A MATERIAL DIFFERENCE

Sustainability Report 2020

HEXPOL®
A Material Difference

Contents

HEXPOL in brief 1
CEO comments on the year 2
Steps that support sustainable development 3
Our role in society 5
- Focus areas 5
- Materiality analysis 5
- Sustainability – a part of the Group's Vision 6
- The basis for sustainability work 6
- Strategy for sustainable development 8
- Governance and follow-up 8
- Systematic approach 8
- Open communications 9
- Value chain: driving efficiency to generate value 10

Objectives and performance measures 12
- UN Sustainable Development Goals 12
- Sustainability objectives 12

Environmental responsibility 14
- Core technologies and products 14
- Environmental aspects 15
- Environmental legislation 15
- Environmental management systems 15
- Energy use 16
- Water consumption and wastewater 17
- Polymers and other chemical products 17
- Emissions to the atmosphere 19
- TCFD 20
- Waste 21
- Accidents and complaints 21
- Products that support sustainable development 21
- HEXPOL and the EU Taxonomy for sustainable investments 23

Social responsibility 28
- Employees 28
- Human rights 28
- Diversity and equality 28
- Knowledge and skills 29
- Health and safety 29
- Social involvement 31

Economic responsibility 32
- Finance 2020 in brief 32
- Sustainable development and finance 32
- Combating corruption 32
- Financial value for stakeholders 33

Sustainability-related risks 34
Highlights during 2020 36
About the Sustainability Report 38
- Scope and boundary 38
- Reporting principles 38

GRI Index 2020 40
Global Compact – Communication on Progress 44
Definitions and glossary 46

We supply high-quality polymer solutions that enhance our customers' applications

HEXPOL's customers impose rigorous demands and have high expectations in terms of flexible and fast deliveries of customer-specific polymer compounds or components that are to resolve new challenges, often in the most demanding environments. Other requirements include uniform quality and global delivery capacity.

The Group's strengths are its locally rooted entrepreneurial spirit, with the units having an excellent familiarity with the market, cutting-edge expertise and development capabilities in advanced polymers. Combined with HEXPOL's global and coordinated platform, the customer offering will be unique.

The Group is organized into two business areas, HEXPOL Compounding and HEXPOL Engineered Products, which, between them, cover a total of three regions and five product areas. HEXPOL generates annual sales of 13.4 billion SEK and has 4,550 employees at 49 units in America, Europe and Asia. The units have their own organizations for sales, product development and manufacturing, for example.

SALES 2020
13,424 MSEK
(15,508 MEK)

ADJUSTED OPERATING PROFIT 2020
2,011 MSEK
(2,242 MSEK)

ADJUSTED OPERATING MARGIN
15.0%
(14.5%)

PROPOSED DIVIDEND
2.30 SEK
(2.30 SEK)

A world in change – business opportunities benefiting HEXPOL

Increasing electrification drives growth
The increasing electrification of a growing number of applications in society is becoming evident in pace with the replacement of fossil fuels with renewable ones. This is particularly noticeable in the expanding segment of electrified or hybrid vehicles. HEXPOL also has a comprehensive and broad offering in the cable and wire segment.

Clear business opportunities in sustainable development
HEXPOL can contribute to customers' sustainability work by increasing its use of bio-based and recycled raw materials and by means of resource-efficient processes and products.

Short supply chains are business critical for customers
Shorter supply chains, with shorter distances and response times, have become business-critical components for HEXPOL's customers. The ongoing pandemic and increasing trade barriers are driving development. With global operations in Europe, the Americas and Asia, HEXPOL is a reliable partner with a local presence.

Growing need of advanced materials in the Health segment
Human health is a global priority. An ageing population, welfare diseases but also an increased awareness of health issues are strong and critical trends. HEXPOL's advanced polymer solutions are demanded in more and more applications for the health segment.

CEO comments on the year

Sustainability in a broad perspective is an integral part of our business – in practice that means what business we do and how we conduct our business. The HEXPOL Sustainability Report 2020 therefore focuses on material topics and provides insights about how we approach challenges and opportunities through our sustainability strategy.

In 2020, the global pandemic presented us with challenges at an unprecedented level. Health and safety aspects were given the highest priority and many preventive actions were taken to protect our employees and business partners. Thanks to the great commitment of our employees and business partners, we were able to keep the business running and to support our customers in their businesses. The sustainability work was, of course, not untouched by the pandemic and some activities were put on hold. Our commitment to sustainable development is, however, long-term and during the year we managed to strengthen our positions in a number of areas. An updated version of the Code of Conduct (Materializing Our Values) was issued, and the Supplier Sustainability Guideline was updated and launched on a digital platform. We also deepened our work with the principles of the UN Global Compact regarding business ethics, human rights, labor law and the environment.

We further emphasized our commitment to the climate agreement adopted in Paris by a new challenging objective to reduce our carbon dioxide emissions. We continue with the focus on the energy-related emissions and aim for a 75 percent reduction by 2025. Our road map includes energy-efficiency measures, phasing out of fossil fuels, further installation of photovoltaics, and purchase of fossil-free electricity everywhere where it is possible.

A key part of achieving our ambitions in the climate area is about developing and offering low-carbon products. In the TPE and TP businesses we can observe a rapidly growing interest among customers in bio-based and recycled compounds. Our products Dryflex Green, Dryflex Circular and RheVision are already well received by the market and I am convinced that this will create additional business opportunities. For other polymer products there are many interesting development projects going on, for example, use of recycled carbon black and use of wood-based fillers.

We have recently started to look into the EU Taxonomy for Sustainable Activities and have identified a number of products that enable our customers to reduce their impact on the climate – lightweight polymer compounds reduce fuel consumption in vehicles, polymer compounds that are used in wind power plants, electrical vehicles, photovoltaics, plate heat exchangers and cables for batteries – just to mention a few. You will find more about this in the Sustainability Report.

Finally, I would like to thank employees, customers, suppliers and shareholders for your confidence and co-operation during the unusual year 2020. Responsibility for environment and people is an important part of our continual development process and an important part of our long-term business strategy.

Malmö, Sweden, March 2021

Georg Brunstam
President and CEO

Steps that support sustainable development

Sustainability cannot be seen as an independent part of a business. Waste of natural and human resources is the enemy of both sustainability and profitability, and resource-efficiency is therefore integrated into all parts of our business. For an industrial company, such as HEXPOL, improved sustainability performance must be seen as a stepwise process. Our raw materials and base technologies do not change overnight, but in a ten-year perspective many small steps contribute to progress. Just to mention a few examples; we use energy in a more efficient way, we use more and more fossil-free energy, the use of recycled raw materials has increased, and bio-based raw materials have been introduced.

2011

- Group-wide objectives concerning energy and climate.
- Energy-efficiency programs implemented at manufacturing units.
- Compliance program for business ethics introduced.
- ISO 14001 implemented in acquired units.

2012

- Stricter sustainability objectives introduced.
- Majority of facilities certified in accordance with ISO 14001.
- Continued sustainability reporting according to GRI Guidelines.
- Safer work environment through systems to register near misses.

2013

- Materializing Our Values introduced.
- Increased use of biofuels.
- Continued phase-out of hazardous chemicals.
- Activities to attract students to the polymer industry.

2014

- Positive results from energy-efficiency projects.
- Whistleblowing procedure implemented.
- Focus on development of environmentally compatible products.
- Continued implementation of ISO 14001.

2015

- Supplier Sustainability Guideline implemented.
- Dryflex Green introduced – TPE from renewable resources.
- Increased use of biofuels reduced the carbon footprint.
- Group-wide training in business ethics conducted.

2016

- Group objectives linked to the UN SDGs.
- Focus on efficient use of resources – energy, materials and waste.
- Community engagement – local communities, schools and universities.
- Update to ISO 14001:2015 began.

2017

- HEXPOL participates in UN Global Compact.
- Increased use of fossil-free electricity and biofuel.
- Several activities together with schools and universities.
- Continued good results from the Health & Safety Program in USA/Mexico.

2018

- Transformation to latest version of ISO 14001 finalized.
- Update of Code of Conduct.
- Reduced number of workplace accidents.
- Sustainability Report according to GRI Standards

2019

- Dryflex Circular introduced – TPE from recycled raw materials.
- Continued activities to improve the working environment.
- HEXPOL:s sustainability work was scored high by the financial journal Dagens Industri.
- Increased energy-efficiency at several plants.

2020

- New versions of Materializing Our Values and Supplier Sustainability Guideline.
- Demanding target to reduce CO_2 emissions.
- Implementation of TCFD and EU Taxonomy started.
- Focus on bio-based and recycled raw materials.

Sustainability, ten-year overview

AREA	KEY FIGURES	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Environment											
Compliance	Number of material breaches of laws and permits during the year	2	3	2	3	1	2	2	4	1	3
Energy	Energy use (GWh)	360	417	3 79	379	355	309	313	275	258	264
	Energy use/net sales (GWh/MSEK)	0.027	0.027	0.029	0.031	0.033	0.030	0.035	0.034	0.032	0.037
Climate	CO_2 emissions from energy use (tons)*	137,600	145,800	125,600	140,700	142,900	117,400	114,900	108,500	100,500	100 400
	CO_2 emissions/net sales (tons/MSEK)	10.2	9.4	9.5	11.5	13.1	11.4	12.9	13.5	12.6	14.0
Water	Water consumption (m^3 x 1,000)	1,105	1,106	718	734	884	700	684	570	450	452
	Water consumption/ net sales (m^3/MSEK)	82	71	54	60	81	68	77	71	56	63
Waste	Waste (tons)	22,950	26,500	23,100	22,000	19,800	16,000	14,800	14,500	14,900	18,000
	Waste/net sales (ton/MEK)	1,7	1.7	1.8	1.8	1.8	1.6	1.7	1.8	1.9	2.5
Raw materials	Recycled/bio-based polymers (% of total)	8	8	15	15	18	1	3	2	2	2
Management system	ISO 14001 certified plants (% of total)	77	76	97	92	89	93	96	88	88	62
People											
Employees	Number of employees (average)	4,550	5,061	4,454	4,326	4,028	3,858	3,493	3,411	3,112	3,041
Compliance	Number of material breaches of health and safety legislation	0	3	0	0	1	0	2	0	1	2
Health and safety	Accidents – lost work cases (number/million worked hours)	10.1	12.9	12.8	15.2	15.1	15.9	14.3	10.0	12.6	19.1
Diversity	Women on the Board (%)	57	57	57	57	43	29	29	17	17	17
	Women in local management teams (%)	20	18	18	14	15	12	11	10	10	10
Training	Training of employees (hours/employee)	17	32	26	22	19	23	22	16	15	10
Management systems	ISO 45001 certified plants (% of total)	5	9	11	11	9	7	7	7	0	0
Code of Conduct	Reported breaches of human rights – diversity (number)	2	2	1	1	1	0	1	0	1	1
Economy											
	Economic value distributed among stakeholders (MSEK)**	3,273	3,357	2,989	3,658	2,559	2,366	1,743	1,431	1,338	1,192
	Taxes paid (MSEK)	446	466	516	441	515	550	388	306	294	253

** Scope 1 and Scope 2 emissions according to the GHG Protocol*
*** Value distributed to suppliers, e.g. raw material expenses, is not included.*

Our role in society

Sustainability forms an integral part of the Group's operations. Through preventive and goal-oriented initiatives, we generate value for customers, employees, shareholders and all other stakeholders who have a long-term investment in HEXPOL. We are convinced that investing in innovative products that have a reduced impact on the climate will generate environmental and business benefits.

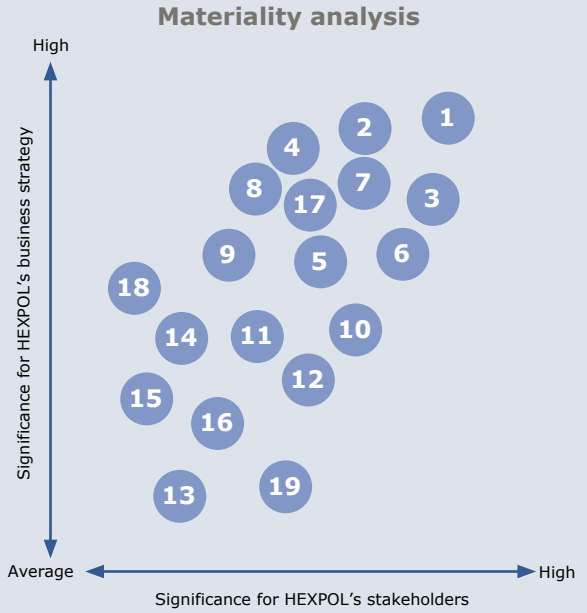
Focus areas

- *Climate* – the Group's products are primarily based on fossil raw materials. The Group's energy consumption is also strongly dependent on fossil energy sources. We have clear ambitions in both areas to steer towards renewable raw materials and energy sources.
- *Resources* – Our production processes involve using natural resources, such as water, energy and raw materials. Using resources efficiently contributes to sustainable development and strengthens the Group's competitiveness.
- *People* – Respect, a stimulating work environment, good business ethics and motivation are crucial factors for employees in our operations and value chain.

