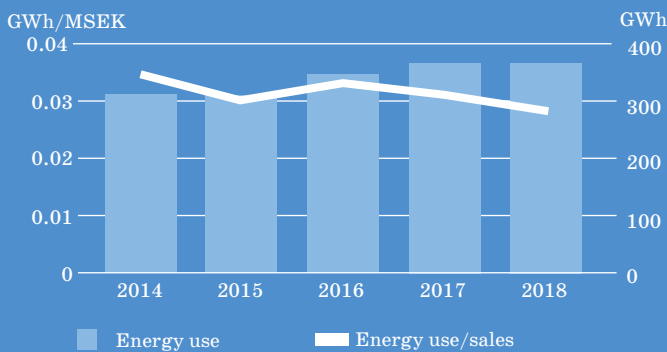
The aim is to use energy more efficiently and there-

fore several energy projects are carried out every year. The key performance indicator for energy (GWh/net sales) shows a downward trend. Continued measures include purchases of energy-efficient equipment, lighting and infrastructure.

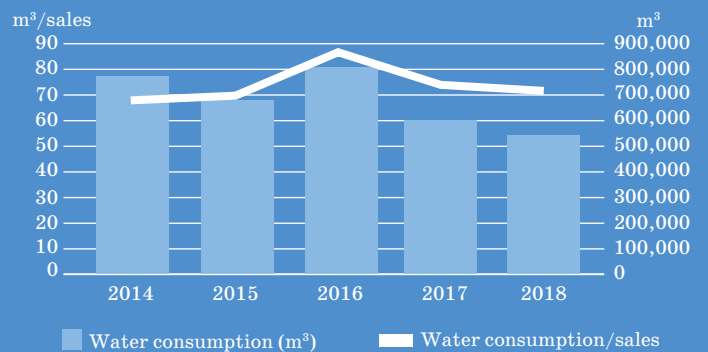
During the year the energy saving activities were continued, for example:

- ▶ Replacement of lighting with LED lamps. Improved systems to control the lighting and to automatically turn it on and off. Increased use of daylight in some warehouses.
- ▶ Installation of AC drives instead of DC drives provides better control of the speed (frequency control) of the electric motors in the rubber mixing equipment, thus reducing energy use.
- ▶ Energy audits according to the EU Energy Efficiency Directive. So far 15 plants have carried out audits and one plant will carry out an audit in the near future.
- ▶ Certified energy management systems (ISO 50001) at five sites in Sri Lanka, Czech Republic and Germany.
- ▶ Energy curtailment programs together with energy supply companies. This reduces capacity costs.
- ▶ Replacing propane lift trucks with electric.

Energy consumption



Water consumption

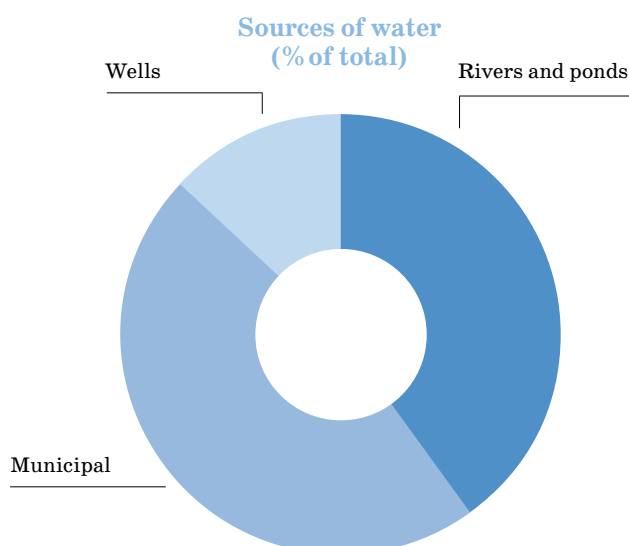


- ▶ Changes in internal processes to minimize change over times. Lower unnecessary idle time when energy is being used.
- ▶ Recirculation of dust collection air through HEPA filters back into facility to prevent heat and cooling losses to environment.
- ▶ Detecting leaks in the compressed air systems in order to reduce unnecessary energy losses.
- ▶ Installation of cooling systems with improved energy efficiency.
- ▶ Installation of steam traps on presses and insulation of furnaces. Switching off equipment that is not in use.
- ▶ Better control of the processes for mixing rubber and shorter cycle times reduced energy consumption at several units. Faster conversion of equipment when changing products. Pre-heating of presses.
- ▶ Reducing energy consumption during peak periods on the electricity network. Surplus heat energy (75 MWh) sold to the local district-heating network in Gislaved, Sweden.

Water consumption

Access to good quality water is essential for HEXPOL, and with regard to the use of a natural resources, there are many reasons for us to use water with care. Fortunately, the units are not located in areas suffering from water shortage, or where the aquatic eco-system is threatened. The exception is two sites in California, USA, where the area has suffered a severe long-term draught and where companies are expected to implement water-saving measures.

In 2018, around 340,000 m³ (341,000) of municipal water was consumed, 91,500 m³ (98,000) came from own wells and 287,000 m³ (296,000) from rivers. Water was mainly used for cooling of manufacturing equipment in closed loop systems and for sanitary purposes. However, at one plant in Sweden water from a nearby river is used for cooling purposes. As this is not a closed loop system the consumption accounts for around 40 percent of the Group's total water use. To reduce the water consumption, actions are continuously implemented, for example, search for leaking pipes, awareness and housekeeping programmes, and technical measures. In a three-year perspective the key performance indicator (m³/net sales) shows a downward trend. The total cost of water was 4.8 MSEK (4.4).

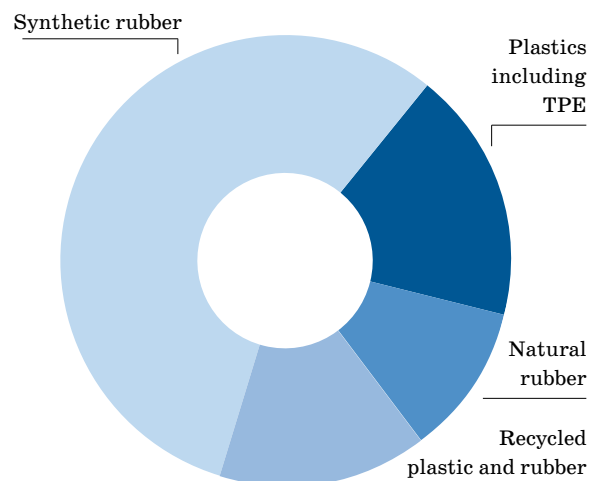


Emissions to wastewater from the manufacturing processes are limited and the indoor premises are normally not fitted with sewers. Wastewater therefore mainly consists of organic materials and nutrients from sanitary facilities and cleaning. Discharges of cooling water, that has not been in contact with raw materials and products, as well as rainwater from roofs and land areas, occur. The manufacturing units are connected to municipal wastewater treatment plants or equivalent. Precautions such as oil separators, secondary containment and spill-kits are installed at the units. Measurements of storm water and wastewater showed that the concentration of pollutants mainly complied with the legal limits. However, the limits for pollution of wastewater were temporarily exceeded at one plant in USA and one plant in the Czech Republic.

Polymers and other chemical products

Our manufacturing processes are mainly based on the use of polymers, HA oils (extender oils), fillers, and a large number of chemical substances. The rubber compounds include various types of synthetic rubber, process oils used as softening agents, carbon black and other fillers, as well as chemicals and additives. Some compounds include natural rubber. In addition to that, significant amounts of polyurethane plastics, thermoplastic elastomer compounds (TPE), metals, solvents and dyes are used.

Polymer materials in HEXPOL (% of total)



In terms of volume, synthetic rubber polymers are predominant, but TPE, polyurethane plastics and olefins are used to a considerable extent. The use of natural rubber accounted for about 11 percent (11) of total polymer consumption. The use of recycled polymers accounted for about 15 percent (15). The natural material cork is used in certain TPE applications. In the product series, Dryflex Green and RheVision, bio-based raw materials are included.

Safe chemical management

Thousands of recipes are used to mix compounds with various technical specifications. This leads to a significant use of chemical substances with various purposes – fillers such as carbon black, accelerators, anti oxidants, curing agents, flame-retardants, solvents and softeners, just to mention some categories. The Group's objective for safe chemical management is that chemicals that are classified as hazardous for humans and the environment

The rubber industry is becoming greener

Is the rubber industry becoming greener? Markus Nykvist, R&D Manager at Gislaved Gummi AB in Sweden, gives a chemist's view on the subject.

Why does the rubber industry use hazardous chemicals?

The production of rubber products requires a large number of raw materials and chemical substances to achieve the required properties. Many of the chemicals that we use are relatively harmless from an environmental and health perspective. However, we also use various types of hazardous substances that were introduced during the long history of the rubber industry. The reason is that the rubber chemists have continuously been investigating chemicals that create a specific technical performance of the rubber compound. Unfortunately some of these reactive chemicals may cause damage to the environment and to human health.

Are the risks understood?

During the past 25 - 30 years there has been an increasing interest in society to investigate the hazards with certain chemicals and to assess the risks. We have been impacted by stricter legislation, for example, the EU REACH Regulation that was introduced in 2007. This Regulation places strict responsibility on industry to manage risks from chemicals and to provide safety information on the substances. We can also see that several customers are aware of the risks and want to phase out certain chemicals. I would say that we are aware of the risks and that we have made progress in many areas. However, as science continuously brings new information about risks, we are working towards a moving target.

What actions have been taken?

At Gislaved Gummi AB we have phased out a number of chemicals; HA oils with high PAH content, certain phthalates, lead, ETU, to mention a few. Through smart databases (iChemistry) we have improved the management of chemicals, for example, through systematic risk analyses, screening of chemicals that are listed as candidates for risk reduction by the authorities and the customers, and informative Safety Data Sheets.

What are the main challenges?

You may break down the question into two answers: 1) Technical difficulties as certain chemicals are used in many different formulations. For example, to totally replace the nitrosamine generating accelerator TMTD in all our recipes would require a substantial R&D effort. 2) To get the customer to accept that the formulation will be changed. There can certainly be serious discussions concerning technical specifications, performance and cost.

What about the future?

We will continue with the work to phase out hazardous chemicals and take other precautionary measures. The use of recycled rubber and carbon black will increase. For example, last year during the manufacture of solid tires, at our plant in Sri Lanka, around 60 tons of recycled carbon black was used. I also think that the use of bio-based instead of fossil-based polymers will increase. There is a lot of research going on in this area and some commercial polymers are already available on the market, for example Keltan ECO EPDM. This product is made from sugar cane instead of crude oil. We can also see that HA oils can be replaced by vegetable oils. I am convinced the rubber industry will become greener in the future.

are to be substituted, or that other relevant risk reducing measures must be implemented. The EU chemicals legislation (REACH), and other legislation concerning labelling and risk information, is crucial for the long-term strategy for how we manage chemicals in a safe way. Equally important are the requirements that are expressed by our customers.

