



SUSTAINABILITY
REPORT
2016

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2016 in brief

- Sales amounted to 10,879 MSEK (11,229)
- Operating profit amounted to 1,921 MSEK (1,964)
- Operating margin increased to 17.7 percent (17.5)
- Profit after tax increased to 1,397 MSEK (1,393)
- Earnings per share rose to 4.06 SEK (4.05)
- Operating cash flow amounted to 2,057 MSEK (2,185)
- The Board of Directors proposes a dividend of 4.75 SEK per share, consisting of an ordinary dividend of 1.75 SEK per share (1.70) and a special dividend of 3.00 SEK per share

KEY FIGURES

	2016	2015
Sales, MSEK	10,879	11,229
Operating profit (EBIT), MSEK	1,921	1,964
Operating margin, %	17.7	17.5
Profit before tax, MSEK	1,913	1,943
Profit after tax, MSEK	1,397	1,393
Earnings per share, SEK	4.06	4.05
Equity/assets ratio, %	77	72
Return on capital employed, %	26.8	28.6
Operating cash flow, MSEK	2,057	2,185

Significant sustainability events

- HEXPOL's sustainability objectives were linked to the UN Sustainable Development Goals.
- Activities to increase the energy efficiency was implemented at units all over the world.
- Further actions were taken to phase out certain hazardous chemicals.
- The use of recycled polymer raw materials increased from 1 to 18 percent of the total use of polymers.
- The implementation of ISO 14001 continued and the upgrade to ISO 14001:2015 was started.
- Continued activities to create safe and healthy workplaces.
- Engagement in society with focus on schools and universities. The aim is to build tomorrow's workforce today.
- "Greener" products, such as the Dryflex Green product line, were launched.

10,879

SALES MSEK (11,229)

1,921 MSEK

OPERATING PROFIT (1,964)

2,057 MSEK

OPERATING CASH FLOW (2,185)

4.06 SEK

EARNINGS PER SHARE (4.05)

HEXPOL in brief

- Innovative solutions in advanced polymer compounds, gaskets for plate heat exchangers and wheels for forklifts and castor wheel applications
- Strong global market positions - world leading in market for rubber compounds
- Strong position within thermoplastic elastomer compounds (TPE) in Europe
- Strong position within reinforced polypropylene compounds in US
- Organised in two business areas with in-depth and extensive polymer and applications expertise
- Acquisition-oriented
- Growth with strong and improved margins
- Well invested with strong cash flow
- Strong financial position

Business area HEXPOL Compounding

OPERATIONS The HEXPOL Compounding business area is one of the world's leading suppliers in the development and manufacturing of high-quality advanced polymer compounds for demanding applications and demanding end users. HEXPOL Compounding consists of two product areas, HEXPOL TPE Compounding and HEXPOL TP Compounding, and three geographic regions: HEXPOL Compounding NAFTA, HEXPOL Compounding Europe and HEXPOL Compounding Asia.

MARKET HEXPOL Compounding's market is global and the largest end-customer segments are the automotive and engineering industries, followed by the construction sector. Other key segments are the medical technology, cable and water treatment as well as the energy, oil and gas sector. The largest customer segments in TPE compounding are the general industry, consumer and medical technology industries. The largest customer segments in TP compounding are the automotive industry and consumer.

CUSTOMERS The customers consist of manufacturers of polymer products and components who impose rigorous demands on performance and global delivery capacity.

SALES 10,028 MSEK (10,402)

OPERATING PROFIT 1,806 MSEK (1,859)

NUMBER OF EMPLOYEES AT DECEMBER 31
2,679 (2,429)

Business area HEXPOL Engineered Products

OPERATIONS HEXPOL Engineered Products has operations in a number of niche areas in which it occupies strong global positions in gaskets for plate heat exchangers, as well as polyurethane, rubber and plastic wheels for forklifts and material handling. The operations are organised into two product areas, HEXPOL Gaskets and HEXPOL Wheels.

MARKET Within its niche areas, HEXPOL Engineered Products is active in the global market where a considerable focus is on discerning customers and advanced applications. HEXPOL is a leading supplier of rubber gaskets for plate heat exchangers, and for polyurethane wheels for forklifts. Within these areas, HEXPOL is one of a few major companies with global presence.