Materiality analysis

Within the framework of the ISO 14001, ISO 45001 and ISO 50001 standards, our manufacturing companies 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 concept is based on sustainability reporting standards (GRI) and provides the background for which areas are examined in greater detail and which GRI indicators are used (see pages 43–44).

The Materiality Analysis generates an understanding of which areas are particularly important to our stakeholders and for the Group's business strategy. It forms a basis on which to set priorities, targets and plans of action in sustainable development. Compared with last year's analysis, energy consumption and climate impact have been afforded a higher priority. Among other things, this has resulted in a demanding new Group target for cutting carbon dioxide emissions. In addition, investors and other financial players



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. Secure and educational 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. Disruption to surroundings (noise, smells)

have placed sustainable development increasingly high on their agendas, an aspect clearly reflected in the materiality analysis. The concept of "polymeric products in a life cycle perspective", conceals the question of whether the substantial use of polymeric products impacts the Group's customers and we are increasingly investing in developing products that contain bio-based and/or recycled raw materials. The materiality analysis is linked to the analysis of risks in sustainable development, which are presented on pages 34–35.

HEXPOL influences and is influenced by its stakeholders (customers, employees, suppliers, shareholders, society) who express requirements and expectations with regard to sustainable development. The perception of which stakeholders are significant, and what they consider important, builds on experience and business relations, as well as on events during the financial year. The dialogue with stakeholders takes several formats and includes development interviews with employees, customer satisfaction surveys, meetings with analysts and partnerships with customers, suppliers and contractors. How HEXPOL adds value for its stakeholders is described on pages 10–11.

Sustainability – a part of the Group's Vision

HEXPOL is a company which is driven by its people and a strong company culture. This model has proven successful over the years, especially during periods with lots of change. During 2020 we refined the Vision and Mission and sustainable development was placed in a key position in how we create a material difference.

The basis for sustainability work

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

Purpose
The positive impact of what we do

We create a material difference

Vision
Our long-term objective

The leading supplier of solutions for sustainable polymer applications

Mission
What we do each day

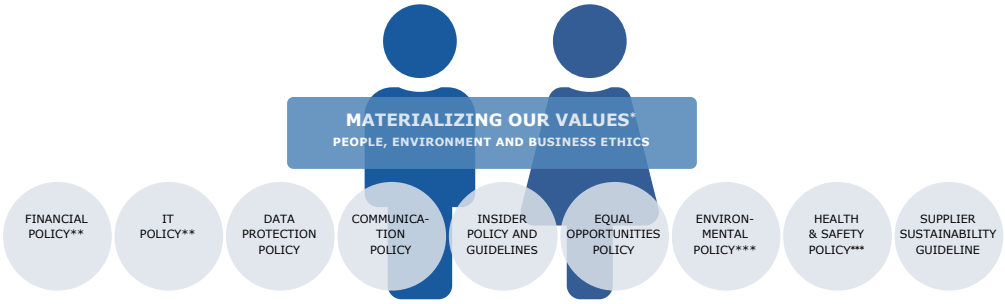
We supply high-quality polymer solutions that enhance our customers' applications. Every day. Everywhere.

Core values
Our fundamental values, which guide how we work

We are committed	We are close to you	We make you sustainable	We are entrepreneurs	We are true specialists
We know our markets, our customers and their end products. This ensures that our customers can grow with us, globally and in all segments, regardless of application.	Our global footprint with agile developmentfocused units safeguards our offering of the best local support for customer needs.	We take sustainability seriously and challenge our units to be best in class in terms of social responsibility and minimizing climate impact.	A decentralized structure with local expertise and close customer contact provides benefits such as speed and creativity together with efficiency and flexibility in a larger structure.	Above all else, we value technical skills and in-depth know-how in applications. This enables us to surpass our customers' expectations by further improving the products.

- 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 Code of Conduct also contains policies within the environment, work environment and other areas.
- In the Compliance Program 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. There is zero tolerance of non-compliance in respect of business ethics.
- 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.
- The 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 Sustainable Development Goals are applied in formulating the Group's objectives.
- 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.
- The Supplier Sustainability Guideline guides the company's suppliers in environmental and work environment matters, human rights, business ethics and the supplier's value chain work environment matters, human rights, business ethics and the supplier's value chain. A new version of the Guideline was launched in 2020.

Materializing Our Values is primarily based on the Ten Principles of the UN Global Compact and the International Guideline for Social Responsibility (ISO 26000). We 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



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

Materializing Our Values

Materializing Our Values was updated during 2020 and focuses on people, environment and business ethics. It sets out the principles that govern each area and seeks to translate these core values into tangible, comprehensive guidelines. Based on Materializing Our Values:

- We comply with legislation, regulations, international conventions and guidelines.
- We apply sound business ethics.
- We contribute to sustainable development, including health and social welfare.
- We practice corporate responsibility in the relation with colleagues, business partners, owners and other stakeholders.
- We create long-term value for our stakeholders.
- We demonstrate commitment to the UN Sustainable Development Goals and Agenda 2030.

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.

Compliance with Materializing Our Values is monitored through internal controls. Employees are encouraged to report suspected violations to their managers or other representatives of management. Where reporting to a superior is out of the question, or is not taken seriously, it is possible report suspected violations for external assessment via a whistleblower function (Whistleblower Policy). This can be done by sending an e-mail to whistleblower@hexpol.com. HEXPOL will not tolerate any form of retaliation against anyone who, in good faith, lodges a complaint or suspects that the Code of Conduct has been violated. In 2020, no reports for further processing and investigation were received.

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. You can find the document on our website www.hexpol.com. To order printed copies, please contact the Group Headquarters at info@hexpol.com.

Strategy for sustainable development

The sustainable development strategy forms part of the overall Group strategy and it generates fundamental conditions for business operations. Life-cycle perspectives on raw materials, processes and products, preventative environmental and work environment measures, and the application of good business ethics, are examples of areas of strategic importance. An issue of increasing importance is the development of products with a reduced impact on the climate. The long-term strategy aims to:

- Reduce the Group's risks and costs through preventive measures, risk assessments and investments in effective technical solutions.
- Generate business opportunities through responsible conduct, and by developing resource-efficient production methods and products.
- Apply a goal-oriented and systematic approach aided by certified management systems in the areas of the environment, quality, work environment and energy.
- Ensure we are an attractive employer and an active corporate citizen.
- Ensure we apply sound business ethics and prevent corruption.
- Safeguard open communications regarding targets and outcomes in sustainable development.

During 2020 a more detailed strategy for climate-change issues was added to support the overall strategy. Preparedness for climate change includes:

- Actions to reduce carbon dioxide emissions from the energy use, for example, increased energy-efficiency, phasing-out of fossil-based fuels, installation of photovoltaics, and increased purchase of fossil-free electricity.
- Actions to further develop a low-carbon product portfolio, for example, increased use of bio-based and recycled raw materials and strategic collaboration with key suppliers on materials and processes.
- Actions to understand and mitigate the effects on our operations and business of a changing climate, for example, through scenario and risk analyses.

Governance and follow-up

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.

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 the Group Management Team 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 and how targets, performance and key performance indicators develop over the year. 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. The Board of Directors has a collective responsibility for HEXPOL's sustainability performance.

A Group Sustainability Council was recently formed. Its overall aim is to analyze, discuss and propose improvements of the sustainability strategy. The council also has focus on knowledge sharing, encourage new initiatives and support further integration of sustainability into our business model.

Systematic approach

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 frame works of ISO 14001, ISO 50001 and ISO 45001 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.

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 our 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 2020 on pages 56–65 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.

Reporting of sustainability performance

GRI (Global Reporting Initiative) is applied as a standard for sustainability reporting (see pages 40–43). In the area of climate, a separate report is submitted in accordance with the Carbon Disclosure Project (CDP). The 2020 report was ranked as "C" meaning knowledge of impacts on, and of, climate issues. This is at equal level as the European regional average for reporting organizations.

Reporting of climate data is based on the Greenhouse Gas Protocol (GHG). In accordance with the requirement in the Global Compact, an annual report is submitted to the UN (Communication on Progress, see pages 44–45). Sustainability data (ESG: Environment, Social, Governance) is also presented at the Nasdaq Listing Center. In accordance with Chapter 6, Section 11 of the Swedish Annual Accounts Act, HEXPOL has chosen to summarize the Statutory Sustainability Report in the Annual Report 2020 (pages 32–47).

The sustainability work is reviewed regularly by independent institutions, universities and investors, and expectations regarding transparency and measurable performance have increased considerably in recent years. In the Swedish financial newspaper Dagens Industri's ranking of "Sustainable companies 2020" HEXPOL placed number five in the category "Materials".

Value chain: driving efficiency to generate value

HEXPOL builds durable competitiveness by maximizing the value it generates at all stages in the value chain. We achieve this through increased efficiency, working closely with our customers, the right level of quality, high performance in our offering, and by acting responsibly towards our business partners, employees and the external community.

CUSTOMERS

The customer perspective is included at all stages of the value chain. By delivering customer benefit, we will also deliver value for ourselves.

PRODUCT DEVELOPMENT

We base our development of materials, products and services on meeting our customers' needs and enhancing their long-term profitability.

PURCHASING

Long-term partnerships with suppliers drive efficiency, quality and responsible behaviour throughout the value chain.

PRODUCTION

With cutting-edge expertise in polymer materials and solid know-how in applications, combined with technically advanced production facilities, we are working efficiently to continuously improve materials and products, reduce wastage and deliver on customer expectations.

LOGISTICS

With 49 units around the world, we are always close to our customers, providing fast and flexible deliveries.

RESOURCES

By applying resource-efficient production methods, less materials and energy are consumed, while more recycled materials and heat can be used and waste can be reduced.

To HEXPOL

A significant proportion of the capital generated is normally reinvested in the operations. Among other purposes, this capital is used to make investments, strengthening competitiveness and generating durable value for the Group and its stakeholders.

To customers

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 2020, 86 percent (87) of HEXPOL's companies reported various types of requirements. For example, ISO 14001, hazardous substances, product declarations, bio-based and recycled materials, conflict minerals, social responsibility and compliance with the customer's code of conduct. At 39 percent (50) 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.

To employees

It is important to retain and develop employees, as well as attracting new ones. For employees, health, safety, financial compensation, personal development, social conditions and good business ethics are important. During the year, HEXPOL paid 1,994 MSEK (2,069) in salaries, pension premiums and social-security costs for its employees. The accident rate was 10.1 (12.9). The number of training hours was 80,000 (171,400). 2,601 (2,960) employees participated in development interviews. Surveys regarding employee satisfaction in the workplace gave good results.

To society and public authorities

Social commitment is an important aspect and is appreciated by local communities in which the Group operates. As a global company, the Group is expected to take measures contributing to different goals for sustainable development. HEXPOL is affiliated to the UN Global Compact and work continued on the UN's global goals for sustainable development. At the local level, the Group collaborated with schools and universities and contributed to healthcare, sports and culture. The Group's tax expense for 2020 amounted to 446 MSEK (466). Compliance with legal requirements is fundamental for the Group. In 2020, no serious violations of laws and regulations in sustainable development occurred.

To 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. A new version of the guidelines on sustainable development for suppliers (Supplier Sustainability Guideline) was presented in 2020. In 2020, some 640 suppliers were evaluated.

To shareholders

For our shareholders, growth and dividends are central in generating value. The integration of sustainability issues in the business strategy reduces risks and generates business opportunities through the development of products that contribute to sustainable development, resource-efficient production, as well as investments in resource-efficient technology. The dividend to the shareholders amounted to 792 MSEK (774). Over the past five-years period, HEXPOL's Class B share has had a total return of about 12 percent. During the year, dialogues were conducted with investors and the Group was evaluated by several independent institutions.

Sustainability requirements from customers

Percent of total number of plants reporting sustainability requirements

Type of sustainability requirement	2020	2019	2018	2017	2016
Implementation of ISO 14001	45	54	71	61	58
Phasing-out of hazardous chemicals	36	50	60	61	65
Compliance with REACH	18	37	40	47	47
Environmental product declarations	36	61	57	64	50
Bio-based/recycled raw materials	27	26	-	-	-
Carbon footprint of products	23	22	-	-	-
Code of conduct	45	63	71	67	67
Conflict minerals	61	65	80	67	70
Code of conduct in own supply chain	20	46	37	31	21

Objectives and performance measures

UN Sustainable Development Goals

Within the framework of Agenda 2030, the UN published its Global Sustainable Development Goals (SDGs) in 2017. The 17 goals provide a clear and useful framework for meeting global challenges and has achieved considerable impact in society. They also 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 identify areas of importance within sustainable development and we have identified seven 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 targets to seven of the Global Goals. 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 plastics. The Global Goals also inspire measures in social responsibility, social engagement and business ethics.