Precautionary work

A number of chemicals, or groups of chemicals, that are identified in the REACH SVHC List (Substances of Very High Concern Candidate List), are used in HEXPOL. As a part of the environmental management systems there are procedures in place to identify hazardous chemicals. Precautionary activities have high priority and during 2018 more than ten chemicals were phased-out, or had their usage reduced. Future efforts to reduce the risks involve, for example, chemicals such as cyclic siloxanes, carcinogenic nitrosamine generators, certain phthalates, ETU, lead and ADC (see Definitions).

Since there is no global harmonised chemical legislation the substitution work can be complicated. Substances

that are banned in one country may be accepted in parts of the worlds. Regardless of this, we strive to offer customers recipes that are less hazardous for humans and the environment without negative impact on the technical performance of the final product.

HA oils

In the rubber industry HA (highly aromatic process oils) extender oils are used to facilitate the processing of the rubber compounds. They are also an essential component for the technical performance of tyres and in particular for the road adherence (or grip) properties. Polycyclic aromatic hydrocarbons (PAHs) are, however, present in aromatic oils and the European Union has classified eight PAHs as carcinogenic. In EU there are since 2010 restrictions in the use of PAH in tyres for vehicles. The threshold limit is maximum three percent of PAHs in the extender oil.

At HEXPOL in Europe such oils are phased out but, as they are allowed in China, Mexico and USA, HA oils above the European limit are still used. In a global perspective more than 89 percent (89) of the extender oils have a low

PAH concentration and we strive to convince customers that more environment-friendly options are available.

Solvents, metals and conflict minerals

For the manufacture of polyurethane wheels around 100 tonnes of solvents, 25 tonnes of paint and 3,800 tonnes of metals are used per year. According to the legislation concerning conflict minerals (see Definitions) we get requests from many customers to guarantee that such materials are not present in HEXPOL's products. Conflict minerals are not used in our operations.

Emissions to the atmosphere

Climate changing gases

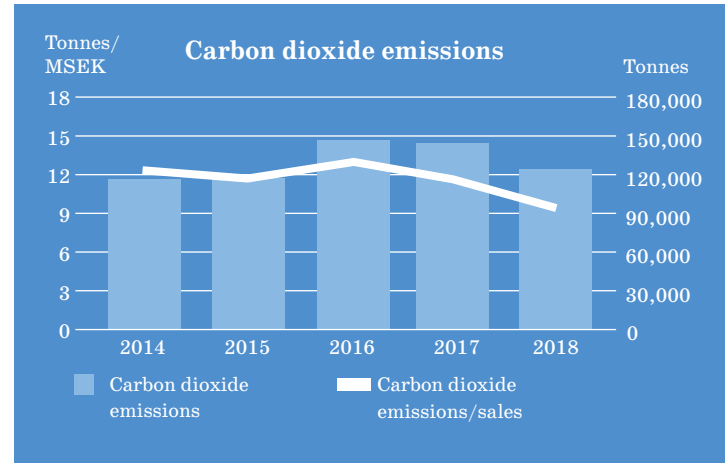
HEXPOL's aim is to reduce the emission of the greenhouse gas carbon dioxide from energy consumption. The emissions are results from the use of fossil fuels (oil, natural gas and propane) and purchased electricity. During 2018 the emissions were 126,000 tonnes (141,000). The indirect emissions through purchase of electricity dominated and accounted for 88 percent (89) of the total amount of carbon dioxide. In a five-year perspective the key performance indicator for carbon dioxide emission (tonnes CO₂/net sales) has been reduced. The indicator is impacted by several positive and negative factors, for example:

- ▶ The on-going energy-efficiency projects contribute to a lower carbon footprint.
- ▶ The increased use of fossil-free electricity (Sweden, Germany, Czech Republic, UK), and use of biomass (wood, sawdust; Sri Lanka), reduces the emissions of carbon dioxide.
- ▶ Increased production, increased used of energy, and increased number of acquired facilities, will affect the carbon footprint in a negative way. Significant parts of the production take place in USA, Mexico and China. As a result our indirect emissions are highly affected by electricity that is produces from fossil sources (coal, fuel oil) in these countries.
- ▶ Further installation of photovoltaic cells. Currently solar energy is captured at two plants in Italy.

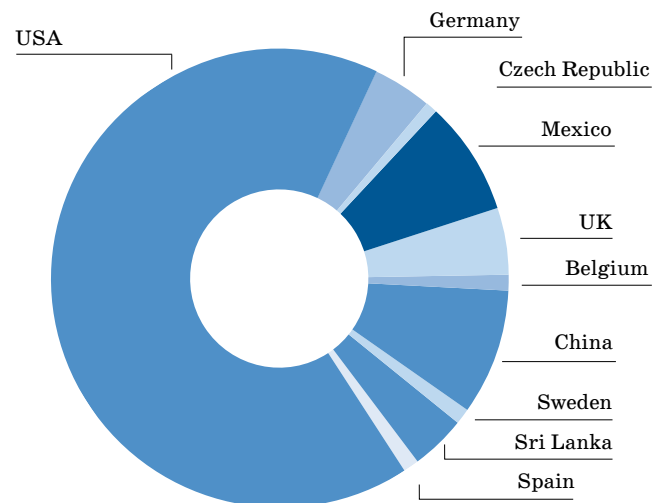
Other air emissions

Energy consumption caused 13 tonnes (12) of atmospheric emissions of sulfur dioxide (SO_x) and nitrogen oxide (NO_x).

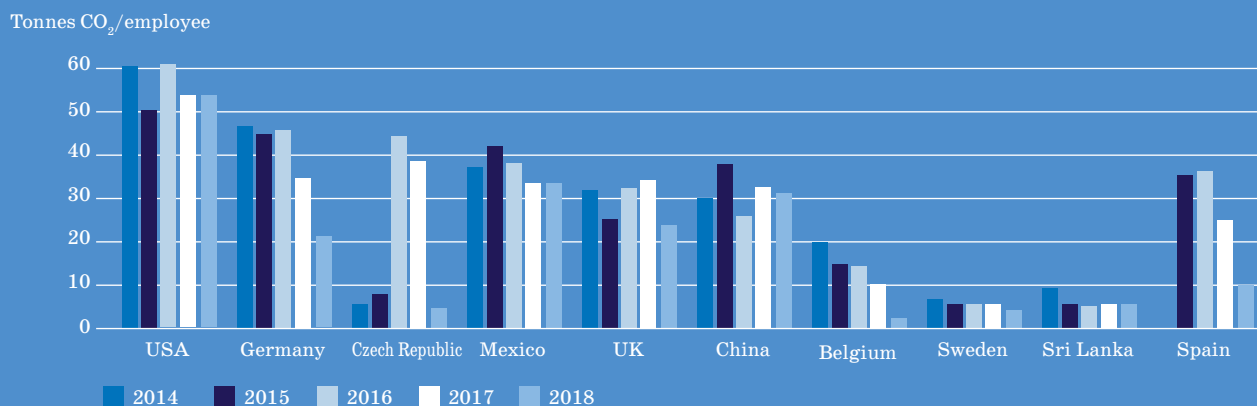
The emissions have been reduced in recent years and are a result of the reduction of the use of heavy fuel oil at the units in Sri Lanka. Emissions of VOC (Volatile Organic Compounds) from paint and solvents were around 57 tonnes (51) and were caused by the manufacture of polyurethane wheels. The total amount of installed cooling agents is approximately one tonne. No emissions of such ozone-degrading gases (CFC/HCFC) occurred during the year.



Carbon dioxide emissions per country (% of total emissions)



Carbon dioxide emissions per employee



Waste

By minimizing scrap, improving waste sorting at source and reducing the overall amount of waste, the units are using raw materials in a more efficient way. Examples of actions that are beneficial from an environmental point of view include internal recycling of process waste and the utilization of purchased recycled polymers. During 2018, purchased recycled material accounted for about 15 percent (15) of the total volume of polymer raw materials. It is mainly RheTech (USA) that uses recycled plastic on a large scale, but also the tyre plant in Sri Lanka uses notable amounts of recycled rubber. Around 2,000 tonnes of rubber, carbon black and plastic were recycled from production processes and dust filters. The recycled materials were reused in certain products or sold to other companies.

During 2018, the total volume of waste was 23,000 tonnes (22,000), of which hazardous waste accounted for 1,041 tonnes (1,039). In a five-year perspective, the KPI for waste (tonnes/sales) shows an unchanged situation. However, a significant increase in the amount of waste that is externally recycled, as energy and materials, can be observed. The amount of landfilled waste has increased during the past five years and the cause is increased pro-

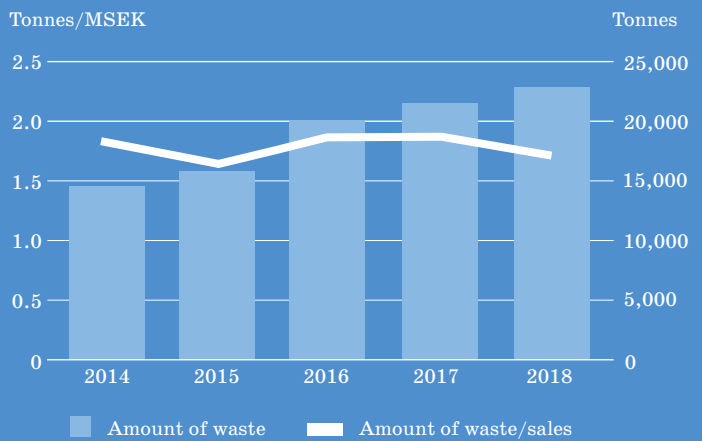
duction volumes in USA, UK and the Czech Republic. The cost of waste management amounted to 21.0 MSEK (19.0).