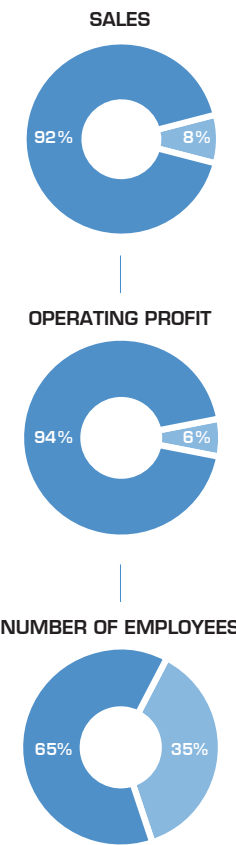
CUSTOMERS HEXPOL Engineered Products' customers are usually major global OEM manufacturers with market leading positions and for whom HEXPOL's products are frequently of vital importance for the quality and service life of the finished product. Technical competency and long-term cooperations are of major importance for both parties. HEXPOL Engineered Products want to develop and innovate together with their customers to jointly strengthen both competitiveness and profitability for all parties.

SALES 851 MSEK (827)

OPERATING PROFIT 115 MSEK (105)

NUMBER OF EMPLOYEES AT DECEMBER 31
1,456 (1,433)

THE BUSINESS AREA'S SHARE OF THE HEXPOL GROUP (2016):



CEO comments on the year



Georg Brunstam
President and CEO
HEXPOL AB

Welcome to HEXPOL's Sustainability Report. It is our aim to present information in a transparent and informative way and therefore report according to best practices based on the GRI Guidelines. The report will give you an insight into risks, opportunities, objectives and achievements – during the previous year but also in a long-term perspective.

ANOTHER GOOD YEAR FOR HEXPOL

2016 was another good year for the HEXPOL Group. Our best result to date! We continued to improve the market positions in all of our principal markets and we further improved our earnings. Our strategy of both organic and acquired growth in our existing areas, combined with strong cash flow, is successful and stands firm. Our strategy of organic growth and acquired growth is unchanged and during 2016 we have successfully integrated three acquired Rubber Compounding operations.

During the year, our sustainability work continued at an unabated pace and we are transparently reporting progress in the Sustainability Report and the Annual Report. We also report the Group's impact on the climate according to the Carbon Disclosure Project (CDP).

STRATEGY FOR SUSTAINABLE DEVELOPMENT

Our overall strategy for sustainable development aims at reducing risks and creating business opportunities. Development of "greener" products and efficient use of resources, such as materials, energy and water, give both environmental and business benefits. This year we have linked our sustainability objectives to the UN Sustainable Development Goals. I am convinced that this will add a global perspective to our sustainability work.

Key for us is to create value for HEXPOL's interested parties and our strong corporate culture supports this ambition. I believe that coordination and cooperation combined with a powerful, decentralised organisation generate excellent effects that are positive in a cohesive and focused group. The combination of coordination and decentralisation is certainly valid for our work with the sustainability challenges and opportunities. And our watch words of "DECENTRALISED BUT EXTREMELY CO-ORDINATED" are valid regarding sustainability too. The certified ISO 14001 systems create a stable backbone for our continuous improvement programs. In this report you will find a lot of examples where our manufacturing units implement proactive environmental and social activities. Some of the actions are a result of our Group-wide

policies, strategies and objectives, but in many cases the local management teams are both inventors and executors of the improvement programs.

IMPROVEMENTS AND CHALLENGES

During 2017, we will continue with the previously adopted strategy of maintaining a focus on competence development and developing our employees. The acquisition orientation stands firm and our proactive sustainability and social responsibility efforts will continue at an unabated pace. We will also, as previous, continue our focus on growth through increased and targeted market and development initiatives. Concerning sustainable development, we will continue our work to:

- Increase the efficient and responsible use of materials, energy, water and other resources.
- Maintain focus on competence development and developing our employees. To be recognized as a good citizen and an attractive employer.
- Proactively reduce risks at the workplaces aiming for zero accidents.
- Continue with the implementation of the Supplier Sustainability Guideline.
- Apply sound ethics in a very competitive business environment.
- Strengthen our position as a developer and supplier of environment-friendly polymer compounds and other products.