Sustainability objectives

HEXPOL has implemented long-term sustainability objectives to reduce its environmental impact, to create safe and secure workplaces and to be a good corporate citizen. Performance measures showing the trend are briefly presented in the table. Additional details are found elsewhere in the Sustainability Report.

HEXPOL's sustainable development targets

Target	Global objective	Outcome	Continued measures
Energy Energy consumption (GWh/net sales) is to be reduced continuously.	7 AFFORDABLE AND CLEAN ENERGY	Within the ISO 14001 and/or ISO 50001 frameworks, the production units continued to work with detailed targets. Work involving energy surveys and measures to increase efficiency continued. The installation of energy-efficient production equipment, LED lighting, infrastructure and energy monitoring equipment contributed to more efficient energy consumption. Since 2010, the performance measure for energy consumption has decreased by about 30 percent.	Purchases of energy-efficient equipment, lighting and infrastructure will continue.
Climate Carbon dioxide emissions (tons CO_2e/net sales) are to be reduced by 75 percent by 2025 compared with the average for 2018–2019. The target refers to carbon dioxide emissions from energy consumption (Scopes 1 and 2 in accordance with the GHG Protocol).	13 CLIMATE ACTION	Various local targets exist and several Group companies to have introduced a joint target for climate and energy. The use of biofuels, purchases of fossil-free electricity and energy optimization reduce carbon dioxide emissions. Currently, about 28 percent (21) of energy use consists of fossil-free electricity and biofuels. Since 2010, the performance measure for carbon dioxide emissions has decreased by about 25 percentage points.	Energy efficiency measures and procurement of biofuels will continue. Purchases of fossil-free electricity will be conducted in all countries where this is possible. This is a prerequisite for the demanding emissions target to be achieved. The proportion of units with proprietary electricity production using photovoltaic cells will increase. Continued phasing out of fossil fuels.
Environmental management systems All facilities are to have certified environmental management systems (ISO 14001). Acquired companies are to introduce ISO 14001 within a period of two years.	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	One company was certified in accordance with ISO 14001 during the year and 77 percent (76) of the plants are now certified.	Ten companies are planning to achieve certification in 2021–2022.
Chemical substances Uses of hazardous chemicals are to be identified and controlled. Where possible, hazardous substances should be phased out.	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Work to limit the use of particularly hazardous substances is conducted continuously. Over the year, about ten substances were replaced, including phthalates (plasticizers) and other reactive chemicals that form nitrosamines.	Replacing hazardous substances is a long-term process. There are currently about fifteen chemicals, or groups of chemicals, on the list of substances to be phased out. The work will continue for the foreseeable future.
Products HEXPOL should be viewed as a frontrunner in the polymer industry as a supplier of products that contribute to sustainable development.	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	The development of products contributing to sustainable development continued in 2020, primarily in thermoplastic elastomers (TPE) but with increased intensity in rubber compounds. About 8 percent (8) of the raw materials were recycled polymers.	The development of products with a lower climate impact continues. These are applications in environmental technology, electric vehicles, lighter materials, and mixtures that contain bio-based and recycled raw materials.
Safe work environment 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.	8 DECENT WORK AND ECONOMIC GROWTH	The number of accidents involving absence from the workplace was 10.1 per million hours worked (12.9).	From an industrial perspective, the key performance indicator for occupational accidents is relatively high, although it has shown a downward trend over the past five years. Additional action is required (technical measures, training, follow-up) to be able to meet the target.

Environmental responsibility

The transition to a low-carbon society with reduced long-term impact on the climate brings both risks and opportunities for HEXPOL. By increasing energy efficiency, phasing out fossil fuels and increasing purchase of fossil-free electricity, our carbon footprint is reduced. Measures also prepare the company for higher fees, taxes and regulations 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. Product development is another priority area in which our expertise and technology can contribute to the customers' sustainability work. In the environmental area, we have several long-term targets, which are reported on page 13.

Core technologies and products

Rubber compounding

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

- Rubber compounds – development of custom mixtures and formulas.
- 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, for example, high temperatures, cooling, static electricity and 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

Thermoplastic elastomer (TPE) compounds bridge the gap between rubber compounds and thermoplastic compounds. They share several of the characteristics of rubber compounds, such as flexibility and softness, but also have the versatility, recyclability and processing advantages found in thermoplastic compounds. A number of the markets, such as medical technology, toys and food, require the highest level of production control, material traceability and consistency. We cover 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 product area also offers a growing range of bio-based TPE compounds and compounds based on recycled TPE to meet the clearly increased demand for sustainable materials that reduce the use of fossil resources.

Thermoplastic compounding

The manufacture of thermoplastic compounds (TP) is a continuous, automated process that provides flexibility and continuity to ensure the highest standards of efficiency and quality and that meets the market's demand for problem-solving capacity regardless of volume. We offer a broad range, in which each product group has its own portfolio of recipes, customized for specific OEMs, with distinct properties and specific requirements within the following technologies:

- Glass and mineral reinforced and co-reinforced PP (polypropylene) compounds.
- TPO (thermoplastic polyolefin) compounds.
- Blow molded and extrusion graded PP compounds.
- Recycled PP-graded compounds.
- RheVision natural fiber-reinforced compounds.
- Polyolefin and engineered resin-based color concentrates and additives.

High-performance compounding
The product area consists for the most part of MESGO Group's product groups within high-performance elastomers. The product area brings together the business area's shared expertise and customer contacts within the area of materials and constitutes a platform for global growth.

Its principal customer segments are industry, consumer products, transport and vehicles. Examples of applications containing silicone are insulators for high voltage power transmission, where the material is required to be weather resistant, electrically insulating, able to withstand sizable shifts in temperature, and lightweight. Other examples are seals for highly demanding environments requiring high chemical resistance and able to withstand both high and low temperatures.

Gaskets and seals
We are specialized in the manufacture of gaskets for plate heat exchangers and various forms of extruded seals in advanced rubber materials. The technology content is high, and the end product is characterized by high quality requirements. Performance depends on the composition of the rubber material, the geometric design of the gasket and tight tolerances in the manufacturing process. These factors are critical for the product's performance and service life. The gasket consists of advanced rubber materials developed specifically for different applications and delivered in varying sizes, ranging from a few decimeters in length up to several meters. The parameters that determine the choice of gasket type and material are temperature, pressure and media.

Our objective is to be the primary supplier to all OEM manufacturers of plate heat exchangers. The market is growing through increased demand for energy recovery and generation, as well as the production of bio-based fuels.

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, and various special products in the above materials.

Environmental aspects

Significant environmental aspects that affect our 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 5.

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, Italy, the US, Mexico, Sri Lanka and China have environmental licences that either cover all areas of their operations or that apply to specific environmental aspects, for example, emissions to the atmosphere. A few operations in the UK, Poland, Germany and the US are not subject to any specific environmental permits. Compliance with permits and emission conditions is monitored through

measurements and inspections, and close to 40 units submit specific environmental reports to supervisory authorities. About 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 reporting; see definitions of terms) 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 mappings were performed in accordance with the EU directive on energy efficiency.
- The supervisory authorities conducted inspections at 17 facilities. No significant deviations were identified.
- Minor violations of environmental legislation occurred at two units.

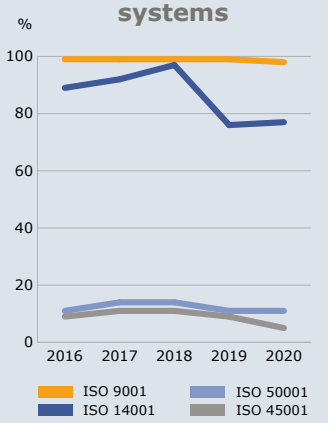
Environmental management systems

The international standards ISO 14001 (environment) and ISO 9001 (quality) are implemented at the Group's manufacturing units. In addition to this, ISO 45001 (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.

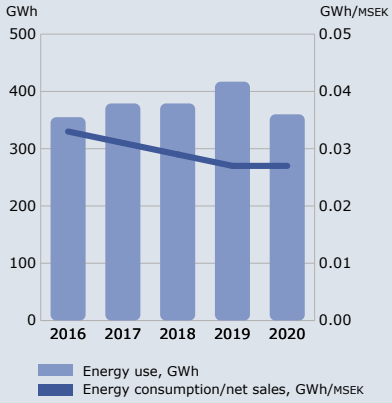
One of the Group objectives aims at certification of the environmental management systems at all operational units. Our experience of ISO 14001 is positive, with risks and costs diminishing, while confidence among interested parties is rising. During the year one company in Turkey was certified and ten sites plan to achieve certification during 2021. Internal and external environmental audits are frequently conducted, and in 2020, 97 internal (139) and 42 external (46) environmental audits were carried through. The auditing frequency was in a number of cases affected by Covid-19.

The standard applied for the work environment (ISO 45001) is implemented at two units in Czech Republic and UK. 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 except one are certified under the ISO 9001 quality standard.

Certified management systems



Energy use



Energy use

The use of energy is a significant environmental aspect for the company. In 2020, 360 GWh (417) was used for our operations. The decrease in consumption was primarily caused by reduced production due to the global pandemic. The energy cost amounted 252 MSEK (326) and the energy use caused emission of 136,000 tons (146,000) of the greenhouse gas carbon dioxide. Mixing equipment, presses, and other heavy production equipment, have a major contribution to the energy use, but, in this context, compressed air, cooling, lighting, ventilation and moving of materials are also important factors. Around 73 percent (75) of the energy use was based on purchased electricity, 15 percent (14) on natural gas and the rest derived from other sources. The use of biofuels and fossil-free electricity amounted to 28 percent (21). Solar panels (photovoltaics) are installed at two plants in Italy, one plant in USA and two plants in Mexico.

The aim is to use energy more efficiently and therefore 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 continued, for example:

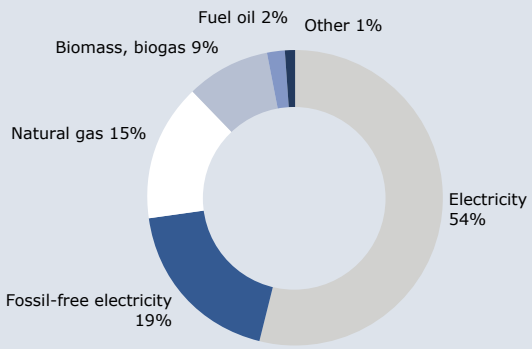
- Better control of the processes for mixing rubber and shorter cycle times reduced energy consumption at several units. Faster conversion of equipment when changing products. Maximizing batch sizes to increase throughput of mixer efficiencies. Pre-heating of presses.
- Switching off equipment that is not in use, for example timers on fans.
- 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.
- 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.
- Energy audits according to the EU Energy Efficiency Directive. So far 12 plants have carried out audits and one plant will carry out audits in the near future.
- Certified energy management systems (ISO 50001) at five sites in Sri Lanka, Czech Republic and Germany.
- Installations of sensors for detailed energy mapping of equipment/processes in the plant.
- Recirculation of dust collection air through HEPA filters back into facility to prevent heat/cooling loss to the environment.
- Energy curtailment programs together with energy supply companies. This reduces capacity costs.
- Replacing propane forklift trucks with electric.
- Installing evaporative climate control technique that cools air to get a more favorable temperature for products and also reducing the energy consumption. Installation of other types of cooling systems with improved energy efficiency.
- Changes in internal processes to minimize change over times. Lower unnecessary idle time when energy is being used.
- Installation of systems for heat recovery from compressed air. Detecting leaks in the compressed air systems in order to reduce unnecessary energy losses. Installation of energy-efficient air compressors and transformers.
- Installation of steam traps on presses and insulation of furnaces.
- Reducing energy consumption during peak periods on the electricity network.
- Surplus heat energy (143 MWh) sold to the local district-heating network in Gislaved, Sweden. Surplus electricity (40 MWh), generated from photovoltaics, sold to the grid by the Mesgo Gorlago plant in Italy.

Information about the status of the Group-wide energy objective is found on page 13.

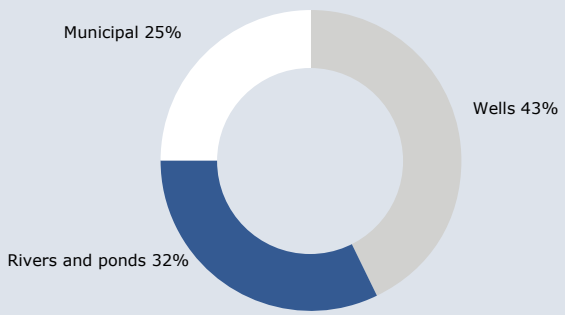
Water consumption and wastewater

Access to good quality water is essential for our operations, and with regard to the sustainable use of a natural resources, there are many reasons to use water with care. Fortunately, the units are not located in areas suffering from water shortage, or where the aquatic eco-system is

Sources of energy



Sources of water



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 2020, around 359,000 m³ (361,000) of municipal water was consumed, 485,400 m³ (476,500) was abstracted from own wells, and 358,700 m³ (269,000) from rivers. Water is mainly used for cooling of manufacturing equipment and for sanitary and cleaning purposes. To reduce the water consumption the majority of the sites have installed closed loop systems. However, at a handful of plants water from wells and rivers are used in cooling systems without recirculation. To reduce the water consumption, actions are continuously implemented, for example, search for leaking pipes, awareness and housekeeping programs, and technical measures. The total cost of water was 5.4 MSEK (5.3).