Innovative solutions generating green growth

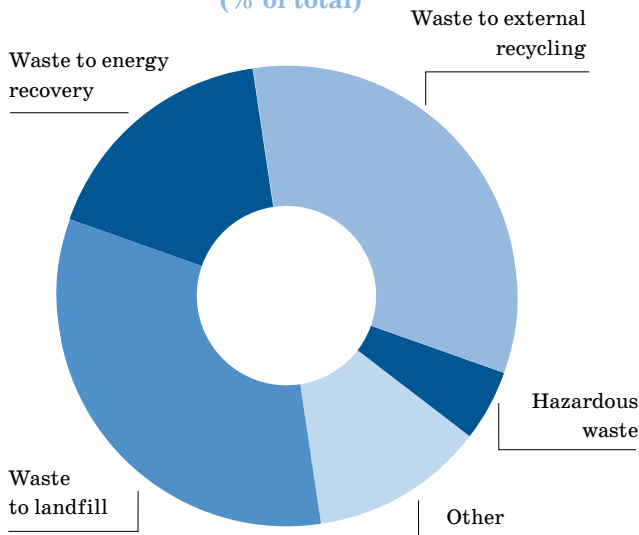
Many of HEXPOL's customers take actions to improve the environmental performance and reduce the carbon footprint of their products. Our capability to develop more environment-friendly polymer compounds and other products creates business opportunities, for example:

- ▶ RheVision is a line of bio fiber reinforced polypropylene which use renewable natural fibers, for instance ground wood and coco-nut shells instead of traditional reinforcements such as talc, minerals and glass. All of the bio fibers used in RheVision are true waste products that are either traditionally burned or buried. The natural fibers can be combined with a proportion of certified post-consumer polyolefin resin waste which takes the recycled content above 50 percent. The RheVision compounds are lightweight, environmentally friendly with a very unique aesthetic quality. The natural fiber products are also processed at lower temperatures which furthers the green footprint. RheTech sees a growing demand for these

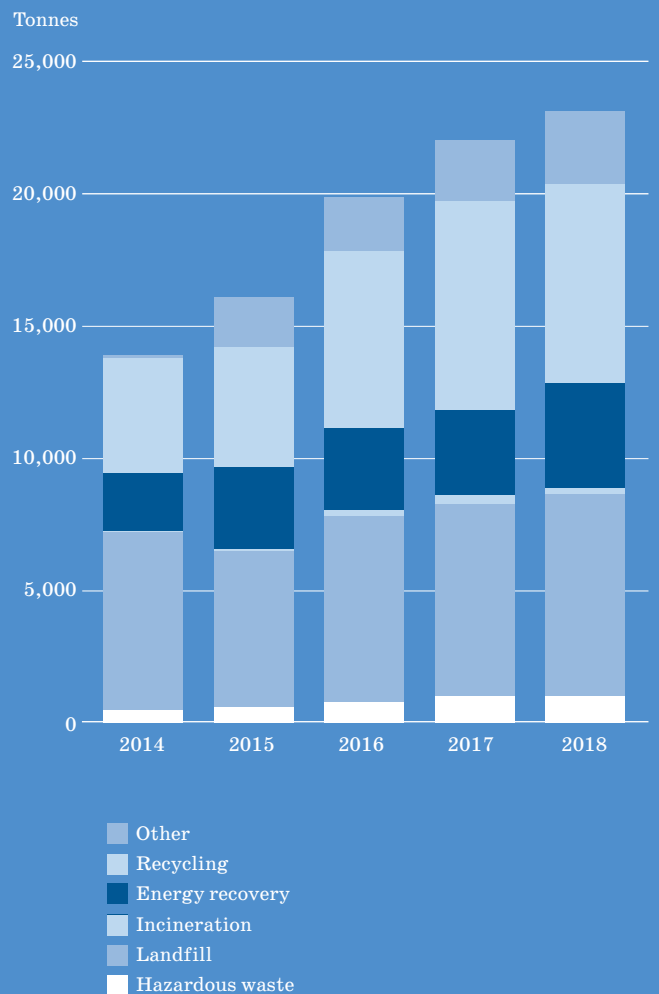
Amount of waste

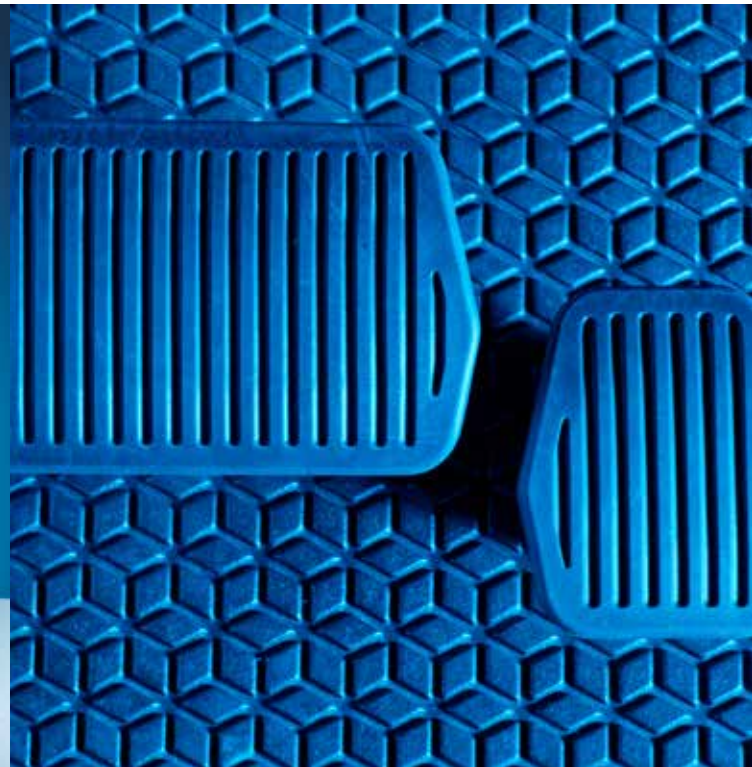


Waste categories (% of total)



Waste categories by external treatment methods





environmentally friendly products that help us further reduce the carbon footprint of thermoplastics.

- ▶ Dryflex Green is a family of thermoplastic elastomer (TPE) compounds containing raw materials from renewable resources such as plant and vegetable crops. So far HEXPOL has developed several series with amounts of renewable content to over 90 percent with hardness from 15 Shore A to 55 Shore D. By introducing raw materials that are derived from renewable vegetable crops, that are responsibly grown, the environmental impact is improved and the carbon footprint is reduced. Currently a LCA (Life Cycle Assessment) is carried out for Dryflex Green.
- ▶ The product group HEXLITE (micro-dense materials) meets the requirements from the automotive industry concerning weight reduction. The density of the rubber profiles is reduced up to 30 percent. This contributes to lower fuel consumption in vehicles.
- ▶ Envelopes for re-treading of automotive tyres from Robbins prolong the life of tyres and thereby reduce the environmental impact. Re-treading reduces the amount of oils, materials and energy to produce a tire.
- ▶ EPDM rubber with low electrical conductivity is something the automotive industry demands. The reason is that the risk of electrolytic corrosion occurs when the use of light aluminium and magnesium alloys increase in cars. Door strips containing this type of EPDM reduce the risk of corrosion.
- ▶ Recycled polymers are used in materials in mud flaps, mats and bumpers for the automotive industry.
- ▶ Rubber gaskets that are used in plate heat exchangers saves energy worldwide. The gaskets also contribute to energy saving, less climate impact and secure handling of chemicals and food products.

- ▶ Thermoplastic elastomers (TPEs) are easy to recycle and are used in many applications, such as the automotive industry. TPEs combined with natural material, such as cork, produces technically interesting properties and reduces the use of fossil raw materials. TPEs can also replace PVC in certain applications.
- ▶ Another environmental innovation is non-halogen fire protection mixtures out of the Hex-Flame product family, which are also an alternative for non-halogen building applications.
- ▶ HEXPOL Engineered Products manufactures polyurethane wheels with long service life, thus reducing the need for replacement wheels. This lowers the consumption of materials and the amount of waste.

Accidents and complaints

There were no cases of accidents or uncontrolled emissions to the environment in 2018. Three minor fires were reported (Sweden, UK). During the year HEXPOL received five complaints from neighbors concerning noise and odor.

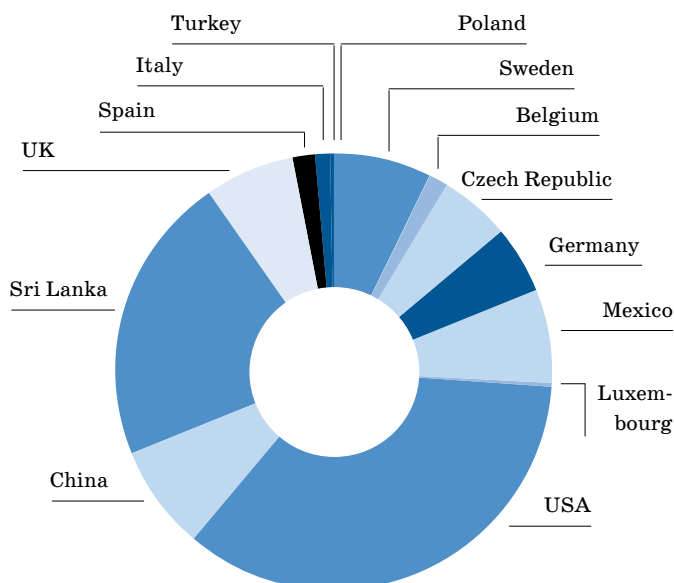
Social responsibility

Materializing Our Values applies in the same way throughout the world and the Group aims to be a good neighbor and corporate citizen. The basic idea is that these ambitions will contribute to attracting, developing and retaining committed and competent employees. Among other measures, we are therefore working to develop managers and train employees. Work environment efforts are focused on preventive measures with the vision of zero accidents occurring.

Employees

At the end of the financial year, the number of employees was 4,640 (4,389), of whom 3,211 (2,955) worked in HEXPOL Compounding and 1,424 (1,429) in HEXPOL Engineered Products. The Parent Company had 5 employees

Number of employees per country



(5). HEXPOL is a global Group and 93 percent (93) of the employees work outside Sweden. Of the employees, 42 percent work in the Americas, 29 percent in Europe and 29 percent in Asia.

Human rights

Materializing Our Values has its background in international agreements and guidelines concerning human rights, social responsibility and sustainable development, including the UN Global Compact and the Standard for Social Responsibility (ISO 26000). The Group's requirements are that workplaces should be safe, facilitate competence, development and comply with occupational health and safety and labor legislation. No employee may be discriminated due to gender, religion, age, physical or mental disability, sexual orientation, nationality, political opinions or origin. During the year, no deviations attributable to human rights were registered at the Group's units, or among suppliers.

The Group's values recognize the employee's right to be represented by trade unions or other employee representatives, as well as the right to collective bargaining and agreements. The extent of coverage by collective agreements varies depending on local political and cultural conditions in the countries in which the Group is active. At about a third of the units, all employees are covered by collective agreements and this applied to Sweden, Sri Lanka, Germany, Spain and China. For other units, the affiliation to trade unions is between 0 and 75 percent.

Diversity and equality

HEXPOL encourage diversity and distances itself from all forms of discrimination. Questions regarding equal rights have been decentralized and formal equality plans exist at 64 percent (60) of the units. The employees are entitled to form and join trade unions and have the right to collective bargaining. They also have complete insight into and the right of co-determination in accordance with the provisions of national legislation. Work environment efforts focus on preventive measures and include risk analyses, training programs and technical improvements.

A significant share of the people employed in the global polymer industry are men, something that also applies to HEXPOL. In the Group, 14 percent (14) of the employees are women. The units in China account for the highest share (about 33 percent), with the lowest proportion in Sri Lanka (6 percent). The proportion of females is 57 percent (57) on the Board of Directors and 17 percent (17) in Group management. The proportion of females in the local management teams averaged 18 percent (14). There is a Group-wide equal opportunity policy, and this serves as a clear message from Group management to strive for a higher proportion of females in connection with external and internal recruitment to various positions. During the year, nothing arose that showed that the Group had breached the guidelines concerning equal opportunities or diversity. At one facility in the US, an investigation is underway regarding possible discrimination in connection with a recruitment.