Finally, I would like to thank customers, suppliers and shareholders for your confidence and excellent cooperation during 2016. The effort shown by our employees has been fantastic – thank you all. Today, we have a larger HEXPOL Group, with strong market positions, in-depth expertise, a strong financial position, and continued commitment for sustainable development. I am convinced that we can further develop the HEXPOL Group in a positive direction.

Malmö, Sweden, April 2017

*Georg Brunstam
President and CEO*

Corporate responsibility

Prerequisite
for long-term
value creation

Taking responsibility for people, environment and society is an important part of HEXPOL's corporate culture and something that creates value for the Group's stakeholders. Issues related to sustainable development – environment, work environment, social responsibility, business ethics – are integrated into the everyday work and the strategic planning.

Our sustainability strategy is focused on reducing risks and creating business advantages. For example, development of environmentally adapted polymer compounds and other products – and efficient use of resources – give both environmental and business benefits. During 2016, our activities continued to focus on issues that are essential for HEXPOL and the Group's stakeholders. These included training in business ethics, energy efficiency, phasing out hazardous substances, development of environmentally friendly products, health and safety measures, partnerships with schools and universities, and the evaluation of suppliers.

The Sustainability Report 2016 includes data from 34 (29) units all over the world (see pages 40–42).

FOCUS ON MATERIAL ISSUES

In accordance with the GRI G4 Guidelines we have identified the material sustainability issues of HEXPOL's activities, products and services. The figure shows issues that are ranked according to the significance for the Group's interested parties

and for the HEXPOL's business strategy. All issues that are shown in the figure are presented, discussed and evaluated in the Sustainability Report. The issues given the highest priority are included in the Groupwide objectives and/or as commitments in "Materializing Our Values". During 2016 the material issues were reviewed and "polymers in a life-cycle perspective" replaced "greening of products".