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 complied with the legal limits.

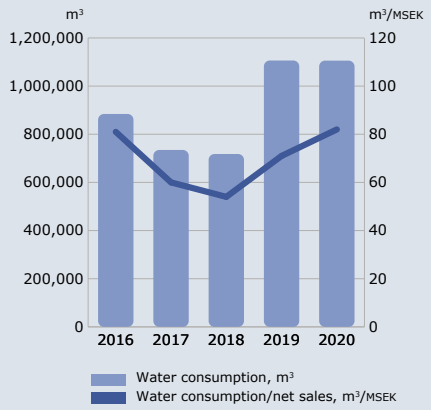
Polymers and other chemical products

Environmental aspects of polymer compounds

Polymer compounds, such as rubber and plastics, are semi-finished products and can be seen as homogenous 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, plasticizers, 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.

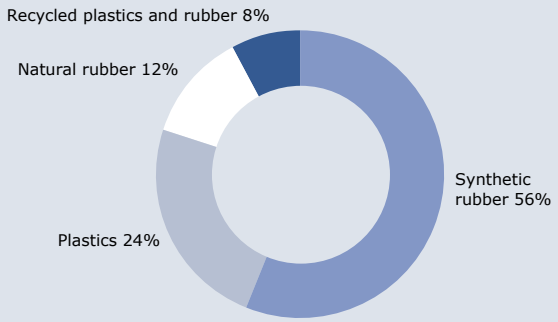
The rubber and plastic polymers used in HEXPOL interact with the environment in a number of ways. A certain amount of impact occurs at our plants, while other impacts occur

Water consumption



Polymer materials at HEXPOL

% of total polymer consumption



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 in the table below.

HEXPOL's manufacturing processes are mainly based on the use of rubber and plastic polymers 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.

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 12 percent (10), and recycled polymers for about 8 percent (8) of the total polymer consumption. 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, antioxidants, 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 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 2020 a handful of chemicals were phased-out, or had their usage reduced. Future efforts to reduce the risks involve, for example, chemicals such as cyclic siloxanes, solvent-based release agents, carcinogenic nitrosamine generators, certain phthalates, lead and dichloromethane.

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 tires and in particular for the road adherence (or grip) properties. Polycyclic aromatic hydrocarbons (PAHs) are, however, present in aromatic oils and

Polymer materials at HEXPOL

Polymer compound	Description	Environmental impact
Synthetic rubber	About 60 percent of the world's production of synthetic rubber is used by the tire industry. The raw materials for the production of synthetic rubber derive from the petroleum industry (crude oil). Many different types of polymers are used at HEXPOL, including EPDM, SBR and NBR.	The environmental aspects of the manufacture and use of synthetic rubber are primarily energy consumption, the use of fossil raw materials, emissions to air and water, and waste. Examples of positive environmental aspects include rubber's capacity to contribute to lower energy consumption and to reduce noise and vibrations.
Natural rubber	Natural rubber is extracted from the viscous sap (latex) of several species of trees, among which the rubber tree, Hevea brasiliensis, is the most important. The rubber tree grows in regions with a tropical climate and about 90 percent of global production comes from Southeast Asia. Plantations can also be found in South America and Africa. Almost 70 percent of global production is used in the tire industry.	The large-scale cultivation of rubber trees on plantations can have an impact on local ecosystems, displacing the natural rainforest, for example, and replacing it with monocultures. Other negative environmental aspects include the use of pesticides and the impact on watercourses. Positive aspects include the fact that natural rubber is a renewable raw material and that interest in more sustainable, small-scale cultivation methods is increasing. HEXPOL owns no rubber plantations of its own, and all raw materials are instead purchased.
Thermoplastic elastomers	Thermoplastic elastomers (TPE) are a family of materials that share properties with rubber (flexibility, softness), while also offering typical plastic properties (versatility, recycling, advantages in processing). These materials are used in medical technology applications, for example, as well as in toys, vehicles and electronics.	Conventional TPE is produced from fossil raw materials (crude oil). Accordingly, the key environmental aspects of these materials include the non-renewable nature of the raw materials, emissions of gases that impact the climate, and waste. A positive environmental aspect is that TPE can be recycled. Furthermore, TPE may contain bio-based and recycled raw materials, as is the case with Dryflex Green (bio-based ingredients) and Dryflex Circular (recycled ingredients).
Thermoplastics	Thermoplastics (TP) offer the advantage of melting when heated and solidifying when cooled. They can be remelted several times and are fully recyclable. Thermoplastics are easily processed using different production technologies, such as injection molding. Polyethylene (PE), polypropylene (PP) and polyvinyl chloride (PVC) are examples of thermoplastics.	Conventional thermoplastics are made from fossil petroleum products (for environmental aspects, see TPE). In the Group, Rhetech manufactures composite materials comprising recycled thermoplastics and biodegradable waste products, such as rice husks or recycled cotton. The climate impact of such composite materials is significantly lower than for fossil-based materials. An example is the RheVision product line, which consists of polypropylene reinforced with natural fibres.

the European Union has classified eight PAHs as carcinogenic. In EU there are since 2010 restrictions in the use of PAH in tires for vehicles. The threshold limit is maximum three percent of PAHs in the extender oil.

At the operations in Europe such oils are phased out. However, as they are allowed in China, Mexico and USA, HA oils above the European limit are still used. In a global perspective more than 80 percent (95) 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 120 tons of solvents (100), 33 tons of paint (20) and 4,200 tons of metals (3,500) 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 used in one of our operations and control mechanisms are implemented.

Emissions to the atmosphere

Climate changing gases
As a prioritized step, we take actions to reduce the emission of the greenhouse gas carbon dioxide from energy consumption (Scope 1 and 2 according to GHG Protocol). The emissions are results from the use of fossil fuels (oil, natural gas and propane) and purchased electricity. During 2020, the emissions were 137,600 tons (146,000), of which 13,600 tons were related to Scope 1 and 124,000 tons to Scope 2. The indirect emissions through purchase of electricity dominated and accounted for 82 percent (89) of the total amount of carbon dioxide. In a ten-year perspective the key performance indicator for emissions (ton CO_2e/net sales) has been reduced by around 27 percent. The indicator is impacted by both 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, Belgium, Czech Republic, UK, Spain), use of biomass (wood, sawdust; Sri Lanka), and biogas (Sweden), reduce the emissions of carbon dioxide.
- Installation of photovoltaic cells lower the carbon footprint. Currently solar energy is captured at six plants (Italy, USA, Mexico).
- Increased production, increased use of energy, and increased number of acquired facilities, affect the carbon footprint in a negative way. Significant parts of the production take place in USA, Mexico and China. As a result, our Scope 2 emissions are highly affected by electricity that is produced from fossil sources (coal) in these countries. To further reduce the Scope 2 emissions a global program to purchase fossil-free electricity is now implemented.

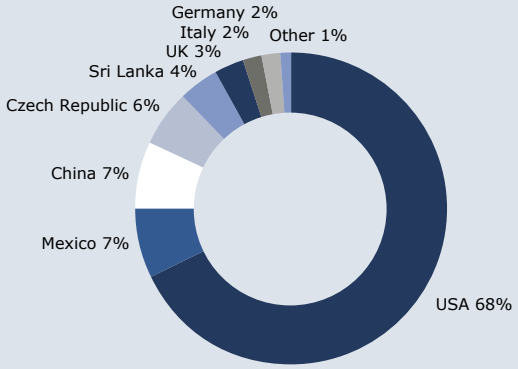
Information about the status of the Group-wide climate objective is found on page 13.

Other air emissions
Energy consumption caused 19 tons (16) of atmospheric emissions of sulfur dioxide (SO_2) and nitrogen oxide (NOx). 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 24 tons (53) and were mainly caused by the manufacture of polyurethane wheels. The total amount of installed cooling agents is approximately 1.2 ton (1.1). No material emissions of such ozone-depleting gases (fluorinated gases; F-gases) occurred during the year.

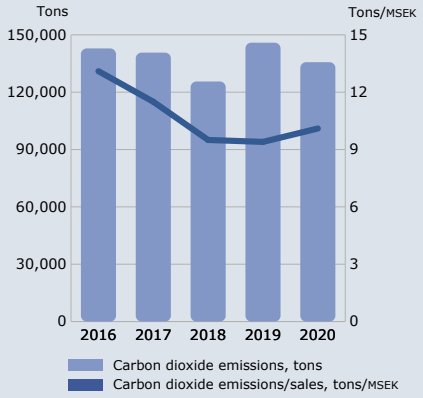
TCFD

The Task force on Climate-related Financial Disclosures (TCFD) is a market-driven initiative launched in 2017. The purpose is to develop recommendations for voluntary and consistent reporting of climate-related financial risks and opportunities. The TCFD's guidelines are based on governance, strategy, risk management, measurement values and target scenarios. For HEXPOL, it is, in purely concrete terms, about having financial insight into how the Group is affected by climate change over time, and how the operations are affected by controls to limit carbon dioxide emissions.

Carbon dioxide emissions per country
% of total emissions

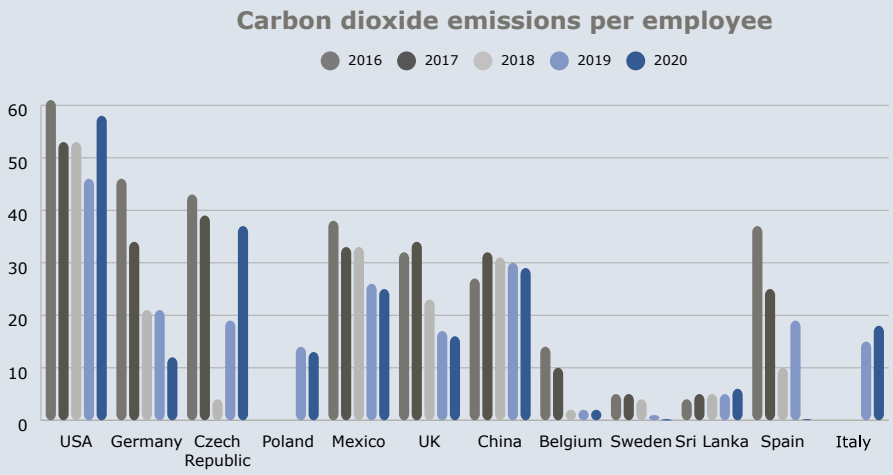


Carbon dioxide emissions



Supporting the TCFD is voluntary and affiliation is open to all. Thousands of companies and organizations are officially affiliated with the TCFD and HEXPOL is now taking the initial steps to follow the guidelines. The TCFD lists four key areas in which investors and other market participants find it important to obtain information. Although the Group's climate work focuses on these areas, additional efforts remain before the TCFD's guidelines will have been met:

- *Steering* – the Board of Directors of HEXPOL bears the overall responsibility for following up on climate-related risks and opportunities. The Board regularly receives information on how the climate work has developed and is ultimately responsible for the design and implementation of the Group's climate goals.
- *Strategy* – climate change brings risks and opportunities for HEXPOL, with the issues it involves forming part of the Group's overarching strategy for sustainable development. If we envisage a scenario in which society resolves to steer strongly towards very low fossil-based carbon dioxide emissions, the Company will be affected both by increased costs (taxes, fees) and various regulations, including legislation. The realignment to reduce the Group's carbon dioxide footprint is in progress but will require substantial resources for many years to come. If, at the same time, we envisage a scenario in which temperatures rise significantly, the Group will be affected by physical risks that will probably extend throughout the value chain. Current risk analyses, take flooding, extreme weather conditions and drought into account. To meet the TCFD's guidelines, the Group needs to continue to work with possible scenarios with the objective of being able to express how the Group's earnings capacity would be affected by these various situations.
- *Risk management* – to mitigate its risks, the Group is steering away from fossil-based energy. In addition, opportunities are being created through the development of products containing bio-based and recycled raw materials. Read more about risks and risk management on pages 34–35.
- *Metrics and targets* – the Group has reported carbon dioxide emissions for a long time and publishes key performance indicators on how emissions are changing over time. In 2020, a demanding new climate target was introduced for the Group.



Flax fibre, coconut shells and agave fibres are examples of plant-based raw materials that we use in RheVision, our biofibre-reinforced polypropylene series.

Waste

By minimizing scrap, improving waste sorting at source and reducing the overall amount of waste, the plants 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 carbon black from dust filters.