Skills development

By working in networks and project organizations, employees' knowledge and skills increase. Within HEXPOL, such activities entail people from different cultures meeting and sharing their knowledge and experience. In addition to this, formal skills development

is conducted at the Group companies and the number of training hours over the year was 118,200 (94,200). This corresponds to 26 hours (21) per employee. About 3,200 people (3,170) participated in development talks or equivalent activities. Work satisfaction, personal development, salary and career opportunities are important factors for many employees. The Group offers remuneration that, at a minimum, meets the minimum requirements in the legislation and is fully adapted to the market in the countries where HEXPOL operate. Variable performance-based compensation occurs in parts of the Group. In 2018, personnel costs were 1,785 MSEK (1,569).

During the year, employee surveys were conducted at 17 units (15). Examples of views and wishes expressed by employees concerned personal development, training, internal communications and planning of working hours.

Health and safety

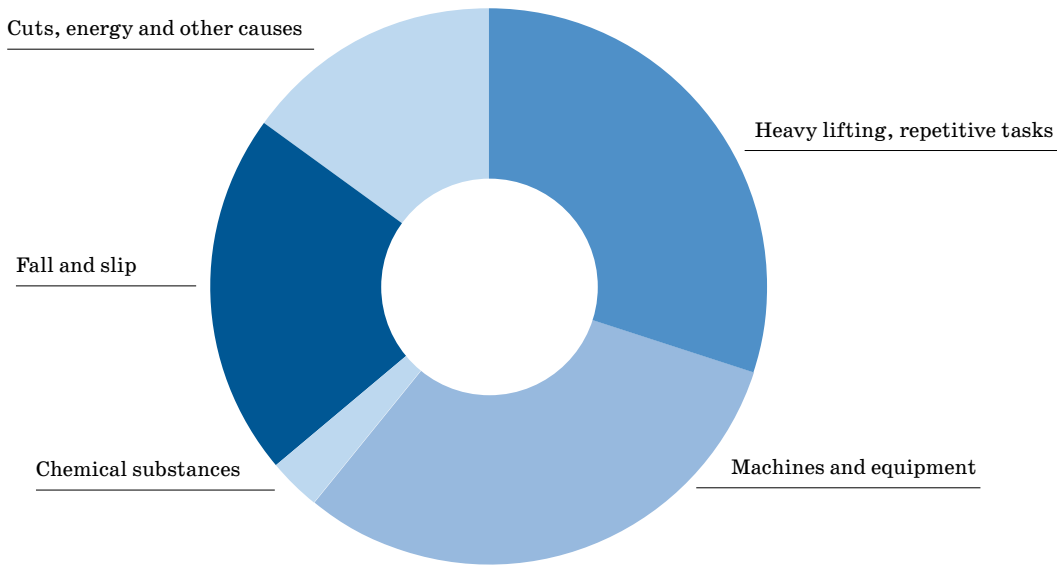
The vision is that no accidents will occur at our workplaces and the target is that the number of accidents will be reduced. Systems for reporting near misses are to be in place in all operations. The management of health and safety issues focuses on preventive measures and includes risk analyses, training programs, registration of incidents and technical improvements. Creating a good work environment and wellbeing are the responsibilities of executive management and improvement programs are conducted in cooperation with employees and their representatives. About half of the units have incentive systems in place for improvements made in the environmental and working environment fields.

During 2018, there were 124 occupational accidents (138) resulting in more than one day's absence from work. Total absence due to accidents amounted to 1,042 days (1,672). During the previous five years, the average accident rate for absence per million hours worked was 14.7. The outcome of 2018 was below average and amounted to 12.8. The frequency can be compared to other types of heavy manufacturing industry and the causes of accidents consist primarily of falls, equipment-related, manual handling and cuts. Zero accidents involving contractors (2) were reported and 12 work-related illnesses (23) were confirmed. Impaired hearing, allergies and injury to muscles and skeleton are examples of illnesses that occurred during the year.

During 2018 we can observe a downward trend in the number of work accidents and the following activities have contributed to the positive development:

- ▶ HEXPOL Compounding Americas Safety Program: The mission of the Americas Safety Team is simple: "Develop a world class safety culture." The key building blocks of the Safety Program are: Awareness and Communication; Corrective Action Process; Preventive Action Process; Cardinal Safety Rules, and Internal Safety Audits. Weekly conference calls are conducted where every site is represented. The discussion revolves around all safety incidents which have been reported in a safety database. What happened; what action was taken; and what "look across" actions can be taken at each site to prevent reoccurrence? Every month, each site conducts a monthly safety communication meeting with all associates. This is a campus wide meeting where all prior month Americas recordable injuries; near-miss safety incidents; internal safety audit results; and any other applicable safety

Causes of occupational accidents



Accidents at work 2014 – 2018

| Year | 2018 | 2017 | 2016 | 2015 | 2014 |
|--------------------------|-------|-------|-------|-------|-------|
| Lost Work Cases (LWC) | 124 | 138 | 127 | 111 | 104 |
| Lost Work Days (LWD) | 1,045 | 1,672 | 2,319 | 2,058 | 1,875 |
| LWC/million worked hours | 12.8 | 15.2 | 15.1 | 15.9 | 14.3 |
| LWD/million worked hours | 108 | 184 | 275 | 295 | 257 |

topics are presented to help educate the work force. During 2018 associates from one site traveled to another site to perform safety audits. All safety findings and observations were documented and corrective actions were taken.

- ▶ **Near-misses:** Systems to record near misses are implemented in 89 percent (86) of the units and are being used in an efficient way. A total of 503 near misses (448) were registered, resulting in preventive and remedial measures to reduce the risk of accidents.
- ▶ **Management systems:** OHSAS 18001 (occupational health and safety management system) is implemented at two plants in Sri Lanka, one plant in UK and one plant in the Czech Republic. The majority of the units manage health and safety in a systematic way within the legal frameworks of their respective countries.
- ▶ **Safety committees:** The safety committees are important drivers for preventive measures and such organizations exist in 89 percent (92) of the facilities.
- ▶ **Risk analyses and workplace monitoring:** Risk analyses, occupational health and safety monitoring (e.g. dust, noise, fumes), technical measures, training, health checks and safety rounds are frequently carried out at the plants. Special health checks of the workforce are conducted at the units handling isocyanates. Other types of recurring health checks are common in the Group.
- ▶ **Training and awareness:** Training programs involving the environment, occupational health and safety are conducted regularly and amounted an average

of 9.6 hours (9.8) per person during 2018. The training programs pertained to protection against fire and accidents, evacuation exercises, ergonomics, safe management of hazardous substances, use of personal protective equipment, hot work, first aid, and much more. A key target group for this type of training program is new employees.

Burton Rubber Processing (USA) was honored with the Geauga Safety Council "2018 Group Award" for being the employer with the lowest accident rate in the reference group. No lost time accidents were recorded during the year.





Social involvement

HEXPOL engages in social activities throughout the world (see also page 32–34). These include “open houses” for employees and their families, contacts and projects with schools and universities, and financial support for sports, health care and associations. During 2018 the following activities can be recognized:

- ▶ *Open houses:* Gislaved Gummi celebrated 125 years and around 400 persons visited the plant. The plants in Sri Lanka involved employees in competitions, musical programs and cricket tournaments. At the Statesville site a Family Day was organized, including employees, customers and representatives of the community. At the plant in Aguascalientes (Mexico) employees were invited to a Family Day, the Guadalupe Virgin Mass and the Christmas Party. The activities involved around 500 persons.
- ▶ *Students:* From a strategic perspective, it is important that young people and students are informed about the future opportunities offered by the polymer industry. Many of the Group’s units are active in contacts with schools and universities, for example, on field trips, job fairs, development projects, theses and internships. In total, several hundred students participated in activities at the Group’s units in Sweden, Sri Lanka, Belgium, Czech Republic, USA and Mexico.
- ▶ *Universities:* HEXPOL units participated in research collaborations with universities, for example, at Elastomeric Engineering in Sri Lanka (University of Sri Jayewardenepura), Compounding in Dukinfield in UK (Lancaster University), Burton in USA (Akron University), and RheTech in USA (Schoolcraft College). The Group collaborates, since long, with the International Institute for Industrial Environmental Economics (IIIEE) at Lund University in Sweden.
- ▶ *Sponsoring:* HEXPOL provides financial support for schools, health care, sports associations and social activities, and in many cases our involvement is long-term and Group employees contribute in different ways.

Economic responsibility

Year 2018 was HEXPOL's best year so far with 13 percent higher sales and improved result. We are very pleased with our two latest strategic acquisitions, Kirkhill Rubber and Mesgo Group and HEXPOL is well equipped for further expansion. Sales increased to 13,770 MSEK (12,230). Operating profit increased to 2,150 MSEK (1,986) and operating margin amounted to 15.6 percent (16.2).

| Key figures | 2018 | 2017 | 2016 |
|-------------------------------|--------|--------|--------|
| Sales, MSEK | 13,770 | 12,230 | 10,879 |
| Operating profit (EBIT), MSEK | 2,150 | 1,986 | 1,921 |
| Operating margin, % | 15.6 | 16.2 | 17.7 |
| Profit after tax, MSEK | 1,646 | 1,527 | 1,397 |
| Earning per share, SEK | 4.78 | 4.44 | 4.06 |
| Equity/assets ratio, % | 59 | 68 | 77 |
| Return on capital employed, % | 22.5 | 25.1 | 26.8 |

Sustainable development and finance

Investments, costs and savings

During 2018 the sustainability-related investments amounted to 38.6 MSEK (43.5). The main areas for investments were related to reduced air emissions and health and safety. The overall cost for environmental and workplace measures amounted to 32.8 MSEK (29.4). The costs include, for example, administration, operation of emission abatement equipment, and fees to authorities and certification bodies. The cost for management of waste accounted for 64 percent (65) of the total costs. Environmental and work environment-related measures resulted in savings of 5.5 MSEK (9.8). Increased recycling and energy-efficiency projects contributed to the savings. Savings were also a long-term result of investments in previous years.

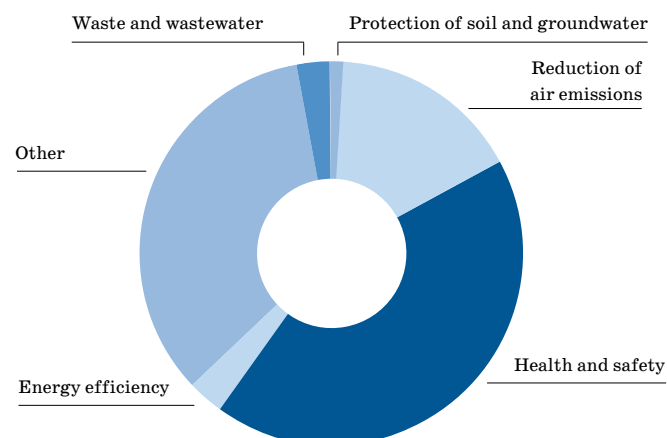
Financial value for stakeholders

HEXPOL affects a broad range of stakeholders. The Group has an economic impact on society and create opportunities for customers, suppliers, employees and society. The business generates a financial value that is distributed among the various stakeholders. Sourcing represent a large expenditure item, wages and pension plans generates value for our employees, and by paying taxes and employing people the company contributes to local societies in the countries where we are active.