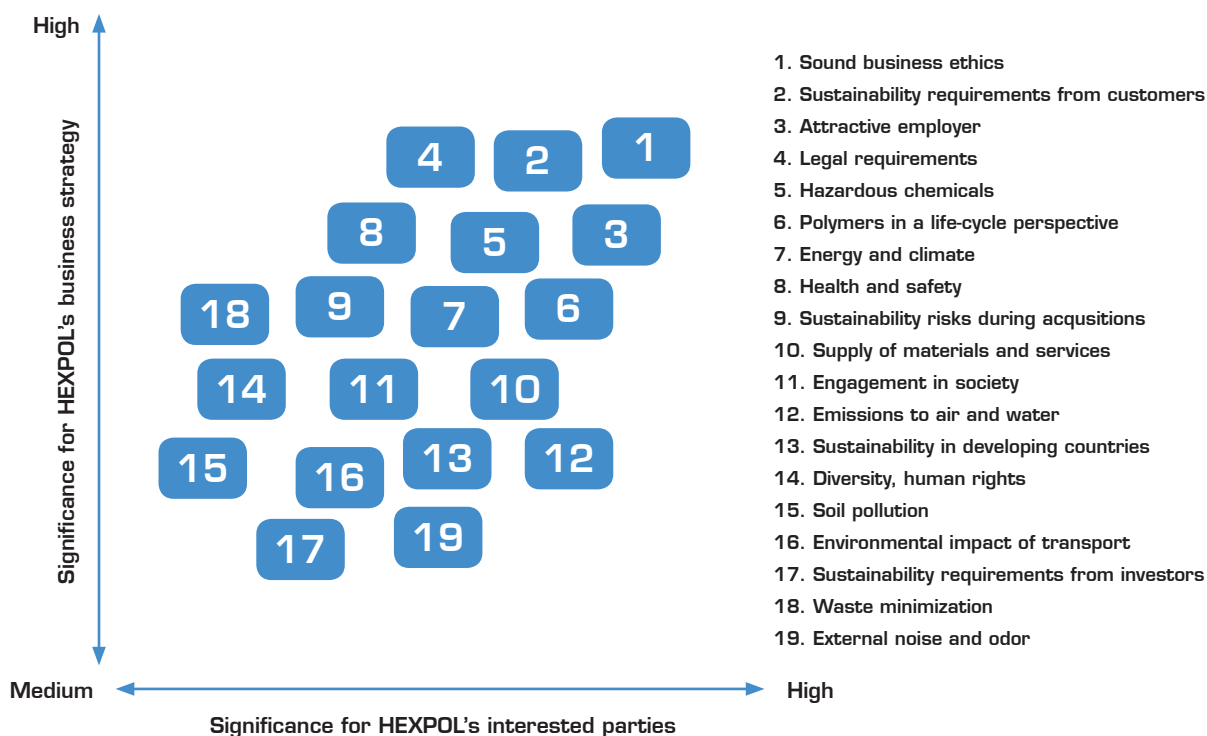
IMPORTANT GUIDELINES AND STANDARDS

Materializing Our Values

"Materializing Our Values" is HEXPOL's ethical compass and it summarizes the view on business ethics, information, environment and work environment. The guidelines constitute the Group's code of conduct and provide guidance to every employee in respect of legal liability, accounting, conflicts of interest, working conditions, environment, social responsibility and sound business ethics.

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

In a number of areas covered by Materializing Our Values, a practice of zero tolerance is applied to nonconformity. 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





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

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. During 2016, no incidents, that may be associated with corruption, were noted and the managements of the Group companies are working actively on these issues through education, policies, control and monitoring.

Business Ethics Guidelines

The Business Ethics Guidelines constitute a component of “Materializing Our Values” and provide guidance to employees concerning what is and what is not permitted in business contacts with customers, suppliers, competitors and distributors. The guidelines are complemented by a detailed Compliance Program, in which managers in the Group confirm with their signatures that he/she is complying with the rules. The managers undergo regular reviews of the importance of complying with the Business Ethics Guidelines and zero tolerance is applied to noncompliance.

During 2015-2016 online training courses were implemented, which included an examination on international legislation concerning cartels, competition and prohibited forms of business cooperation. So far, more than 150 managers and employees in purchasing and sales attended the training.

Zero tolerance to 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 and cultures. We use the following methods for governance and monitoring of corruption-related issues:

- We spread shared values in the form of “Materializing Our Values”. Group company management teams are responsible for further conveying the values in their organization. As mentioned above, senior executives were targets for an advanced training program during 2016.
- We monitor costs, expenditure and revenues on an on-going basis.
- We pay particular attention 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.

No breaches concerning corruption were identified during 2016.

EXAMPLES OF ACTIVITIES THAT CONTRIBUTE TO SUSTAINABLE DEVELOPMENT

2011

- Group objectives concerning energy and climate introduced.
- Energy-efficiency improvements implemented at several units.
- Compliance Program for business ethics introduced.
- Positive trend in several key figures for sustainability.
- ISO 14001 introduced in acquired units.

2012

- Stricter Group objectives for sustainable development introduced.
- 88 percent of facilities certified in accordance with ISO 14001.
- Two units certified according to OHSAS 18001.
- Greater social involvement in several countries.
- Many measures aimed at energy efficiency introduced.
- Safer work environment through systems to register near misses.

2013

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

Whistleblowing

“Whistleblowing” is encompassed by the Group’s fundamental values. All staff has the opportunity to raise concerns about serious irregularities, without the risk of harassment or opposition, using the whistleblowing system. Serious irregularities include unethical or illegal behavior, fraud and serious breaches of the Code of Conduct, such as bribery or discrimination against employees. No registered notifications were made during 2016.

International standards

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

Legal and other requirements

Group companies identify and take actions to introduce and apply the ordinances, rules and laws that impact business operations. These take the form of major national and international laws in many areas, such as bans on the formation of cartels, export and import ordinances affecting international business transactions, trade embargoes and economic sanctions. The prevailing legislation in the environmental and work environment areas is wide-ranging and the main part of the production units needs license under the respective legislation. In addition to that, many of the Groups products are subject to various environmental requirements.

Many customers present their own requirements concerning sustainable development. These requirements are being sharpened as time progresses, thus contributing to the continuous improvement of HEXPOL’s sustainability work.