During 2020, the total volume of waste was 22,950 tons (26,500), of which hazardous waste accounted for 2,340 tons (1,760). Transport of hazardous waste is carried out by approved companies. In a five-year perspective, the KPI for waste (tons/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 not decreased during the past five years and the main cause is increased number of manufacturing plants in USA. The cost of external waste management amounted to 21.6 MSEK (21.2).

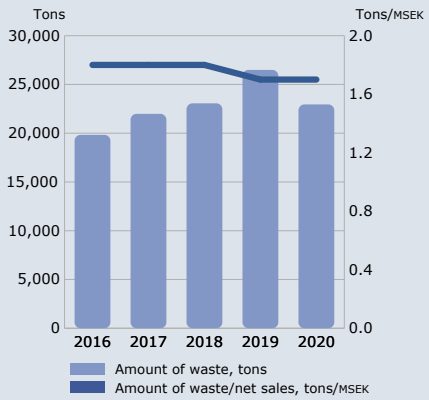
Accidents and complaints

There were no cases of significant accidents or uncontrolled environmental emissions in 2020. Three complaints were registered from local residents regarding disruptive noise levels, odor and wood ash disposal.

Products that support sustainable development

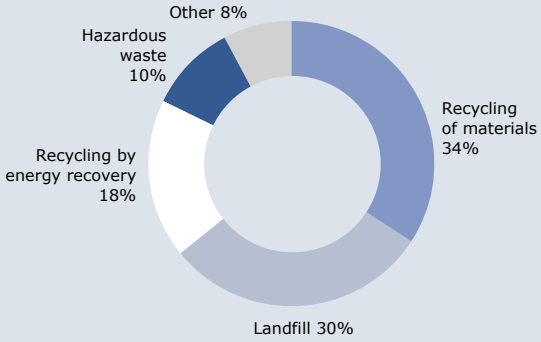
Several of our customers present objectives and programs to improve their sustainability performance, often with focus on reducing the carbon footprint of their activities and products. There are also strong political and regulatory plans to combat climate change, for example the EU Green Deal and the EU Taxonomy for sustainable activities (page 25). HEXPOL's capability to develop polymer compounds that supports development creates challenges and business opportunities, for example:

Amount of waste



Waste categories

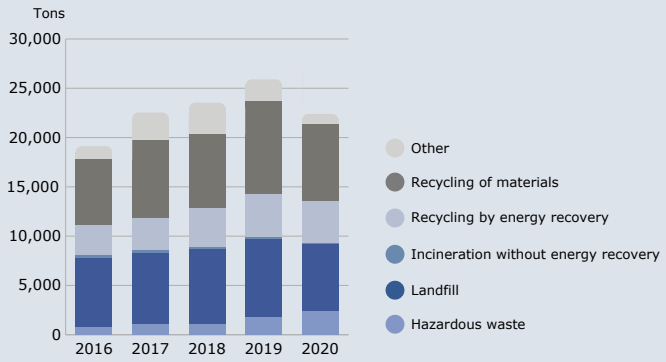
% of total amount of waste

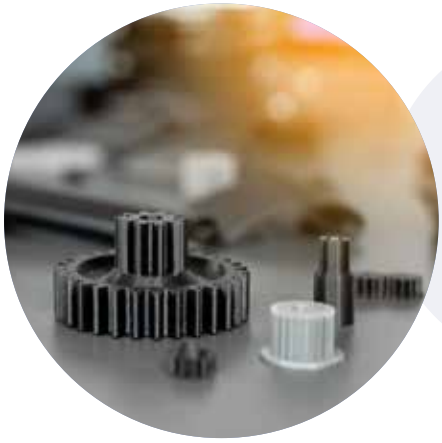


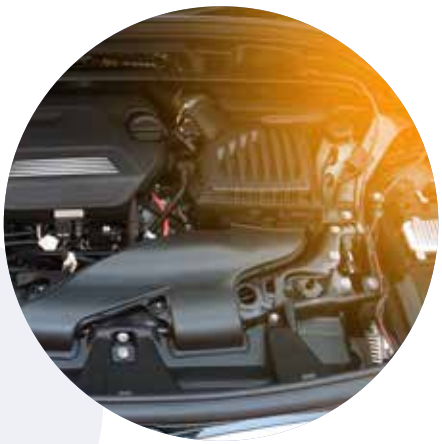
- Dryflex Green and Dryflex Circular are members of a family of thermoplastic elastomer (TPE) compounds containing raw materials from recycled or bio-based raw materials. See article on page 27. In general, TPEs are easy to recycle and are used in many applications, such as the automotive industry.
- TPEs combined with natural material, such as cork, produces technically interesting properties and reduces the use of fossil raw materials. We buy raw materials from certified cork farms in Portugal. The removal of the bark does not harm the trees and the bark is only harvested after the first 20 years of growth. The removal stimulates a steady regeneration of the bark. Each cork tree provides on average 16 harvests over its 150–200 years lifespan.
- RheVision is a line of biofiber reinforced polypropylene which use renewable natural fibers, for example rice hulls, coconut, walnut and pecan shells or hemp, instead of traditional reinforcements such as talc, minerals and glass. All of the biofibers 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 further reduces the carbon footprint. During the year the company wan business in automotive industry for thermoplastic olefin (TPO) claddings along the entire bottom portion of a transport vehicle. The new compound uses over 50 percent recycled plastic and a significant portion of post-consumer waste material comes from TPO bumpers. The post-industrial recycled materials come from textile production.
- 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.
- The product group Hexlight® (micro-dense materials) meets the requirements from the automotive industry concerning weight reduction. The density of rubber profiles is reduced up to 30 percent. This contributes to lower fuel consumption in vehicles.
- Envelopes for re-treading of automotive tires from Robbins prolong the life of tires and thereby reduce the environmental impact. Re-treading reduces the amount of extender oils, polymer 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.
- 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. RheTech and Stellana US are attempting to bring new sustainability benefits to Stellana's offering of polypropylene compounds with recycled resin and/or natural fiber content to the lift truck wheels customers.

A life-cycle perspective on Dryflex Green – from bio-based raw materials to low-carbon products.

Waste categories by external treatment methods







Initial product has been trialed and provided enough success to justify the long-term testing for the new wheels.

- A number of HEXPOL's products are used by the customers in cleantech applications, for example, wind power plants, photovoltaics, electrical vehicles (EV), electric forklift trucks, battery charging cables and wastewater treatment facilities.
- The structural growth in electrical vehicles is expected to increase during the coming years. In applications such as weatherstrips, suspension, dampening, hoses, wire and cable HEXPOL offers lightweight compounds and high-performance formulations.
- Dryflex WS are a range of thermoplastic elastomers (TPE), which contain hydrophilic particles. They swell at a controlled rate and percentage when immersed in water. When there is no longer water present the compound shrinks back to its original size, a process of expansion and contraction that can be repeated. Dryflex WS and WS+ materials are used in applications to form a positive seal and prevent the ingress or exit of water, for example, water stops, water treatment plants, tunnels, drains and sewers, water tanks and seals.

The transition to a low carbon polymer industry is ongoing but there are a number of issues to manage, for example:

- Tight product specifications sometimes do not allow any compromise on technical performance versus sustainability aspects. One example is that recycled materials are not allowed in products with food contact.
- The lack of sustainable raw materials (bio-based, recycled) on an industrial scale. Currently we use some bio-based and recycled raw materials for TPE products. Recycled carbon black obtained from a pyrolysis process is used in a limited number of rubber compounds. There are ongoing laboratory tests using "eco polymers", for example bio-based EPDM compounds. Laboratory tests using lignin-based (from wood) materials have shown promising results, but the raw material is not yet commercially available.
- To utilize bio-based and recycled raw materials new technologies need be developed in the entire value chain. Strategic and close collaboration with key suppliers on materials, processes and reporting is therefore key to us.

HEXPOL and the EU taxonomy for sustainable investment

The taxonomy for environmentally sustainable investments is one of the measures included in the EU's plan of action for financing sustainable growth. The taxonomy makes it possible to identify and compare investments that are necessary in achieving a sustainable economy. The intention is that it will provide a basis for future standards and for the labelling of sustainable financial products. The Taxonomy Ordinance is to be fully implemented on 31 December 2022 and companies with more than 500 employees must report their sales, capital investments and operating expenses in accordance with the taxonomy. HEXPOL is covered by the regulation and the Group will be affected in several ways.

Contributing to environmental goals

To be sustainable in accordance with the ordinance, HEXPOL must make a significant contribution to at least one of the environmental goals in the table. The contribution can be made through internal measures, such as phasing out fossil fuels, and /or by HEXPOL facilitating a stakeholder's contribution to one of the environmental goals. An example is that HEXPOL and a customer together develop a product consisting of bio-based raw materials, thereby reducing its impact on the climate. This Sustainability Report contains examples of products contributing environmental benefits.

Although the table shows that HEXPOL contributes to the environmental goals, there is currently no guidance on what is considered "essential" in our industry. To meet the requirements of the taxonomy, HEXPOL must also report revenues, investments and costs that can be linked to the environmental goals.

Do not counteract environmental goals

HEXPOL shall not cause significant harm to any of the goals. Several of these are already prioritized by HEXPOL and we have introduced Group-wide goals and plans of action. Although the Group's operations do not cause significant harm to any of the goals in our view, but there is currently no clear guidance on how this should be determined.

Meet basic principles and standards

This refers to conventions and guidelines on, for example, work environment and human rights. In HEXPOL's case, this requirement is met through our fundamental values (Materializing Our Values), the UN Global Compact, the OECD guidelines for multinational companies, the ISO 26000 standard for social responsibility and other international guidelines. We report our sustainability work in accordance with the GRI's international standards and our climate work is reported in accordance with the CDP.

Adhere to technical criteria

In order for an activity or product to be considered sustainable, the taxonomy states specific requirements and criteria. Activities covered by these criteria include forestry, cement production and energy production. Criteria are stated for the manufacture of primary plastic raw material and carbon black, but not for activities where plastic raw material or carbon black is converted, or mixed, into rubber or plastic products. Accordingly, there are currently no criteria that can be applied directly to HEXPOL's operations.

According to the EU's taxonomy for sustainable investments, HEXPOL will not be required to submit a full report until 2022. This will certainly be facilitated by advice, guidelines and examples of practical applications. As we await this, we will continue to apply the taxonomy, particularly with regard to the reporting of how direct and indirect activities can be described in monetary terms.

	HEXPOL's contribution	
Target	**Internal measures[1]**	**Facilitates for stakeholders[2]**
Limiting climate change	✓	✓
Adaptation to climate change	✓	✓
Sustainable use and protection of water and marine resources	✓	✓
Transition to circular economy	✓	✓
Pollution prevention and control	✓	✓
Protection of biodiversity and ecosystems	–	–

[1] *For example, energy efficiency, risk analyses, ISO 14001, sustainability targets and minimizing waste.*
[2] *For example, products with a lower content of fossil raw materials, fuel savings through lighter materials, products used in environmental technology, and products used to counteract flooding.*


Front Trunk
Lock
25.2°C
25.2°C
Sync

New TPE materials for a more sustainable world

With reducing climate impact and building a more circular economy strengthening as driving forces, interest in bio-based or recycled raw materials has grown significantly among HEXPOL customers – from manufacturers of consumer products to the automotive industry.

To facilitate sustainable development, HEXPOL has developed the Dryflex Green and Dryflex Circular TPE series. Dryflex Green contains polymers originating in plants, while Dryflex Circular is based on recycled raw materials. The portfolio also includes Lifocork TPE – cork-based bio-composites with a natural look.

Although water bottle nozzles may seem unexciting, they actually exemplify a Dryflex Green solution having generated value for the customer. Together with German company VAUDE, which manufactures outdoor activity equipment, HEXPOL has developed a water bottle for cyclists.

The project involved several challenges in terms of the mechanical properties, gaining food contact approval, and determining the behaviour of a bio-based material in the manufacturing process. The TPE material produced for VAUDE contains 34 percent bio-based raw material and can be processed with conventional methods and existing tools. It offers favourable technical properties and is fully recyclable, directly in processing.

Another market undergoing massive transformation to become more sustainable is the automotive industry. Dryflex Green, Dryflex Circular and Lifocork TPE are three solutions currently being tested and applied in an initial application series at several TIER suppliers and OEMs.

Further examples in the automotive industry are the recently introduced Dryflex HiF TPE blends offering very high melt flow and scratch resistance for large interior surfaces, including dashboard upholstery, door panels and glove compartments. Replacing non-recyclable PVC or PU solutions while still using standard injection molding, sustainability is the key driving force here. The new TPE materials are highly efficient compared with energy, waste and cost-intensive processes such as sludge casting or foil thermoforming.

HEXPOL seeks to drive the TPE industry in the direction of greater sustainability with related issues being considered in all significant business decisions. In 2020, a network was therefore established within HEXPOL TPE, comprising six focus groups with the objective of improving their own approach and influencing others. Their findings are now being disseminated systematically – benefiting the environment and business alike.