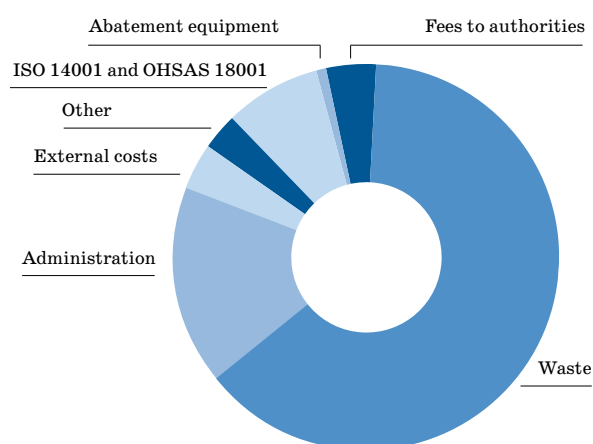
During 2018, the Group had net sales of 13,770 MSEK (12,230) of which 2,989 MSEK (3,658) was distributed according to the table. The Group's tax expenses were affected by lower tax rate in the US and amounted to 515 MSEK (441), which corresponds to a tax rate of 23.8 percent (22.4).

| Stakeholder | Distributed value (MSEK) | | | |
|--------------|--------------------------|--------------|--------------|-----------------------------|
| | 2018 | 2017 | 2016 | |
| Employees | 1,785 | 1,569 | 1,448 | Salaries and benefits |
| Shareholders | 671 | 1,635 | 585 | Dividend |
| Creditors | 18 | 13 | 10 | Interest expenses |
| Society | 515 | 441 | 516 | Total reported tax expenses |
| Total | 2,989 | 3,658 | 2,559 | |

Sustainability-related investments



Sustainability-related costs



Sustainability-related risks

HEXPOL's strategy includes continuously minimizing operational risks through active and planned risk management, while still capitalizing on the business opportunities that controlled risk-taking brings. The main features of risk management are identification, evaluation, governance, reporting, monitoring and control. For significant risks, there are procedures for accepting, reducing or eliminating the risk. HEXPOL's Annual Report for 2018 provides detailed information about operational and financial risks. In terms of sustainability, we have identified a number of risks of potential importance to the Group's financial position.

| Risk | Risk management |
|---|--|
| <p>Environmental legislation</p> <p>The on-going development of environmental legislation and environmental policies impacts HEXPOL on a short-term and long-term perspective. Climate change represents an area in which it is likely that additional legal and financial means of control will be introduced. With respect to other relevant environmental legislation, it is mainly REACH that creates challenges and opportunities for HEXPOL. The legislation includes requirements to phase out certain hazardous substances, or restrict their use in certain applications. We use chemical substances that are registered on REACH's Candidate List of Substances of Very High Concern (SVHC). These substances have a specific function in the preparation of our products, including certain phthalates (softening agents) and accelerators.</p> | <p>The Group is working systematically to analyse and implement the news and changes in the environmental legislation. We don't foresee any unexpected requirements that will impact the business operations. For the individual manufacturing facilities, it is important to comply with existing emission conditions and be prepared for more stringent future environmental requirements. The facilities have valid environmental licenses in place and just ordinary updates of conditions and permits are expected in the near future.</p> <p>Concerning REACH, the R&D departments have reformulated a number of recipes and the use of several substance has been terminated or reduced. Risk-reducing measures should, of course, be implemented as required by the legislation, customers' specifications and the Group Policies. Business opportunities are created by our aim to be a leading company in environmentally compatible products.</p> |
| <p>Health and safety legislation</p> <p>HEXPOL has operations in many countries with different health and safety requirements. Legislative amendments and changes in government regulations resulting in more stringent requirements or revised terms and conditions pertaining to health and safety, or a trend toward stricter application of laws and regulations by the authorities, could require additional investments and lead to increased costs. Legislative amendments and changes in government regulations could also impede or limit HEXPOL's operations.</p> | <p>HEXPOL's assessment is that its operations, in all material respects, are conducted in accordance with the applicable laws and regulations concerning health and safety. HEXPOL is continuously monitoring anticipated and implemented changes in legislation in the countries where the Group operates. HEXPOL has a health insurance system in the US, whereby the employees are offered compensation for health care. The Group's expenses are maximized to a fixed amount per individual and year.</p> |
| <p>Contaminated soil</p> <p>Many of the Group's facilities are built on land that was not previously used by contaminating operations. No emissions or accidents of significance to land and groundwater were registered in 2018. Adjacent to a leased property in Gislaved (Sweden) there are signs of historical soil contamination from petroleum hydrocarbons. Another property in Gislaved, owned by Gislaved Gummi, has been examined with respect to contaminations according to the Method for Inventories of Contaminated Sites (Mifo) in Sweden. The property was classified as Risk Class 2 and the assessment was based on the previous use of the solvent trichloroethylene in the facility. No emissions of this solvent have been registered and it is unknown whether the authorities will demand further soil and groundwater sampling. One of the units in the US is exposed to the risk of limited site contamination caused by earlier operations. Although remediation of the site is reported by the former owner, this has not been fully confirmed. However, there are no legal requirements for remediation of this land that affect the Group.</p> | <p>Regular assessments of the risk for soil contamination and other environmental damage are made in conjunction with acquisitions. Where it is considered necessary, sampling of soil and groundwater is conducted. Through risk analysis and preventative actions, for example, within the framework of ISO 14001, the probability and the consequences for uncontrolled emissions are minimized.</p> |
| <p>Hazardous substances in buildings and installations</p> <p>The roofs of some buildings are constructed of Eternit tiles that contain asbestos fibres. The risks are considered minor and do not require actions to be taken until the roofs are to be replaced. According to legislation in Sweden, the Group performed an inventory of the properties with respect to PCB (polychlorinated biphenyls). Some small amounts of PCB were found in window sealing in a number of buildings and the compound will be remediated as the windows are gradually replaced. The risks to humans and the environment are very low.</p> | <p>Regular assessments of the presence of asbestos and PCB are made in conjunction with acquisitions. In accordance with the legislation in different countries inventories has been carried out and relevant precautions have been taken. Further actions are currently not applicable.</p> |
| <p>Climate-related risks</p> <p>Three of the units have identified flooding as a climate-related risk and certain precautions have already been taken. Three facilities are located in areas that could be exposed to extreme weather.</p> | <p>The Group keeps itself informed of risk analyses on climate changes that are performed in countries in which it has operations. Climate related risks are taken into account during acquisitions of companies and evaluation of suppliers.</p> |
| <p>Environmental adaption of products</p> <p>The interest for environmentally adapted products is increasing in many industries and many of the customers sets requirements regarding phase-out of hazardous substances and other properties that have importance to health and environment. If the requirements are not met, there is a risk that the deal will be lost.</p> | <p>The Group is taken an active role within the area and is offering knowledge that contributes to environmental friendly product development. The Group's "green" products have the potential to create good business opportunities, for example Dryflex Green which consists of bio-based raw materials.</p> |
| <p>Human rights</p> <p>The risk for any violation of the human rights at HEXPOL's production facilities is considered low. The main part of the Group's suppliers of raw material is global chemical companies and the risks around human rights are considered as low. HEXPOL has identified suppliers of natural rubber as a potential risk area. Formal sustainability audits have therefore been performed at natural rubber plantations in Sri Lanka. The situation around human rights was assessed as good.</p> | <p>HEXPOL's code of conduct (Materializing Our Values) specifies the view of human rights. The code of conduct is supplemented by the commitments in the UN Global Compact. The system with whistleblowing gives the employees the opportunity to blow the whistle and draw attention to possible irregularities. In the collected data for the annual Sustainability Report, all companies must take a stand on questions regarding human rights in their own operation and among the suppliers. Any significant deviations have never been registered.</p> |
| <p>Anti-corruption</p> <p>The Group has operations in both industrialised and developing countries. No matter where the operations are, there is a risk that sound valuation principles are not applied. In the Materiality Analysis (see page 8) good business ethics is given very high priority. The message from the Group management is that zero tolerance is applied for anti-corruption and lack of business ethics.</p> | <p>Global Compact and the business ethic guidelines are guiding the employees in questions regarding what is and is not allowed in the contact with business partners. In the Compliance Program the managers confirm, through their signature, that the rules are followed. Managers and employees within sales and marketing are part of the mandatory educations within the area. In the collected data for the annual Sustainability report, all companies must take a stand on how they have worked against corruption during the year. The questions originate from Global Compact. Any significant deviations have never been registered.</p> |

Highlights during 2018

– small and big steps towards sustainable development

During the year the commitment to continual improvement was demonstrated by a number of small and big steps towards sustainable development. Some examples, from HEXPOL's units all around the world, are found below and other examples are found elsewhere in this Sustainability Report.

Belgium

- ▶ At the Eupen plant a study to optimize the cooling system was carried out. The company started to purchase fossil-free electricity.

China

- ▶ Gislaved Gummi in Qingdao passed all audits that were conducted by the local environmental and workplace authorities. Actions were taken to improve the management of hazardous waste.
- ▶ Stellana in Qingdao built a new storage room for hazardous waste. Energy consumption was decreased by 10 percent per manufactured product.
- ▶ The Foshan unit finalized the work safety standardization and the occupational health and safety classification.

Czech Republic

- ▶ The Unicov site introduced the new HEXLITE compound to a major customer.
- ▶ The Lesina unit integrated the management systems according to IATF, ISO 14001, OHSAS 18001 and ISO 50001. The plant-specific energy consumption was reduced by 2.5 percent.

Germany

- ▶ The Lichtenfels sites observed an increasing demand for environment-friendly products, for example, concerning non-toxic and renewable raw materials.
- ▶ The Hückelhoven unit formed an Energy Team and started to purchase non-fossil electricity.

Mexico

- ▶ The unit in Aguascalientes continued with the mentor safety programme and there was a significant reduction in the number of accidents.
- ▶ The Querétaro unit reduced the amount of hazardous waste. ISO 14001 was updated to the latest version without any non-conformances during the certification audit. Environment and safety training was given to all employees.

Spain

- ▶ The compounding unit in Barcelona continued work to remove nitrosamine-generating chemicals, hazardous substances and phthalates. Continued the recycling program of wooden pallets and cardboard boxes using returnable containers and pallets.