Sustainability reports

HEXPOL communicates the activities within sustainable development in this separate sustainability report according to the guidelines of the Global Reporting Initiative (GRI G4). The reporting is designed to also comply with the new legislation on mandatory sustainability reporting for large companies in the EU (first reporting year 2017). The Group’s climate impact is reported according to the Carbon Disclosure Project (CDP). The sustainability work is regularly analyzed by indepen-

dent institutes and investors. In general, the requirements on transparency and performance are more and more demanding.

UN Sustainable Development Goals

The view on the role of business in sustainable development has changed and this is something that is clearly expressed in the UN Sustainable Development Goals. The goals were presented just over a year ago and expectations of business operations are high. This applies both to responsible behavior and development of products and services that favors sustainable development. In this report we have linked HEXPOL’s sustainability objectives to the UN goals.

STRATEGY AND MANAGEMENT

Corporate responsibility creates value for the Group’s stakeholders and, by integrating the environment, social responsibility and ethics into our business model, conditions are created for a strategy that contributes to sustainable development. The Group-wide objectives are long term, and as apparent from the figure below, HEXPOL conducts every year different activities. The work includes focusing on energy, climate, chemicals, waste, product development and safe work environment. Offering customers knowledge and solutions concerning environmentally compatible product development is an important area. Evaluating suppliers’ sustainability work has a high priority.

The operational responsibility for the environment and work environment is delegated to responsible manager of each operation unit. The Group Management and Board of Directors regularly monitor the progress of the work and sustainable development is integrated into the strategic planning process. The activities are followed up through dialogue with the companies’ management as well as through internal and external audits. In connection with the sustainability report, an in-depth analysis of compliance with legal and requirements, the fulfillment of the Group objectives, and the trends for the key performance indicators, is conducted.

VALUE FOR THE STAKEHOLDERS

Stakeholders’ requirements and expectations are important, and HEXPOL is actively involved in the evaluations, dialogues and exchanges of views. The intention is to create value for stakeholders and HEXPOL’s activities include:

2014

- Supplier Sustainability Guideline introduced.
- Sustainability objectives updated.
- Update of Materializing Our Values – whistleblowing.
- Work to achieve environmentally compatible product development continues.
- Successful energy-efficiency projects implemented. The ISO 50001 energy management system introduced.
- Additional units ISO 14001 certified.
- The use of biofuels is increasing.

2015

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

2016

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

- Fulfilling customer requirements in respect of quality, delivery precision, sustainable development and other areas.
- To present relevant requirements to our suppliers and monitor their performance in a constructive way.
- Communicating on a regular basis with the capital market, including shareholders, investors, analysts, banks and media.
- To listen to and interact with the Group's more than 4,100 employees. For example, during performance appraisals and employee satisfaction surveys.
- Maintaining good relationships with neighbors, authorities, media, schools, universities and other representatives of society.

RELEVANT INFORMATION TO OWNERS AND INVESTORS

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, in order to uphold confidence and interest in the Group 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. HEXPOL applies a policy of transparency in its reporting and, in line with the Group's

communication policy, provides well-founded, comprehensive information to the market. Corporate governance is described in the Corporate Governance Report (in the Annual Report) on pages 72–77 and is available at www.hexpol.com. All published financial information is also available on the website, such as presentations, press releases, financial statements and annual reports.

In the area of sustainable development we provide information through the Annual Report and the Sustainability Report. In addition to that HEXPOL reports the impact on climate through the Carbon Disclosure Project (CDP) and our reporting performance score has significantly increased over the years.

PROFESSIONAL CUSTOMER RELATIONS

HEXPOL's relationship to its customers is characterized by professionalism, a high service level and quality awareness. In accordance with Materializing Our Values, the Group focuses 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.

Customer requirements related to sustainable development have increased in recent years and in 2016, 97 percent of our companies reported customer requirements that included the ISO 14001, hazar-

The table shows value created for various stakeholder groups during 2016.