During 2020, a life cycle analysis was conducted in which Dryflex Green was compared with completely fossil-based TPE mixtures. The key conclusion from the analysis was that Dryflex Green variants had a 10 to 40-percent lower climate impact than traditional TPE. Another significant factor is energy consumption at the production facilities. By improving energy efficiency, and increasingly using fossil-free electricity, the Group targets a 75-percent reduction in carbon dioxide emissions by 2025.

Currently, the greatest challenge lies in gaining access to bio-based raw materials. Unfortunately, although global production capacity is increasing, it is not yet in line with demand.

Social responsibility

Materializing Our Values applies in the same way worldwide and the Group aims to be a good corporate citizen applying sound business principles. As part of the strategy for sustainable development, the Code of Conduct helps attract, develop and retain committed and skilled 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 4,550 (5,061), of whom 3,172 (3,665) worked in HEXPOL Compounding and 1,371 (1,390) in HEXPOL Engineered Products. The Parent Company had 7 employees (6). HEXPOL is a global Group and 93 percent (93) of the employees work outside Sweden. Of the employees, 43 percent work in the United States/Mexico, 30 percent in Europe and 27 percent in Asia.

Human rights

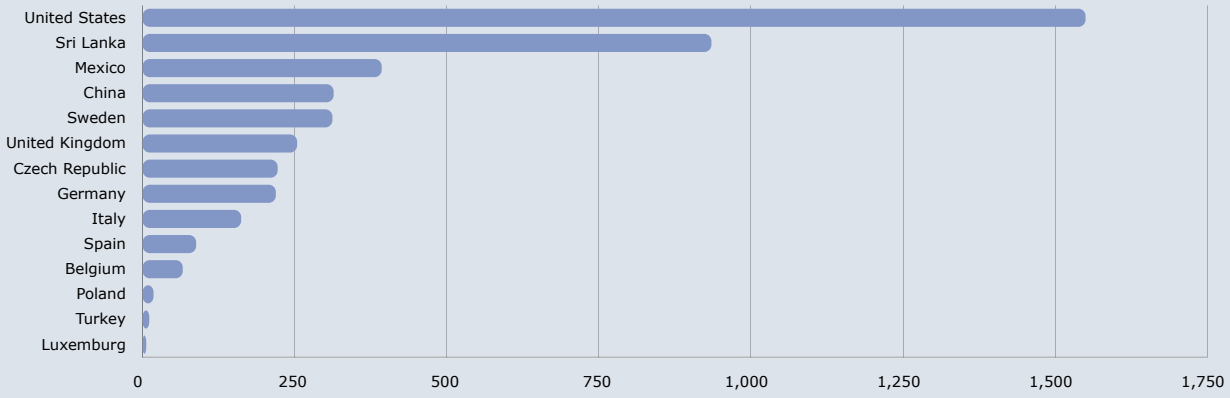
Materializing Our Values has its background in international agreements and guidelines concerning human rights, social responsibility and sustainable development, including the UN Global Compact and the Standard for Social Responsibility (ISO 26000). The Group's requirements are that workplaces should be safe, facilitate 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.

Our 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, Belgium, Spain, Italy and China. For other units, the affiliation to trade unions is between 0 and 70 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 53 percent (61) 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

Number of employees per country



legislation. Work environment efforts focus on preventive measures and include risk analyses, training programs and technical improvements.

In the Group, 86 percent (86) of the employees are men. A change currently in progress involves an increase in the proportion of female employees in Sri Lanka. Although this is from a very low level. The proportion of females is 57 percent (57) on the Board of Directors and 0 percent (17) in Group management. The proportion of females in the local management teams averaged 20 percent (18). 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.

Knowledge and skills

Networking efforts and participation in project organizations help bring employees from different cultures together to share 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 80,000 (171,400). This corresponds to 17 hours (32) per employee. About 2,600 people (2,960) participated in development talks or equivalent activities. The global pandemic caused a number of educational activities to be put on hold.

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 operates. Variable performance-based compensation occurs in parts of the Group. In 2020, salary costs were 1,994 MSEK (2,069).

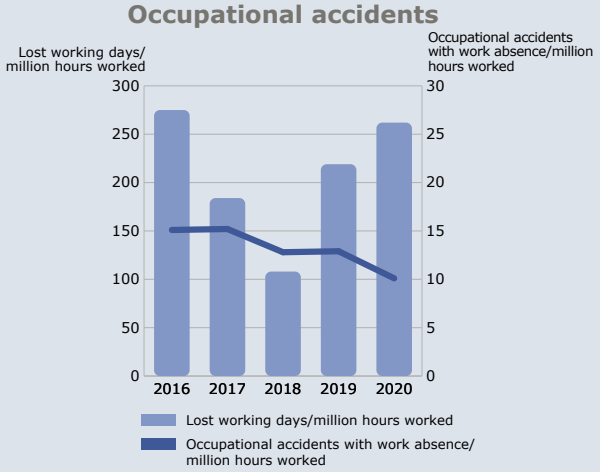
During the year, employee surveys were conducted at 9 units (18). Examples of views and wishes expressed by employees concerned personal development, training, internal communications and planning of working hours.

Health and safety

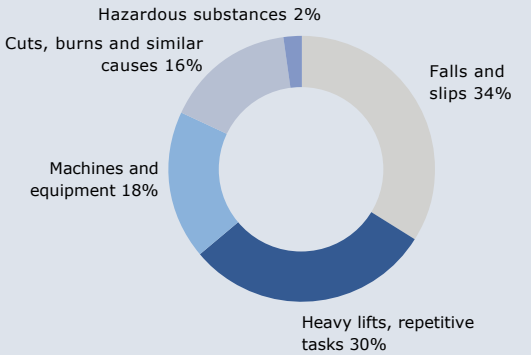
The vision is that no accidents will occur at our workplaces and the target is that the number of accidents will be reduced. Systems for reporting near misses are to be in place in all operations. The management of health and safety issues focuses on preventive measures and includes risk analyses, training programs, registration of incidents and technical improvements. Creating a good work environment and well-being are the responsibilities of executive management and improvement programs are conducted in cooperation with employees and their representatives. Around 40 percent of the units have incentive systems in place for improvements made in the environmental and working environment fields.

During 2020, there were 93 occupational accidents (135) resulting in more than one day's absence from work. An encouraging observation is that close to 40 percent of the sites reported zero lost time accidents. Total absence due to accidents amounted to 2,400 days (2,282). A handful of accidents led to long absence from work and accounted for around 80 percent of the lost workdays. There were no fatal accidents. During 2015– 2019 the average accident rate for absence per million hours worked was 14.4. The outcome of 2020 was well below average and amounted to 10.1. The frequency can be compared to other types of heavy manufacturing industry and the causes of accidents consist primarily of falls, equipment-related injuries (cuts, burns) and manual handling and repetitive work. Three accidents involving contractors (7) were reported and 9 work-related illnesses (13) were confirmed. Allergies, eczema and

Occupational accidents



Causes of occupational accidents



muscle/skeleton disorders are examples of occupational illnesses that occurred during the year.

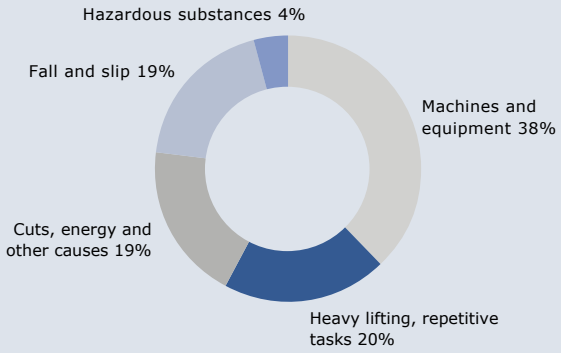
The following activities contribute to the objective that the number of workplace-related accidents should be reduced:

- Safety committees: The safety committees are important drivers for preventive measures and such organizations exist in 84 percent (87) of the facilities.
- Risk analyses and workplace monitoring: Risk analyses, occupational health and safety monitoring (dust, noise, solvents, vibration, electromagnetic radiation), 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, for example audiometric tests.
- Training and awareness: Training programs involving the environment, occupational health and safety are conducted regularly and amounted an average of 8.0 hours (15.8) per person during 2020. The programs included fire-fighting, emergency procedures, ergonomics, safe management of hazardous substances, use of personal protective equipment, hot work, first aid, Covid procedures and much more. A key target group for the training program is new employees. As a result of Covid-19 some training programs were put on hold.
- Near-misses: Systems to record near misses are implemented in 89 percent (91) of the units and are being used in an efficient way. A total of 450 near misses (811) were registered, resulting in preventive and remedial measures to reduce the risk of accidents.
- Management systems: ISO 45001 (occupational health and safety management system) is implemented at two plants in UK and the Czech Republic. The majority of the companies manage health and safety in a systematic way within the legal frameworks of their respective countries.
- HEXPOL Compounding Americas Safety Program: The building blocks of the 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 topics, are presented to help educate the work force.

Causes of occupational accidents

Year	2020	2019	2018	2017	2016
Lost Work Cases (LWC)	93	135	124	138	127
Lost Work Days (LWD)	2,400	2,282	1,045	1,672	2,319
LWC/million worked hours	10.1	12.9	12.8	15.2	15.1
LWD/million worked hours	262	219	108	184	275

Registered near misses



Social involvement

We engage in social activities throughout the world. These include activities for employees and their families, contacts and projects with schools and universities, and financial support for sports, health care and associations. During 2020 the global pandemic had a negative impact on social involvement, but the following activities can be recognized:

- Schools: Around ten of the manufacturing sites were active in contacts with local high schools, for example, for knowledge sharing.
- Universities: A handful of sites participated in educational and development collaborations with universities, for example, internship programs, diploma theses, research programs, and practical industrial training. RheTech LLC continued participation in a National Science Foundation collaboration between universities and industry (Center for Bio-plastics and Bio-composites). The focus for this group is to develop conceptual ideas for sustainable solutions for industry. The group takes ideas from industry participants and dedicates graduate level students and the capabilities of four participating universities to find commercially viable solutions for these conceptual ideas. We collaborate, 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.

Read more about local initiatives in the section Highlights during 2020 (pages 36–37).

Economic responsibility

Finance 2020 in brief : The HEXPOL Group's sales decreased by just over 13 percent during the period to 13,424 MSEK (15,508). Acquisition (Preferred Compounding) increased the sales by 6 percent, while exchange rate fluctuations decreased the sales by 2 percent and the organic sales decreased by 17 percent, partly affected by lower sales prices.

Key figures	2020	2019	2018
Sales, MSEK	13,424	15,508	13,770
Operating profit (EBIT), MSEK	1,935	2,043	2,150
Operating margin, %	14.4	13.2	15.6
Profit after tax, MSEK	1,409	1,542	1,646
Earnings per share, SEK	4.09	4.48	4.78
Equity/assets ratio, %	61	56	59
Return on capital employed, %	14.3	15.2	22.5

Sustainable development and finance

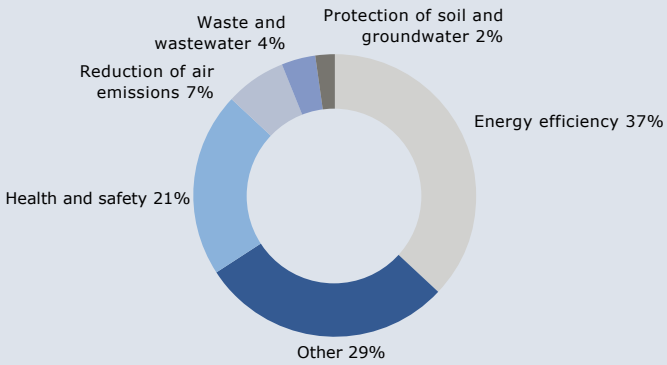
Investments, costs and savings

During 2020 the sustainability-related investments amounted to 49.8 MSEK (50.8). Areas for investments were, for example, related to increased energy-efficiency, reduction of air emissions and safe workplaces. The overall cost for environmental and workplace measures amounted to 34.2 MSEK (45.3). The costs include, for example, administration, operation of emission abatement equipment, and fees to authorities and certification companies. Cost for management of waste accounted for 64 percent (64) of the total costs. Environmental and work environment-related measures resulted in savings of 12.0 MSEK (7.4). Increased recycling, solar panels, separation of waste, and energy-efficiency projects, contributed to the savings. Savings were also as a long-term result of investments in previous years.