Sri Lanka

- ▶ The Horana unit was re-certified according to the latest versions of ISO 9001 and ISO 14001. The company developed environment-friendly compounds using recovered carbon black. It worked together with a waste company to recycle rubber waste by pyrolysis.
- ▶ The company was re-certified according to the latest versions of ISO 9001 and ISO 14001. Waste rubber was recycled using pyrolysis by a waste company. Continued work with energy-efficiency projects.

Sweden

- ▶ Gislaved Gummi installed LED lamps at several places in the factory. The company was re-certified according to the latest versions of ISO 9001 and ISO 14001.
- ▶ Stellana in Laxå demonstrates continual improvements in areas such as energy efficiency, carbon footprint and the amount of waste.
- ▶ At the Åmål site a Life Cycle Analysis was initiated for Dryflex Green. More than 40 projects connected to Dryflex Green are launched or planned. The company was re-certified according to the latest versions of ISO 14001.

United Kingdom

- ▶ The HEXPOL TPE unit in Middleton installed LED lighting in certain areas plus motion sensors. It also increased the number of suppliers of recycled polymers.
- ▶ The Dukinfield unit completed the transition to ISO 14001:2015.
- ▶ Berwin in Dukinfield incorporated the previous HEXPOL compounding plant into the site. There was focus on communication of workplace risks that are associated with hazardous chemicals (COSHH).
- ▶ Berwin in Lydney purchased renewable energy from sustainable sources (sourced for the coming five years). Improved energy efficiency by LED light, power factor correction and variable compressor.
- ▶ FlexiCell in Dukinfield was certified according to ISO 14001. Actions were taken to reduce exposure to dust in the silicone production. The waste management segregation was a great success with zero landfill in Q4, 2018.

USA

- ▶ The Statesville plant completed the switch to LED lighting throughout the plant. The company continued with the Mentor Program and additional safety mentors were added. Quarterly surveys of associates were conducted for morale, safety and productivity.
- ▶ The Jonesborough site completed the changeover from propane to electric forklifts. Separated ester, staining, and non-staining oil with installation of new oil system for the 440 mixer. The old cooling tower was removed.
- ▶ The Muscle Shoals plant successfully passed the surveillance audit according to ISO 14001.
- ▶ Valley Processing in Los Angeles reduced energy consumption by 10 percent per ton produced. This was done through formulation and cycle time optimization. While the site has not completed ISO 14001 certification, the system was implemented and is operational. HEXPOL Safety Programs were implemented with a focus on Cardinal Rules and personal protection equipment. The dust collection system was improved.
- ▶ The Kennedale unit implemented a Mentorship Program with Impact Indicators. Training was conducted for all supervisors. The locker room was upgraded. In the chiller system R410 replaced the more ozone depleting cooling media R22.
- ▶ The Dyersburg campus assisted in rolling out the Mentoring Program within Americas. Also rolled out a Wellness Program focusing on Mind, Body, and Spirit, to help educate the associates on their health, with a goal to reduce insurance cost. Introduced safety topics in all communication meetings, as well as internal audits done daily by all associates. Lockout tag-out continued as a major emphasis with improved training, communication signage and focus. Continued the plan to become landfill free and reduced waste streams to landfill by 78 percent. Continued with the presence in the community through numerous contributions and volunteers donating time to work.



- ▶ The Stellana site in Lake Geneva implemented a Colorant Reduction Project which reduced the amount of colorant required by 40 percent. Reduced production scrap, landfill waste and hazardous waste streams.
- ▶ For the fourth consecutive year the Burton facility was selected for "2018 Top Workplaces" as one of the best mid-sized companies to work for in Northeast Ohio. Examples of actions during the year were: Reduced lift truck speeds. Associates started conducting weekly safety audits across all three shifts. Video Camera's installed and operating in facility and video analysis is done twice a month. Pre-shift Ergonomic Stretching is mandatory for everyone and Office Yoga was implemented.
- ▶ Gold Key in Middlefield maintained the ISO 14001 certification. Continued to drive safety and environmental projects with increased associate engagement. Continued to improve the recycling program with "zero" landfill goal. Continued with energy curtailment and wastewater management programs. Improved the safety culture driven by Americas Safety Committee to share best practices and drive initiatives across all campuses. Implementation of Safety Mentor to improve safety focus and audits of all processes in production. Continued with the engagement in the local community, for example, support to hospitals, career awareness information for high school students, donation of blood, and events together with the Chamber of Commerce, schools, police, fire department, etc. For the third consecutive years the company received Parker Hannifin's Silver link award for supplier performance.
- ▶ The Kardoes' Management Team continuously drove community-based initiatives to add value to the associates and as a large employer within the local community. The Lean Six Sigma project included input and collaboration with all associates. Implementation of Ergonomic Focus with Yoga for Management and Pre-shift Stretching for all associates. Began preparation to achieve ISO 45001 certification for the upcoming year.
- ▶ The RheTech Whitmore Lake and Fowlerville plants updated ISO 14001 to the latest version.
- ▶ RheTech Colors achieved certification according to ISO 14001. Participated in the EHOVE – Future-Maker Career Showcase where RheTech Colors presented the business and career opportunities to high school students.



About the sustainability report

The purpose of this report is to provide an overview of HEXPOL's sustainability performance during the calendar year of 2018, and, where practicable, provide a comparison to the performance during previous years. The report describes our impacts on our environment, people, our local communities and the economic contribution the company makes in the areas in which we operate. The aim is to provide a focused report that supports the needs of HEXPOL and our stakeholders.

Scope and boundary

The Sustainability Report covers performance relating to the environment, health, safety and social conditions at the production units worldwide. Operations that belonged to the Group for most of the fiscal year were included in the report. A total of 35 (36) manufacturing sites throughout



the world contributed to the report. One site was closed during the year and was therefore not included in the report. Mesgo Group and Kirkhill Rubber (acquired during 2018), and two small sites in HEXPOL Silicone Compounding and RheTech, were not included in the report. Companies located at the same site are reported as one unit. The table shows all units that formed the HEXPOL Group by the end of 2018 and to which extent they are included in the Sustainability Report.

Reporting principles

The annual reporting cycle is shown in the figure on page 35. Each unit supplies data to the corporate head office in accordance with the Group’s questionnaire for sustainability reporting. All unit managers are responsible for the primary quality-assurance of the data provided. The second level of quality control is carried out at the head

office, where incoming information is reviewed and compared with data from previous years. Additional assessment of sustainability data is carried out during visits at selected units during the year.

Emissions of carbon dioxide, sulphur dioxide and nitrogen oxide from direct energy consumption have been measured using conversion factors based on the energy content and quality of the fuel used. CO₂ emissions from indirect energy consumption – mainly electricity – are measured based on emission factors from the UK Department for Environment, Food and Rural Affairs (DEFRA) (Conversion Factors for Company Reporting 2015) for the countries in which HEXPOL conducts operations. In cases where energy suppliers present specific information regarding the energy mix, the supplier’s measurement models are used. Information about VOC emissions is primarily based on mass balance calculations.

Operating units

| |  |  | Building area (m ²) | Environmental licence | Included in Sustainability Report |
|---|---|---|---------------------------------|-----------------------|-----------------------------------|
| HEXPOL Compounding North Carolina | Statesville, USA | 92 | 3,400 | Yes | Yes |
| GoldKey Processing | Middlefield, USA | 194 | 13,900 | Yes | Yes |
| HEXPOL Compounding – Burton Rubber Processing | Burton, USA | 266 | 20,800 | Yes | Yes |
| HEXPOL Compounding – Burton Rubber Processing | Jonesborough, USA | 123 | 9,800 | Yes | Yes |
| HEXPOL Compounding – Colonial Rubber Works | Dyersburg, USA | 242 | 45,700 | Yes | Yes |
| Chase Elastomer | Kennedale, USA | 83 | 7,200 | Yes | Yes |
| Valley Processing | Los Angeles, USA | 115 | 6,700 | Yes | Yes |
| Robbins | Muscle Shoals, USA | 48 | 22,600 | Yes | Yes |
| HEXPOL Compounding Aguascalientes | Aguascalientes, Mexico | 137 | 6,500 | Yes | Yes |
| HEXPOL Compounding Querétaro | Querétaro, Mexico | 189 | 12,400 | Yes | Yes |
| HEXPOL Compounding Belgium | Eupen, Belgium | 73 | 4,200 | Yes | Yes |
| HEXPOL Compounding Germany | Hückelhoven, Germany | 66 | 6,300 | Yes | Yes |
| HEXPOL Compounding Czech Republic | Unicov, Czech Republic | 111 | 7,900 | Yes | Yes |
| HEXPOL Compounding Lesina | Lesina, Czech Republic | 124 | 7,350 | No | Yes |
| HEXPOL Compounding UK | Dukinfield, UK | 59 | 2,870 | No | Yes |
| HEXPOL Compounding Qingdao | Qingdao, China | 73 | 6,200 | Yes | Yes |
| HEXPOL Compounding/TPE Foshan | Foshan, China | 59 | 4,950 | Yes | Yes |
| HEXPOL TPE Sweden | Åmål, Sweden | 78 | 5,300 | Yes | Yes |
| HEXPOL TPE UK | Manchester, UK | 47 | 4,500 | No | Yes |
| HEXPOL TPE Germany | Lichtenfels, Germany | 147 | 7,210 | No | Yes |
| Kardoes Rubber | LaFayette | 83 | 13,700 | Yes | Yes |
| HEXPOL Compounding Spain | Barcelona, Spain | 85 | 12,500 | Yes | Yes |
| RheTech Compounding | Whitmore Lake, USA | 104 | 10,900 | Yes | Yes |
| RheTech Compounding | Fowlerville, USA | 43 | 5,700 | Yes | Yes |
| RheTech Colors | Sandusky, USA | 56 | 6,500 | Yes | Yes |
| Berwin Rubber | Dukinfield, UK | 91 | 7,300 | Yes | Yes |
| Berwin Industrial Polymers | Lydney, UK | 80 | 5,900 | Yes | Yes |
| Berwin, FlexiCell | Dukinfield | 14 | 2,100 | No | Yes |
| Gislaved Gummi | Gislaved, Sweden | 166 | 20,000 | Yes | Yes |
| Gislaved Gummi Lanka | Bokundara, Sri Lanka | 430 | 9,300 | Yes | Yes |
| Gislaved Gummi China | Qingdao, China | 150 | 8,400 | Yes | Yes |
| Stellana Sweden | Laxå, Sweden | 94 | 12,100 | Yes | Yes |
| Stellana US | Lake Geneva, USA | 70 | 7,500 | Yes | Yes |
| Stellana China | Qingdao, China | 61 | 3,500 | Yes | Yes |
| HEXPOL Elastomeric | Horana, Sri Lanka | 520 | 11,800 | Yes | Yes |
| Kirkhill Manufacturing | Long Beach, USA | 57 | 15,000 | Yes | No |
| Mesgo Group | Italy, Turkey, Poland | 190 | 38,800 | Yes | No |

GRI Index 2018

The organization GRI (Global Reporting Initiative) has drawn up voluntary global standards for how companies and other organizations should report on activities relating to the concept of sustainable development. GRI Standards place requirements on reporting sustainability data in terms of economic, environmental and social performance indicators. According to GRI, sustainability reporting should provide a balanced and reasonable picture of the organization's results within the field of sustainability, including both the positive aspects and the negative aspects.