Stakeholder group	Aims, requirements and expectations	Value created
Customers	HEXPOL believes that the commitment to sustainability strengthen the customer relationships. Many customers require that HEXPOL has implemented a code of conduct and certified management systems. Other requirements include the phasing-out of hazardous chemicals and sustainability measures in our supply chain	HEXPOL's sustainability work is frequently reviewed by its customers. Last year 27 sites were targeted for evaluations and audits. The results were good and we received positive feedback. The customers appreciated our approach and continuous improvement of performance.
Consumers	The majority of HEXPOL's products are aimed at industrial customers. It is therefore likely that the end consumers are not aware of HEXPOL as a part the supply chain.	Indirect activities through requirements and dialogue with our industrial customers.
Employees	Health, safety, compensation, benefits, personal development, wellbeing, social situation and business ethics. It is important for us to keep and develop our employees and attract new ones.	The frequency of accidents was slightly lower than previous year. Training and competency development totalled 79,000 h. About 2,600 employees participated in performance appraisal reviews. Positive employee satisfaction survey results. Personnel expenditures during 2016 were 1,448 MSEK.
Suppliers	HEXPOL endeavors to have long-term and transparent relationships with suppliers. The aim is to ensure the right quality, financial stability and sustainable development for both parties.	The HEXPOL Supplier Sustainability Guideline was implemented in 2015. In 2016 more than 1,000 suppliers around the world were evaluated in terms of sustainability performance.
Shareholders	The aim is for the sustainability work to create value for shareholders. HEXPOL ensures this, for example, through efficient resource usage and investments in new environmentally sustainable technology. The integration of sustainability issues in business operations, such as more environmentally sustainable products, reduces risks and creates business opportunities.	We had meetings with investors and responded to sustainability questionnaires. Our CDP and sustainability reports to provide transparent information to "green investors". Frequent reporting of status to the Corporate Board.
Society	Social engagement is an important aspect and something that is expected by local communities where the Group operates. As a global company, the Group is expected to undertake measures that contribute to national and global sustainable development goals.	As described elsewhere in the Sustainability Report, the Group's companies contributed in numerous ways to local communities. During 2016 HEXPOL paid 516 MSEK in tax.
Authorities	Compliance with legislation is crucial to HEXPOL.	There were no material breaches of relevant legislation during 2016. See details in the environmental section of the sustainability report.

dous substances, product declarations, conflict minerals, social responsibility and compliance with the customer's code of conduct. At 65 percent (62) of the Group's production units, customers conducted evaluations (audits, questionnaires) to check compliance with the requirements. The outcome was very positive.

Sustainability requirements from customers:

Type of requirement	% of total number of units reporting sustainability requirements		
	2016	2015	2014
Implementation of ISO 14001	58	48	48
Phasing-out of hazardous chemicals	65	59	48
Compliance with REACH and RoHS	47	27	37
Environmental product declarations	50	45	44
Code of conduct	67	48	44
Conflict minerals	70	55	37
Other CR requirements	32	31	22

CONTINUOUS IMPROVEMENT

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, fulfill safety and legal requirements and to exceed customer needs and expectations. For this reason, customers and suppliers are frequently involved in the development of new products or changes in existing products.

Within the management systems ISO 14001, ISO 50001 and OHSAS 18001, continuous improvement is a core concept and HEXPOL's 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 HEXPOL 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.

SUPPLIER SUSTAINABILITY GUIDELINE

It is important to ensure that the Group co-operates with suppliers that deliver the right quality with good delivery precision and the right price. In addition to this, HEXPOL sets requirements for sound business ethics, safe working environment, systematic environmental work and respect for human rights. Whether the supplier is large or small, global or local, the company is expected to meet equal requirements regarding environmental and social responsibility as HEXPOL.

HEXPOL's "Supplier Sustainability Guideline" summarizes our values and specifies requirements for sustainable development. Assessments are performed through self-declarations, surveys, site visits and formal audits. During 2016 more than 1,000 suppliers were evaluated with focus on environmental and social performance. The majority of the evaluations were conducted through questionnaires,

SUSTAINABLE SUPPLIERS

Collaboration with suppliers that manage environmental issues, work environment, social responsibility and business ethics in a responsible way is important for us. The basic principle is that the suppliers should have a code of conduct at the same level of ambitions as HEXPOL Materializing Our Values. During 2015 a set of new guidelines were introduced – HEXPOL Supplier Sustainability Guideline – that cover the entire sustainability area and clarify the expectations of suppliers. The guidelines include the following areas:

- Environment and work environment – We require compliance with legislation and a documented and systematic approach to prevent environmental and health impacts.
- Human rights – Requirements regarding discrimination, equal opportunities, child labor and right to collective bargaining.