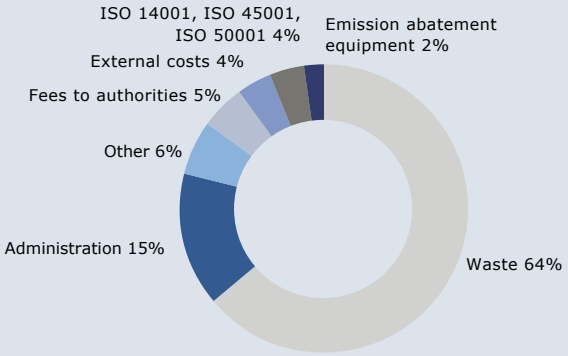
Combating corruption

Under Materializing Our Values, and the tenth principle of the UN Global Compact, integrity and responsibility shall characterize our business practices. We 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

Sustainability-related investments



Sustainability-related costs



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

- HEXPOL implements shared values in the form of Materializing Our Values. The management team at each site is responsible for further conveying the values in their organization. As mentioned on page 7–8, senior executives are targets for an advanced on-going training program.
- We 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. Suppliers must comply with the HEXPOL Supplier Sustainability Guideline.
- 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 self-assessment is based on an anti-corruption questionnaire provided by UN Global Compact.

No breaches concerning corruption were identified during 2020.

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 represents 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 2020, the Group had net sales of 13,424 MSEK (15,508) of which 3,273 MSEK (3,357) was distributed according to the table. The Group's tax expenses amounted to 446 MSEK (466), which corresponds to a tax rate of 24.0 percent (23.2).

Distributed value (MSEK)

Stakeholder*	2020	2019	2018	Comments
Employees	1,994	2,069	1,785	Salaries and benefits
Shareholders	792	774	671	Dividend
Creditors	41	48	18	Interest expenses
Society	446	466	515	Total reported tax expenses
Total	3,273	3,357	2,989	

** Value distributed to suppliers, for example, raw material expenses, is not included.*

Sustainability-related risks

Risk management: 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 2020 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.

Description	Risk	Risk management
Environmental legislation	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.	The Group is working systematically to analyze and implement the news and changes in the environmental legislation. In the short term, 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. 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.
Health and safety legislation	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.	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.
Contaminated soil	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 2020. 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.	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.

Description	Risk	Risk management
Hazardous substances in buildings and installations	The roofs of some buildings are constructed of Eternit tiles that contain asbestos fibers. 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 couple of buildings and the compound will be remediated as the windows are gradually replaced. The risks to humans and the environment are very low.	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.
Climate-related risks	Two 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, for example, tornadoes. Three plants are located to geographical areas with shortage of water.	The Group works actively to mitigate emissions of gases affecting the climate and originating from our production facilities and products. Scenario analyses of how physical climate changes, policy decisions and legislation affecting HEXPOL have been initiated. With regard to these issues, the Group has begun to apply the TCFD guidelines, see pages 20–21. Climate-related risks are taken into account in conjunction with acquisitions and supplier assessments.
Environmental adaptation of products	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.	The Group is taken an active role within the area and is offering knowledge that contributes to environment-friendly product development. The Group's "green" products have the potential to create good business opportunities, for example Dryflex Green that contains bio-based raw materials and Dryflex Circular that contains recycled raw materials.
Human rights	The risk for any violation of the human rights at the 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.	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.
Anti-corruption	The Group has operations in both industrialized 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 x) 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.	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.
Covid-19	The Covid-19 pandemic has caused substantial uncertainty and volatility in the world economy, and has had a major negative impact on people's health. This has led to significantly lower economic activity and increased unemployment around the world. In addition, the pandemic and the measures implemented by countries, public authorities and companies around the world, have had a considerable negative impact on demand for products and services, leading to disruptions in production and supply chains. This has affected our customers and HEXPOL alike. The continued effects of the pandemic on us, our customers and on global supply chains remain highly uncertain and unpredictable. This applies to, but is not limited to, demand for products and services, pricing, access to raw materials, delivery opportunities, production disruptions, the health of our employees and our financial results. In addition to what is described here, it is highly likely that the Covid-19 pandemic will affect several other risks described in this Risks and Risk Management section.	We have undertaken measures at all of our units to safeguard the health and safety of our employees by following local health recommendations and regulations and encouraging people to work from home if possible. To be able to react quickly to shifting and often uncertain demand, we are focusing even more on close customer contacts, allowing us to adapt production to meet our customers' needs. We are also adapting our costs to the lower level of demand. During the first year of the pandemic, we also sharply reduced our costs when a number of employees left the Company. We have not received any employment support in Sweden.

Highlights during 2020

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

- The Eupen plant broke the record of workdays without an occupational accident.

China

- Gislaved Gummi in Qingdao was recertified according to ISO 14001. Energy saving projects were conducted to meet the national call for energy saving and reduction of emissions. Workers were trained on how to handle spill of chemicals.
- Stellana in Qingdao passed the examination of the local Safety Supervision Department and obtained a certificate. The annual audits of ISO 14001 and ISO 9001 were successful.
- Hexpol Compounding in Qingdao fulfilled new emission requirements from the environmental authority by installation of a dust filter and a higher boiler chimney.
- The Foshan unit expanded the chemical storage room to eliminate risk of soil contamination. Hydraulic lifting platform was installed to reduce risks with repetitive work. Environment and safety contingency plans were finalized. A safety inspection by the local authorities resulted in very positive comments.

Czech Republic

- The Unicov plant installed an automatic weighing system for small chemicals. Operations with manual handling of materials were reduced. The number of workplace-related accidents continued to be low.
- The Lesina company carried out a pilot project to increase the use of recycled raw materials. A "green" project with one customer included FSC (Forest Stewardship Council) labelled natural rubber, recycled carbon black and process oils made from renewable sources.

Germany

- The Lichtenfels sites optimized around 40 formulations for a better thru-put and thereby saved 90 MWh energy. Through a recently installed dry cooling system (natural ventilation) around 270 MWh was saved.
- The Hückelhoven unit installed a new heating system with heat recovery from compressors.

Mexico

- The unit in Aguascalientes continued with the mentor safety programme and the safety rate was improved. The company reported 1,007 days without recordable workplace accidents. Solar panels were installed producing around 420 MWh/year. An eco-friendly evaporative air condition unit was installed.
- At the Querétaro unit training was given to reinforce the importance of environment and safety. An eco-friendly evaporative air condition unit was installed. 720 solar panels were installed to use the maximum portion of clean energy per month that is allowed by the Mexican government.
- The San Luis Potosi plant increased its focus on safety and lost days by recordable accidents decreased by 85 percent.

Spain

- The plant outside Barcelona operates since 2020 fully on fossil-free electricity. Actions to increase energy efficiency, and to reduce the amount of waste, were implemented. A psycho-social survey of employees was carried out.

Sri Lanka

- Elastomeric (Horana plant) designed and tested new compound recipes using wood ash generated from biomass as a greener raw material. To improve the workplaces a number of manual operations were transformed to semi automation. The company conducted a preliminary study for "Evaluation of Occupational Safety & Health of a Manufacturing Organization".
- The Bokundara site developed its infrastructure and expanded the facilities to improve safety of employees as a result of Covid-19.

Sweden

- Gislaved Gummi continued with energy-efficiency measures, safety training and other preventive measures.
- Stellana in Laxå continued with activities aiming to further increase energy efficiency, reduce carbon dioxide emissions, reduce water consumption, and reduce the amount of waste.
- The Åmål site improved structured maintenance and Lean activities for operators. Implemented a software tool to improve preventive actions, reduce waste, reduce electricity use and improve safety at work. The interest in projects and commercialized business related to Dryflex Green products increased. A life-cycle model to support sustainability decisions was developed. Ten new charging stations for electrical vehicles were installed.

United Kingdom

- The HEXPOL TPE unit in Middleton was certified according to ISO 45001. It launched new sustainability focus groups to cover Materials, Operations, Educate & Inform, Our workplace, Go virtual and Business travel. An outlet for lump waste was found. During the year, 22 new Circular or Green projects were raised and a biobased TPV was developed.
- Berwin in Dukinfield started to develop and implement an online visual reporting system for electrical energy use, and a waste recycling system using color coded bins in the factory. The environmental and quality management systems, for the three business units at the site, were amalgamated.
- Berwin in Lydney sourced fossil-free electricity for the coming three years. Additional LED/PIR lights were installed.

Italy

- Mesgo Carobbio and Garlago sites signed contracts for supply of fossil-free electricity starting 2021. At both plants fire safety was improved by automatic systems for closing of fire doors during off hours, thermographic imaging analyses and other preventive measures.
- The Carrobio plant participated in a project supervised by ATS-CONFIDUSTRIA aiming at improvement of the safety performance of plastic and rubber industries. The project includes, for example, risk analyses and implementation of improved health and safety procedures.
- The Grigno site reduced the amount of scrap from 4 percent to 2 percent. A new dust filter was installed.
- Mesgo Iride Colors in Garlasco signed a contract for fossil-free electricity starting 2021.

Turkey

- In early 2020, the Mesgo plant in Istanbul was certified according to ISO 14001.

Poland

- The Mesgo plant in Tomaszow Masowiecki improved recording and separation of waste.

USA

- At the Statesville plant best practices included secondary oil containment protection, layered process auditing, health and wellness program and job safety analysis. Social performance (humility, respect) was discussed monthly with associates.
- The Muscle Shoals plant successfully passed the ISO 14001 audit. It continued to improve the recycling program. The new energy efficient air compressor continued to reduce energy consumption and eliminate water consumption. The ongoing installation of LED lighting is reducing energy usage. No workplace accidents were recorded during the past two years.
- At Valley Processing in City of Industries a 154 tons reduction in scrap rubber being sent to the landfill was achieved. The site obtained a best-in-class safety record of zero recordable and zero lost time accidents.
- The Kennedale unit reduced scrap sent to landfill by 30 tons.
- The Dyersburg campus was heavily impacted by the pandemic, but managed to continue with a number sustainability activities, for example, more resource-efficient production, proper identifying, handling, and disposing of obsolete materials.
- At the Stellana site in Lake Geneva workplace accidents decreased, the amount of toxic waste was reduced and also waste sent to landfill was reduced.
- For the Burton site the biggest challenge was to try to stop the spread of the Covid-19 throughout the facility. A number of preventative actions were rapidly put in place with good results. Sustainability efforts included maintained ISO 14001 certification and participation in the Americas Safety Team Process.
- At Gold Key in Middlefield the safety culture is driven by Americas Safety Committee with the aim to share best practices and drive initiatives across all campuses. Continued implementation of the safety mentor program to improve safety focus and audits of all processes in production. The recycling and energy-efficiency programs were continued. Numerous social responsibility activities with focus on schools, police, fire brigade, veterans and hospitals. The company maintained its ISO 14001 certification.
- The RheTech Whitmore Lake and Fowlerville plants grew sales of RheVision natural fiber products by 235 percent when compared to 2019. RheTech LLC has continued to maintain its ISO 14001 certification and did not have any non-conformances noted by the independent or internal auditors. The company also continued its participation in a National Science Foundation collaboration between Universities and Industry. The collaboration is known as the Center for Bio-plastics and Bio-composites.
- RheTech Colors finalized design requirements and initiated a project to replace the current plant chiller system with a more efficient, larger chiller that does not contain ozone depleting refrigerant.
- The Kirkhill plant in Long Beach installed LED lighting and solar panels. Waste stream identification reduced the amount of dirty water that was being sent out as hazardous waste. Obtained a best-in-class safety record of zero recordable and zero lost time accidents.
- The Tallapoosa site started implementation of ISO 14001. By systematic work the release of zinc to the storm drain was reduced.
- The Whitewater campus increased its focus on safety by improving communication and demanding all personnel to be accountable for reducing incidents while increasing awareness. The company is preparing for upcoming ISO 14001 certification.
- The Huntingdon site increased its focus on safety by sharing best practice programs and procedures with other HEXPOL campuses. The incident rate was improved by 83 percent.
- The Barberton campus spent most of the year in preparation for the upcoming ISO 14001 certification. During the year no lost time injuries were recorded.

About the sustainability report

The purpose of this report is to provide an overview of HEXPOL's sustainability performance during the calendar year of 2020, 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 its 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 44 (46) manufacturing sites throughout the world contributed to the report. One site was closed down, and one company was merged, during the year. Two small sites in HEXPOL Silicone Compounding and Rhe-Tech, 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 2020 and to which extent they are included in the Sustainability Report.