GRI Standards

The following table shows the degree to which HEXPOL meets reporting requirements in accordance with the GRI Standards. Concerning Management Approach we refer to the overarching principles that are described on pages 7-9. Descriptions of the Management Approach are therefore not repeated for every separate Material Topic.

The Sustainability Report 2018 was not audited by any third-party organization. However, as sustainability issues constitute a section of the Board of Directors'

report in the HEXPOL Annual Report 2018, the financial auditors have verified that the section fulfills the Swedish legislation on Sustainability Reporting. This legislation is a result of the EU Directive on Non-Financial Reporting. Contact person for the Sustainability Report is Torbjörn Brorson (info@hexpol.com).

AR in the table below refers to page numbers in the HEXPOL Annual Report 2018. SR refers to this Sustainability Report.

General Standard Disclosures

| GRI Indicator | Description | Page |
|-------------------------------|--|-----------------|
| Organizational profile | | |
| 102-1 | Name of the organization | HEXPOL AB |
| 102-2 | Activities, brands, products and services | AR 22-23 |
| 102-3 | Location of headquarters | AR 104 |
| 102-4 | Location of operations | AR 104-107 |
| 102-5 | Ownership and legal form | AR 10 |
| 102-6 | Market served | SR 4, 15-16 |
| 102-7 | Scale of the organization | SR 4 |
| 102-8 | Information on employees and other workers | AR 83, SR 24-25 |
| 102-9 | Supply chain | AR 22, SR 12-13 |
| 102-10 | Significant changes to the organization and its supply chain | SR 35-36 |
| 102-11 | Precautionary principle or approach | SR 8-9, 20 |
| 102-12 | External initiatives | SR 9-10 |
| 102-13 | Membership of associations | SR 9-10 |

| GRI Indicator | Description | Page |
|--|---|-----------------|
| Strategy and analysis | | |
| 102-14 | Statement from senior decision-maker | SR 5-6 |
| Ethics and integrity | | |
| 102-16 | Values, principles, standards, and norms of behavior | SR 8-10 |
| Governance | | |
| 102-18 | Governance structure | AR 65-73, SR 8 |
| Stakeholder engagement | | |
| 102-40 | List of stakeholder groups | SR 12-13 |
| 102-41 | Collective bargaining agreement | SR 25 |
| 102-42 | Identifying and selecting stakeholders | SR 7-8, 12-13 |
| 102-43 | Approach to stakeholder engagement | SR 7-8, 12-13 |
| 102-44 | Key topics and concerns raised | SR 7-8, 12-13 |
| Reporting practice | | |
| 102-45 | Entities included in the consolidated financial statements | SR 35-36 |
| 102-46 | Defining report content and topic boundaries | SR 35-36 |
| 102-47 | List of material topics | SR 7-8 |
| 102-48 | Restatement of information | SR 35-36 |
| 102-49 | Changes in reporting | SR 35-36 |
| 102-50 | Reporting period | SR 35-36 |
| 102-51 | Date of most recent report | March 2018 |
| 102-52 | Reporting cycle | SR 35-36 |
| 102-53 | Contact point for questions regarding the report | SR 35-36 |
| 102-54 | Claims of reporting in accordance with the GRI Standards | SR 37-39 |
| 102-55 | GRI content index | SR 37-39 |
| 102-56 | External assurance | No |
| Management Approach | | |
| 103-1 | Explanation of the material topic and its boundary | SR 7-8 |
| 103-2 | The management approach and its components | SR 7-11, 14 |
| 103-3 | Evaluation of the management approach | SR 8 |
| Topic-specific Standards | | |
| <i>Economic</i> | | |
| Material topic GRI 201: Economic performance | | |
| 201-1 | Direct economic value generated and distributed | SR 28-29 |
| Material topic GRI 205: Anti-corruption | | |
| 205-2 | Communication and training about anti-corruption policies and procedures | SR 10 |
| 205-3 | Confirmed incidents of corruption and actions taken | None |
| Material topic GRI 206: Anti-competitive behavior | | |
| 206-1 | Legal actions for anti-competitive behavior, antitrust and monopoly practices | None |
| <i>Environment</i> | | |
| Material topic GRI 301: Materials | | |
| 301-1 | Materials used by weight or volume | SR 19-21 |
| 301-2 | Recycled input materials used | SR 19 |
| Material topic GRI 302: Energy | | |
| 302-1 | Energy consumption within the organization | SR 18-19 |
| 302-3 | Energy intensity | SR 18-19 |
| 302-4 | Reduction of energy consumption | SR 18-19, 32-34 |
| 302-5 | Reduction of energy requirements of products and services | SR 22-23 |

| GRI Indicator | Description | Page |
|---|---|----------------|
| Material topic GRI 303: Water | | |
| 303-1 | Water withdrawal by source | SR 19 |
| Material topic GRI 305: Emissions | | |
| 305-1 | Direct (Scope 1) emissions of greenhouse gases (GHG) | SR 21 |
| 103-2 | Indirect (Scope 2; energy) emissions of greenhouse gases (GHG) | SR 21 |
| 305-4 | GHG emissions intensity | SR 21 |
| 305-5 | Reduction of GHG emissions | SR 21 |
| 305-6 | Emissions of ozone-depleting substances (ODS) | SR 21 |
| 306-7 | Nitrogen oxides (NOx), sulfur oxides (SOx) and other significant air emissions | SR 21 |
| Material topic GRI 306: Effluents and waste | | |
| 306-1 | Water discharge by quality and destination | SR 19 |
| 306-2 | Waste by type and disposal method | SR 22 |
| 306-3 | Significant spills | SR 23 |
| 306-4 | Transport of hazardous waste | SR 22 |
| Material topic GRI 307: Environmental compliance | | |
| 307-1 | Non-compliance with environmental laws and regulations | SR 17 |
| Material topic GRI 308: Supplier environmental assessment | | |
| 308-1 | New suppliers that were screened using environmental criteria | SR 12-13 |
| <i>Social</i> | | |
| Material topic GRI 403: Occupational health and safety | | |
| 403-1 | Workers representation in formal joint management-worker health and safety committee | SR 25-27 |
| 403-2 | Types of injury, occupational diseases, lost days, and absenteeism, and work-related fatalities | SR 25-27 |
| Material topic GRI 404: Training and education | | |
| 404-1 | Average hours of training per year per employee | SR 25 |
| 404-2 | Programs for upgrading employee skills and transition assistance programs | SR 25 |
| 404-3 | Percentage of employees receiving regular performance and career development reviews | SR 25 |
| Material topic GRI 405: Diversity and equal opportunity | | |
| 405-1 | Diversity of governance bodies and employees | SR 24-25 |
| Material topic GRI 406: Non-discrimination | | |
| 406-1 | Incidents of discrimination and corrective actions taken | SR 25 |
| Material topic GRI 407: Freedom of association and collective bargaining | | |
| 407-1 | Operations and suppliers in which the right to freedom of collective bargaining may at risk | SR 7-10, 12-13 |
| Material topic GRI 408: Child labor | | |
| 408-1 | Operations and suppliers at significant risk of child labor | SR 7-10, 12-13 |
| Material topic GRI 409: Forced or compulsory labor | | |
| GRI 409-1 | Operations and suppliers at significant risk for incidents of forced or compulsory labor | SR 7-10, 12-13 |
| Material topic GRI 412: Human rights assessment | | |
| 412-2 | Employee training on human rights policies or procedures | SR 10 |
| Material topic GRI 413: Local communities | | |
| 413-1 | Operations with local community engagement, impact assessments, and development programs | SR 26, 32-34 |
| Material topic GRI 414: Supplier social assessment | | |
| 414-1 | New suppliers that were screened using social criteria | SR 7-10, 12-13 |

Global Compact – Communication On Progress

Ten principles on responsible business practice

In 2017 HEXPOL joined the UN initiative for responsible business – Global Compact. This means the Group is a part of a global network of more than 9,900 businesses in 162 countries. HEXPOL participates at the Signatory level.

By participating in the Global Compact, HEXPOL endorses ten basic principles in the areas of human rights, working conditions, the environment and anti-corruption. These ten principles are based on various UN conventions, such as the Declaration of Human Rights and the Convention against Corruption. The 17 Sustainable Development Goals presented by the UN in autumn 2015 are now also connected to the Global Compact. In 2016, HEXPOL linked its sustainability goals to the Sustainable Development Goals.

The booklet *Materializing Our Values*, which includes the Group's Code of Conduct, is an important internal document, guiding and coordinating employee activities in line with the ten principles. Group companies' compliance with the Code of Conduct is evaluated on a regular basis. In the introduction to the Sustainability Report, HEXPOL's CEO Mikael Fryklund comments on the company's Global Compact work during the year.

Communication On Progress

Organisations that have endorsed the Global Compact must produce an annual Communication on Progress (COP) detailing how they meet the ten principles. In HEXPOL's case, we use the information provided in the Annual Report and the Sustainability Report. Together, these reports provide a fair presentation of HEXPOL's support of and compliance with the Global Compact principles. In order to simplify COP, we use GRI Indicators and the table of cross-references below shows which indicators that are relevant in the context.



| The Global Compact Principles | GRI Indicators |
|---|-----------------------------------|
| Human rights | |
| 1. Businesses should support and respect internationally proclaimed human rights. | 103-2, 412-2, 413-1 |
| 2. Businesses should make sure they are not complicit in human rights abuses. | 103-2, 412-3, 414-1 |
| Labour | |
| 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining. | 103-2, 102-41, 407-1 |
| 4. Businesses should work to eliminate all forms of forced and compulsory labour. | 103-2, 409-1 |
| 5. Businesses should work for the effective abolition of child labour. | 103-2, 408-1 |
| 6. Businesses should work to eliminate all discrimination in respect of employment and occupation. | 103-2, 102-8, 401-1, 401-2, 406-1 |
| Environment | |
| 7. Businesses should support a precautionary approach to environmental challenges. | 103-2, 102-11, 301-1 |
| 8. Businesses should undertake initiatives to promote greater environmental responsibility. | 103-2, 301-1, 302-4, 302-5 |
| 9. Businesses should encourage the development and diffusion of environmentally friendly technologies. | 103-2, 301-2, 302-4, 305-5 |
| Anti-corruption | |
| 10. Businesses should work against corruption in all its forms, including extortion and bribery. | 103-2, 102-16, 205-2, 205-3 |

Definitions

ADC Azodicarbonamide is a chemical blowing agent for rubber and plastics.