- Business Ethics – Requirements regarding anti-bribery, cartels and sound business and marketing practices.
- Supply Chain Practices – Requirements that the supplier shall take actions to ensure that its suppliers comply with the HEXPOL guidelines, or a comparable standard, as well as to assess their performance against it.

The objective is that the Guideline should reduce risks and contribute to sustainable development. At the same time we strive for elimination of all unnecessary bureaucracy. Our activities to support a sustainable supply chain will continue and so far the response to the guidelines has been positive.

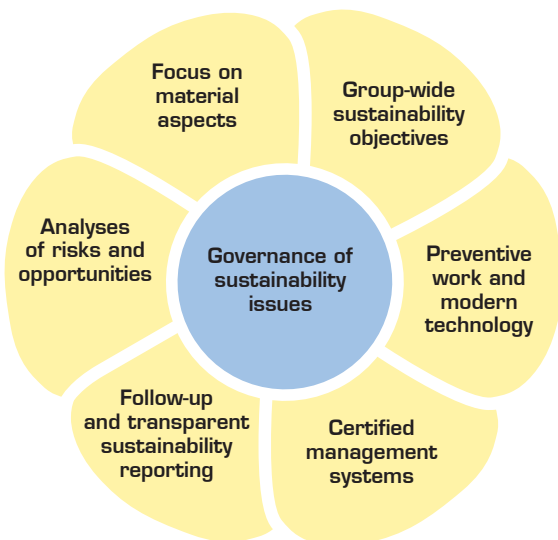


but around 30 audits were carried out in different parts of the world.

GOVERNANCE, STRATEGY AND OBJECTIVES

Responsibility for sustainability work is decentralized and delegated to the legal entities. Executives at companies and production facilities are responsible for leading and monitoring activities involving the environment, work environment and social responsibility. Issues involving strategy, risks, monitoring and sustainability accounting, as well as sustainability issues connected to corporate acquisitions, are managed at the Group level. Governance and strategy for sustainable development is based on:

- Analyses of risks and opportunities.
- Focus on the most important sustainability issues – the material aspects.
- Long-term objectives at the Group level and detailed targets at each site.
- Preventive environmental work and occupational health and safety programmes that are important both in respect of technological solutions relating to resource utilisation, emission abatement equipment, waste management and so forth, and also by involving our employees and offering relevant training.
- Systematic work at all units through certified management systems for quality, environment, energy and health and safety.
- Transparent communication about material aspects and progress in public reports.



Analyses of risks and opportunities

The Group’s analyses of risks and opportunities include the consequences of developments in terms of legislation, stakeholder requirements and expectations and scientific advances in sustainability. Environmental risks in conjunction with the acquisition of other companies are a prioritized area. The issues involved could be soil pollution and breaches of environmental legislation. Opportunities are, for example, associated with our capability to develop more environment-friendly polymer compounds and other products. Read more about environmental risks and opportunities on p. 25–26.

Group-wide objectives

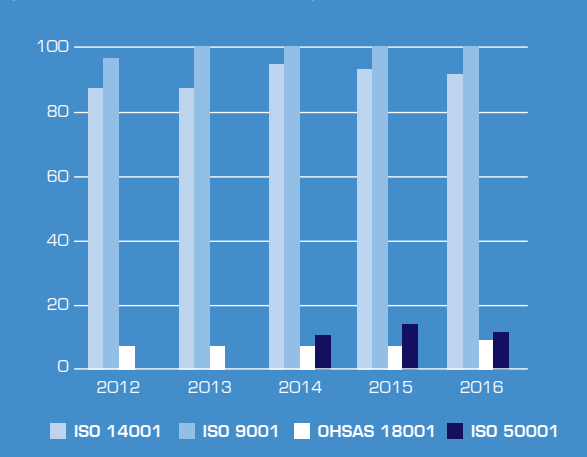
HEXPOL has since long been pursuing Group-wide objectives for sustainable development. The objectives pertain to more efficient energy consumption, reduced climate impact, introduction of certified environmental management systems, the phase-out of particularly hazardous chemicals, a safe work environment and supplier requirements. The Group objectives, which are long term and point out the direction, are supplemented by local targets and action plans at the production units. As seen in the table below, while the trend was positive, continued efforts are required to achieve the goals. During 2016 HEXPOL’s objectives were linked to the UN Sustainable Development Goals (SDGs).