Reporting principles

The annual reporting cycle is shown in the figure below. 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 (Scope 1 according to GHG Protocol), sulfur dioxide and nitrogen oxide from direct energy use have been measured using conversion factors based on the energy content and quality of the fuel used. CO_2 emissions from indirect energy use (Scope 2) are measured based on emission factors from Carbon Footprint™ (2019) 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 unit	Location	Number of employees	Building area (m²)	Production capacity (tons)	Environmental licence
HEXPOL Compounding – North Carolina	Statesville, USA	87	3,900	20,000	Yes
GoldKey Processing	Middlefield, USA	173	13,900	40,000	Yes
HEXPOL Compounding – Burton Rubber Processing	Burton, USA	223	20,800	55,000	Yes
HEXPOL Compounding – Colonial Rubber Works	Dyersburg, USA	159	45,700	136,000	Yes
HEXPOL Compounding – Burton Rubber Processing	Jonesborough, USA	98	9,800	50,000	Yes
HEXPOL Compounding – Kennedale	Kennedale, USA	60	7,200	18,000	Yes
HEXPOL Compounding – Aguascalientes	Aguascalientes, Mexico	116	6,500	24,600	Yes
HEXPOL Compounding – Querétaro	Querétaro, Mexico	152	12,150	53,000	Yes
VALLEY Processing	California City of Industry, USA	70	11,150	56,000	Yes
Kirkhill Rubber	Long Beach, USA	76	14,960	48,000	Yes
RheTech Compounding	Whitmore Lake, USA	89	10,900	65,000	Yes
RheTech Compounding	Fowlerville, USA	32	5,700	38,000	Yes
RheTech Colors and HEXPOL TPE North America	Sandusky, USA	48	6,500	4,500	Yes
Preferred Compounding –Barberton	Barberton, USA	73	12,700	20,300	Yes
Preferred Compounding – Huntingdon	Huntington, USA	76	5,900	22,700	Yes
Preferred Compounding –Whitewater	Whitewater, USA	49	4,270	8,000	Yes
Preferred Compounding –Tallapoosa	Tallapoosa, USA	108	11,150	34,100	Yes
Preferred Compounding – San Luis Potosi	San Luis Potosi, Mexico	125	10,440	36,300	Yes
Robbins	Muscle Shoals, USA	40	22,600	-	Yes
HEXPOL Compounding Belgium	Eupen, Belgium	72	4,200	20,000	Yes
HEXPOL Compounding Germany	Hückelhoven, Germany	71	6,300	35,000	Yes
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	117	7,900	35,000	Yes
HEXPOL Compounding Lesina	Lesina, Czech Republic	105	7,350	35,000	No
Berwin Rubber	Dukinfield, UK	145	9,400	36,700	Yes
HEXPOL Compounding Spain	Barcelona, Spain	88	12,500	30,000	Yes
Berwin Industrial Polymers	Lydney, UK	64	5,900	21,000	Yes
MESGO S.p.A	Gorlago, Italy	46	6,200	10,000	Yes
MESGO S.p.A	Carobbio degli Angeli, Italy	56	10,800	15,000	Yes
MESGO IRIDE COLORS S.r.l Garalasco	Garlasco, Italy	44	7,600	8,000	Yes
3A MCOM S.r.l	Grigno, Italy	16	10,300	20,000	Yes
MESGO POLSKA Sp. Z o.o	Tomaszow Masowiecki, Poland	18	9,000	3,000	No
MESGO ASIA KAUCUK	Sekerpinar, Cayirova, Turkey	11	1,700	2,000	No
HEXPOL TPE Germany	Lichtenfels, Germany	143	7,210	35,000	No
HEXPOL TPE Sweden	Åmål, Sweden	77	5,300	20,000	Yes
HEXPOL TPE UK	Manchester, UK	45	4,800	13,000	No
HEXPOL Compounding Qingdao	Qingdao, China	57	8,300	20,000	Yes
HEXPOL Compounding/TPE Foshan	Foshan, China	61	8,200	25,500	Yes
Stellana US (Wheels)	Lake Geneva, USA	71	7,500	-	Yes
Stellana Sweden (Wheels)	Laxå, Sweden	72	11,800	-	Yes
Stellana China (Wheels)	Qingdao, China	59	3,500	-	Yes
Gislaved Gummi (Compounding, Gaskets and Seals)	Gislaved, Sweden	161	20,000	19,000	Yes
Gislaved Gummi Lanka (Gaskets and Seals),	Bokundara, Sri Lanka	406	10,500	-	Yes
Gislaved Gummi Qingdao	Qingdao, China	137	12,500	-	Yes
Elastomeric (Wheels)	Horana, Sri Lanka	529	11,800	-	Yes

GRI Index 2020

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 8–9. Descriptions of the Management Approach are therefore not repeated for every separate Material Topic. This report has been prepared in accordance with the GRI Standards: Core option.

The Sustainability Report 2020 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 2020, 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 2020. 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 21–31
102-3	Location of headquarters	Malmö, Sweden
102-4	Location of operations	SR 39
102-5	Ownership and legal form	AR 6–7
102-6	Market served	AR 12–13
102-7	Scale of the organization	AR 20–31
102-8	Information on employees and other workers	SR 28–28
102-9	Supply chain	SR 10–11
102-10	Significant changes to the organization and its supply chain	None
102-11	Precautionary principle or approach	SR 19
102-12	External initiatives	SR 31
102-13	Membership of associations	SR 7
Strategy and analysis		
102-14	Statement from senior decision-maker	AR 4, SR 2
Ethics and integrity		
102-16	Values, principles, standards, and norms of behavior	SR 6–8
Governance		
102-18	Governance structure	AR 56–65, SR 8

GRI Indicator	Description	Page
Stakeholder engagement		
102-40	List of stakeholder groups	SR 10–11
102-41	Collective bargaining agreement	SR 28
102-42	Identifying and selecting stakeholders	SR 5–6, 10-11
102-43	Approach to stakeholder engagement	SR 5, SR 10–11
102-44	Key topics and concerns raised	SR 5, 10–11
Reporting practice		
102-45	Entities included in the consolidated financial statements	AR 93, SR 38–39
102-46	Defining report content and topic boundaries	SR 38–39
102-47	List of material topics	SR 5
102-48	Restatement of information	None
102-49	Changes in reporting	1 plant closed down
102-50	Reporting period	Full year 2020
102-51	Date of most recent report	April 2020
102-52	Reporting cycle	SR 38
102-53	Contact point for questions regarding the report	Torbjörn Brorson
102-54	Claims of reporting in accordance with the GRI Standards	SR 40
102-55	GRI content index	SR 40–43
102-56	External assurance	Board of Director's Report in AR
Management Approach		
103-1	Explanation of the material topic and its boundary	SR 5–9
103-2	The management approach and its components	SR 5–9
103-3	Evaluation of the management approach	SR 5–9

Topic-specific Standards

GRI Indicator	Description	Page
Economic		
Material topic GRI 201: Economic performance		
201-1	Direct economic value generated and distributed	SR 33
Material topic GRI 205: Anti-corruption		
205-2	Communication and training about anti-corruption policies and procedures	SR 32–33
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	AR 38
Environment		
Material topic GRI 301: Materials		
301-1	Materials used by weight or volume	SR 18–19
301-2	Recycled input materials used	SR 18–19
Material topic GRI 302: Energy		
302-1	Energy consumption within the organization	SR 16–17
302-3	Energy intensity	SR 13, 16–17
302-4	Reduction of energy consumption	SR 13, 16–17
302-5	Reduction of energy requirements of products and services	SR 22–25
Material topic GRI 303: Water		
303-1	Water withdrawal by source	SR 17–18
Material topic GRI 305: Emissions		
305-1	Direct (Scope 1) emissions of greenhouse gases (GHG)	SR 20–21
103-2	Indirect (Scope 2; energy) emissions of greenhouse gases (GHG)	SR 20–21
305-4	GHG emissions intensity	SR 13, 20–21
305-5	Reduction of GHG emissions	SR 20
305-6	Emissions of ozone-depleting substances (ODS)	SR 20
306-7	Nitrogen oxides (NOx), sulfur oxides (SOx) and other significant air emissions	SR 20

GRI Indicator	Description	Page
Material topic GRI 306: Effluents and waste		
306-1	Water discharge by quality and destination	SR 17–18
306-2	Waste by type and disposal method	SR 22–23
306-3	Significant spills	SR 22
306-4	Transport of hazardous waste	SR 22
Material topic GRI 307: Environmental compliance		
307-1	Non-compliance with environmental laws and regulations	SR 15–16
Material topic GRI 308: Supplier environmental assessment		
308-1	New suppliers that were screened using environmental criteria	SR 7, 11
Social		
Material topic GRI 403: Occupational health and safety		
403-1	Workers representation in formal joint management-worker health and safety committee	SR 29–30
403-2	Types of injury, occupational diseases, lost days, and absenteeism, and work-related fatalities	SR 29–30
Material topic GRI 404: Training and education		
404-1	Average hours of training per year per employee	SR 29
404-2	Programs for upgrading employee skills and transition assistance programs	SR 29
404-3	Percentage of employees receiving regular performance and career development reviews	SR 29
Material topic GRI 405: Diversity and equal opportunity		
405-1	Diversity of governance bodies and employees	SR 28–29
Material topic GRI 406: Non-discrimination		
406-1	Incidents of discrimination and corrective actions taken	SR 29
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 6–8, 29
Material topic GRI 408: Child labor		
408-1	Operations and suppliers at significant risk of child labor	SR 6–8
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 7–8
Material topic GRI 412: Human rights assessment		
412-2	Employee training on human rights policies or procedures	SR 7–8, 28–29
Material topic GRI 413: Local communities		
413-1	Operations with local community engagement, impact assessments, and development programs	SR 31, 36–37
Material topic GRI 414: Supplier social assessment		
414-1	New suppliers that were screened using social criteria	SR 7, 11

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 12,400 businesses in 158 countries, of which around 390 businesses in Sweden. HEXPOL participates as Signatory.

WE SUPPORT UN GLOBAL COMPACT

In 2017, HEXPOL joined the UN's Global Compact initiative for responsible business, thereby committing to adhere to its ten principles in the areas of human rights, working conditions, the environment and anti-corruption.

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 objectives 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 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, 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, 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 and glossary

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

BIOFUEL Renewable fuel from wood and process residues.

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 (CO_2) 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.

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 behavior 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'.

ENERGY USE 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 auditsat 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.

ESG Stands for Environmental, Social and Governance. It is also referred to as 'sustainability'.

EU's Taxonomy The Taxonomy for Sustainable Activities is a tool to help investors, companies, issuers and project promoters navigate the transition to a low-carbon, resilient and resource-efficient economy.

FLUORINATED GASES 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.

FREEDOM OF ASSOCIATION Refers to the right of employees to lawfully join associations of their own choosing, peacefully associate, organize 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.

GHG Protocol Greenhouse Gas Protocol. GHG Protocol establishes comprehensive global standardized frameworks to measure and manage greenhouse gas (GHG) emissions from private and public sector operations, value chains and mitigation actions.

GHS Globally Harmonized System of Classification and Labelling of Chemicals.

GLOBAL COMPACT An 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 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 9001 International standard relating to quality management systems. Over 885,000 organizations (1,220,000 sites) globally are currently certified according to ISO 9001.

ISO 14001 International standard relating to environmental management systems. Over 315,000 organizations (490,000 sites) globally are currently certified according to ISO 14001.

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

ISO 45001 International standard relating to health and safety. Over 40,000 organizations globally are currently certified according to ISO 45001.

ISO 50001 An international standard relating to energy management system. Over 40,000 organizations (63,000 sites) globally are currently certified according to ISO 50001.

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.

NOx (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.

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, Authorization 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.

SCOPE ACCORDING TO GHG PROTOCOL Reporting of emissions of greenhouse gases expressed as CO2 equivalents. Scope 1: Combustion of fossil fuels (petrol, oil and coal), for example production in owned factories or emissions from owned or leased vehicles/machinery. Scope 2: Combustion of electricity, district heating and district cooling. Scope 3: Emissions from purchase of goods and services, for example logistics, flights, taxis, hotel stays and consumption of supplies.

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.

SO_2 (SULFUR DIOXIDE) Sulfur dioxide is formed when petroleum products are burned. SO_2 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.

TCFD Task force on Climate-related Financial Disclosures (TCFD).

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.

The Annual Report is produced by HEXPOL in collaboration with G-byrån Sverige in Anderstorp.

This Sustainability Report is printed on Munken Kristall paper from Arctic Paper Munkedals AB, one of the most environmentally friendly paper mills in the world. The company is ISO 14001 certified. The paper is made from raw materials from sustainable forestry and meets the requirements for both FSC, PEFC and the EU Ecolabel.

The Annual Report is printed by Taberg Media Group – which has ISO 14001 certification and holds the Nordic Swan environmental certification. The Swan is the official ecolabel of the Nordic countries. They review the environmental impact of goods and services throughout the lifecycle, from raw material to waste, and sets requirements in terms of function and quality.

FSC MIX Papper FSC® C074394

PEFC

Ecolabel

MILJÖMÄRKT 3041 0271

HEXPOL is a world leading polymer group, with strong global positions in advanced polymer compounds, gaskets for plate heat exchangers and wheels made of plastic and rubber materials for forklifts and castor wheel applications.

Customers are primarily global suppliers to the automotive and engineering industries, the construction and civil engineering industries, and in sectors such as transport, energy, oil/gas and consumer products, as well as the cable industry and medical technology manufacturers, plate heat exchangers and forklifts.

The Group is organized into two business areas, HEXPOL Compounding and HEXPOL Engineered Products. The HEXPOL Group generated sales of 13,424 MSEK in 2020 and the Group has some 4,550 employees in 14 countries.

HEXPOL®
A Material Difference

HEXPOL AB (publ), Skeppsbron 3, 211 20 Malmö, Sweden
Tel. +46 (0)40-25 46 60

www.hexpol.com