ATEX EU Directive concerning potentially explosive atmospheres. Explosive atmospheres in the workplace can be caused by flammable gases, mists or vapours or by combustible dusts. Explosions can cause loss of life and serious injuries as well as significant damage.

BIOFUEL Renewable fuel from bio-based sources, for example, wood.

BOUNDARY The boundary for a sustainability or corporate responsibility report refers to the range of entities whose performance is covered in the organization's report.

CARBON DIOXIDE (CO₂) Carbon dioxide is formed in all carbon combustion processes, such as fossil fuel combustion. Emissions of carbon dioxide increase global warming (the greenhouse effect).

CDP The Carbon Disclosure Project is a voluntary system for reporting the environmental impacts caused by businesses. The primary target group is international investors that can refer to information on climate risks when making investment decisions about companies.

CFC/HCFC Gases containing chlorofluorocarbons (CFCs), hydrofluorocarbons (HFCs) and pollutants containing fluoride have negative impacts on the environment as a result of their ozone-depleting properties and their effect on the climate. These gases are called F-gases because of the fluoride content and these types of gases have been regulated in the EU since 2015 by the F-gas regulation. These gases may be found in cooling and heat pumps, fire protection equipment and circuit breakers.

CHILD LABOR Refers to the employment of workers who do not meet the applicable national minimum legal age requirement.

CLP Classification, Labeling and Packaging is an EU legislation that addresses dangers posed by chemical substances and mixtures and how users should be informed about them. These regulations were introduced in 2015.

CLIMATE CHANGE Also defined as global warming. Human activity contributes to the warming of the global environment and its resulting effects, which range from higher temperatures to eccentric weather patterns and melting of the ice caps.

CODE OF CONDUCT The behaviour code for HEXPOL's employees is called Materializing Our Values. Supplemented by policies relating to finance, information, environment, equal opportunities, IT and health and safety.

CONFLICT MINERAL Tantalum, tin, gold and tungsten are referred to as conflict minerals if they originate from the Democratic Republic of Congo and neighboring countries. The term arose because of the armed conflicts in the region, where mining operations often contribute to continued conflicts and lead to human rights abuses.

CSR/CR Corporate Social Responsibility/ Corporate Responsibility is a term that encompasses how companies handle issues concerning the environment, social responsibility, financial responsibility and business ethics. Often used in the same sense as the term 'sustainable development'.

DETU N,N'-Diethyl thiourea is a rubber accelerator that is hazardous to health and the environment.

DINP Diisononyl phthalate (DINP) is a phthalate used as a plasticizer. At present, according to a EU Directive, DINP is banned in toys and childcare articles that children can put into their mouths.

DOTG N'N'-di-ortho-tolyl guanidine is an accelerator in polyacrylate rubber compounds. The substance releases otoluidine emissions that are associated with health risks.

ENERGY CONSUMPTION HEXPOL reports both its direct energy use (use of fuel in its own energy facilities) and its indirect use (purchased electricity and district heating).

ENERGY EFFICIENCY DIRECTIVE The EU Directive that was introduced in 2015 and that, among other things, covers energy audits at large companies. HEXPOL is subject to the directive and conducts energy audits.

ENVIRONMENTAL ASPECTS The parts of an organization's activities, products or services that interact with the environment.

ENVIRONMENTAL MANAGEMENT SYSTEM The part of the overall management system that includes the organizational structure, planning, activities, distribution of responsibility, practices, procedures and resources for developing, implementing, performing, reviewing and maintaining the organization's environmental policy. ISO 14001 is used as the environmental management standard within the Group.

ETU Ethylene thiourea is a rubber accelerator that may cause cancer.

FREEDOM OF ASSOCIATION Refers to the right of employees to lawfully join associations of their own choosing, peacefully associate, organise or bargain collectively.

5S The name of a workplace organization methodology that uses a list of five Japanese words which are seiri, seiton, seiso, seiketsu and shitsuke. Transliterated or translated into English, they all start with the letter "s". The list describes how items are stored and how the new order is maintained. The decision-making process usually comes from a dialogue about standardization which builds a clear understanding among employees of how work should be done. It also promotes ownership of the process in each employee.

GHG Greenhouse gases. The emission into the Earth's atmosphere of any of various gases, for example carbon dioxide, that contribute to the greenhouse effect.

GHS Globally Harmonised System of Classification and Labelling of Chemicals.

GLOBAL COMPACT A UN initiative in the area of corporate social responsibility. Participating organizations agree to adhere to ten principles in the areas of human rights, labour conditions, the environment and anti-corruption. Global Compact is reflected in Materializing Our Values. During 2017 HEXPOL joined Global Compact.

GLOBAL REPORTING INITIATIVE (GRI) The Global Reporting Initiative has established voluntary comprehensive standards for how companies and other organizations should report their sustainability activities. GRI G4, which was introduced in 2013, was replaced by GRI Standards in 2018.

GRI PRINCIPLES The GRI guidelines consist of principles to define report content and quality. The principles defining report content are: materiality, stakeholder inclusiveness, sustainability context, and completeness. The principles defining report quality are: balance, comparability, accuracy, timeliness, reliability, and clarity.

GWH Gigawatt-hour, unit of energy measurement; 1 GWh corresponds to 1 million kWh.

HA OILS Also called extender oils, softening oils and process oils. High Aromatic oils contain several chemical substances (polycyclic aromatic hydrocarbons, PAHs) that are carcinogenic and often resistant to degradation in the environment.

HCFC/CFC Substances that deplete the atmospheric ozone layer.

ISO 14001 International standard relating to environmental management systems that was introduced in 1996. Over 360,000 organizations globally are currently certified according to ISO 14001. In 2018, an updated version of the standard (ISO 14001:2015) replaced the previous standard.

ISO 26000 International standard that provides guidance on how organizations can deal with social responsibility issues. This standard was introduced in 2010 and provides the backdrop to HEXPOL's Code of Conduct.

ISO 45001 International standard relating to health and safety that replaces OHSAS 18001.

ISO 50001 An international standard relating to energy management system.

KPI Key Performance Indicator.

LANDFILL Solid waste material sent to a landfill.

LEAN MANUFACTURING A systematic method for the efficient management of resources. Lean manufacturing aims to identify all the factors in a production process that do not create value for the customer.

LWC Occupational accidents causing at least one day's absence (Lost Work Case).

MSDS Material Safety Data Sheet. In some countries called Safety Data Sheet (SDS).

NGO Non-governmental organization.

NITROSAMINES Chemical substances that can be generated in the cross-linking (vulcanization) of rubber. Nitrosamines are associated with an increased risk for cancer and nitrosamine-free curing systems have now become established in many parts of the rubber industry.

NO_x (NITROGEN OXIDES) Gaseous oxides formed during combustion processes through the oxidation of nitrogen. Harmful to health and the environment and cause acid rain and eutrophication.

OCCUPATIONAL DISEASE A work-related disease is a disease caused by long-term exposure to a particular factor in the occupational environment. Examples are noise, dust and solvents.

OCCUPATIONAL INJURY A work-related injury is a sudden incident (accident) attributable to work that gives rise to a wound or other injury. Typical injuries in the polymer industry are cuts, falls and injuries caused by heavy lifting and repetitive tasks. HEXPOL reports occupational injuries as an accident that causes more than one day of absence, called Lost Work Case (LWC). The rate is gauged by the number of occupational injuries per million hours worked.

OHSAS 18001 Standard relating to health and safety in the workplace. It will be replaced by the ISO 45001 standard.

PAH Polycyclic aromatic hydrocarbons, often abbreviated as PAHs, are a group of environmentally and health hazardous substances arising from such products as black coal and petroleum.

PCB Polychlorinated biphenyls are a group of industrial chemicals that are hazardous to health and the environment. Use of PCBs is prohibited since many years ago, but they are still present in installations, buildings and equipment. They are also present in the environment due to their long degradation time.

POLYMERS Chemical compounds comprising very long chains made up of small, repeating units (monomers). Plastic and rubber are examples of polymer materials.

PVC Polyvinyl chloride, one of the most common types of plastics.

REACH European Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) is a EU Regulation adopted to promote safer handling of chemical substances. Chemical substances are to be registered for a particular use. Substances of very high concern may be subject to restrictions.

ROHS Restrictions of Hazardous Substances. EU legislation restricting the use of certain substances that are hazardous to the environment and health.

STAKEHOLDER (INTERESTED PARTY) Is a party that can affect or be affected by the actions of the business as a whole. Could include employees, communities, shareholders, suppliers, customers, trade groups to name a few.

SUSTAINABLE DEVELOPMENT Development that "satisfies today's needs without jeopardizing future generations' possibilities to satisfy their needs". Sustainable development encompasses ecological, social and economic sustainability.

SUSTAINABLE DEVELOPMENT GOALS (SDGS) At the UN summit in 2015, the world's heads of state adopted 17 Sustainable Development Goals and the 2030 Agenda for Sustainable Development. The Sustainable Development Goals and the 2030 Agenda aim to eradicate poverty and hunger, ensure the rights of all people are respected, achieve equality and empowerment for all women and girls and ensure lasting protection for the planet and its natural resources. The SDGs are integrated and indivisible, and they balance the three dimensions of sustainable development: economic, social and environmental.

SUSTAINABILITY-RELATED COSTS These are costs related to measures for preventing, reducing or repairing environmental damage directly associated with operations. The corresponding measures taken with regard to health and safety in the workplace are also included. The costs reported include, among other items, administration and external consultancy expenses, fees to authorities, costs for introducing and maintaining environmental management systems, costs for waste and charges for external inspections and audits.

SUSTAINABILITY-RELATED INVESTMENTS These are investments in assets designed to prevent, reduce or repair damage to the environment associated with operations. The corresponding investments made with regard to health and safety in the workplace, are also included.

SUSTAINABILITY REPORT Under an EU Directive, the Swedish government has decided that as of 2017 it is mandatory for large companies to publish a sustainability report. The sustainability report should contain the non-financial disclosures required to understand the company's performance, position, results and consequences of its business operations, including information on issues concerning the environment, personnel and social matters, respect for human rights and the combating of corruption.

VULCANIZATION A chemical process for converting rubber into more durable materials with the addition of sulphur or other "curative" agents, for example peroxides. These additives modify the polymer by forming crosslinks between individual polymer chains.

SO₂ (SULFUR DIOXIDE) Sulfur dioxide is formed when petroleum products are burned. SO₂ contributes to the acidification of lakes, streams and soil, and causes coniferous trees to shed their needles. Large concentrations in the environment are harmful to human health.

TPE Thermoplastic elastomers are rubber-like materials that combine the properties of vulcanized rubber with the process benefits of thermoplastics.

VOC Volatile Organic Compounds are a group of organic compounds that easily vaporize at room temperature. The occurrence of the volatile hydrocarbons in the atmosphere has an adverse impact on health and the environment, including formation of ground-level ozone.

WEEE The EU Waste Electrical and Electronic Equipment Directive aim to reduce the amount of electronic waste being disposed of and require producers to pay for its reuse, recycling and recovery.

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