Certified management systems

The experience from environmental certification (ISO 14001) is positive, with risks and costs diminishing, while confidence among stakeholders is rising. One of the Group objectives aims at certification of the environmental management systems and all operational units except four are ISO 14001 certified. Certification is planned within 6–12 months. Many of the units are now preparing to update the systems in accordance with the requirements of the new version of ISO 14001 (ISO 14001:2015). This work will be completed no later than during 2018. Internal and external environmental audits allow the environmental work to be reviewed and improved, and in 2016, 153 internal (135) and 43 external (37) environmental audits were conducted.

The standard applied for the work environment (OHSAS 18001) is implemented at the units in Sri Lanka and at one site in the UK. Two companies in Germany, and the companies in Sri Lanka, are certified in accordance with the standard for energy management systems (ISO 50001). All HEXPOL units are certified under the ISO 9001 quality standard.

CERTIFIED MANAGEMENT SYSTEMS IN HEXPOL
(% of total number of facilities)



Objective	UN Sustainable Development Goals	Status	Trend
Energy consumption (GWh/net sales) is to be reduced continuously.	Goal 7: Affordable and clean energy	Energy audits analyses and measures aimed at saving energy continued. The installation of energy efficient production equipment, LED lights, infrastructure and energy monitoring contributed to more efficient energy use.	▲
Emissions of carbon dioxide (tonnes/net sales) are to be reduced by 15 percent by the end of 2018 compared with the average for 2010-2011.	Goal 13: Climate action	The use of biofuels, purchases of green electricity and energy optimisation measures reduce emissions of greenhouse gases. This was offset by increased activity in countries where electricity is produced from fossil fuels.	▶
All facilities should have certified environmental management systems (ISO 14001).	Goal 9: Sustainable industry, innovation and infrastructure	More than 90 percent of the units are certified according ISO 14001. At three units, certification is planned in the coming year.	▲
The use of hazardous chemicals is to be identified, controlled and wherever possible, hazardous chemicals should be phased out. HEXPOL should be viewed as a frontrunner in the polymer industry as a supplier of environmentally compatible products.	Goal 9: Sustainable industry, innovation and infrastructure Goal 12: Responsible consumption and production	Work aimed at restricting the use of particularly hazardous substances is ongoing. A handful of substances were replaced during the year. The development of environmentally compatible products continues.	▲
HEXPOL's vision is that no accidents should occur at the workplace. The number of accidents should decrease. Systems to register incidents (near misses) should exist at the units.	Goal 8: Decent work and economic growth	The number of accidents leading to work absence and the number of lost working days increased compared to the preceding year. Systems for reporting near misses are in place at most of the units.	▶
HEXPOL Supplier Sustainability Guideline is implemented in the supply chain.	Goal 12: Responsible consumption and production	The work with the guideline for suppliers continued during the year. The suppliers were informed about the requirements and were urged to adopt HEXPOL's values. In total, more than 1,000 suppliers were evaluated.	▲

▲ TARGET ALREADY ACHIEVED

▲ POSITIVE TREND, TARGET POSSIBLE TO ACHIEVE

▶ NO CHANGE

▼ NEGATIVE TREND, TARGET NOT ACHIEVED



Environmental responsibility

Focus on
material
aspects

During 2016, environmental work was further developed in HEXPOL. Key driving forces are, for example, to reduce the environmental impact and comply with environmental legislation in the countries where HEXPOL has operations. Beyond that, many activities focused on creating business opportunities from the environmental work. For example, both environmental and business value was created through more efficient use of energy, water and raw materials. Environmentally sound product development is another priority area where HEXPOL's knowledge and technology can contribute to customers' environmental ambitions.

CORE TECHNOLOGIES, PRODUCTS AND ENVIRONMENTAL ASPECTS

Rubber compounding

The HEXPOL Rubber Compounding businesses offer a comprehensive range of products:

- Rubber Compounding – Custom compounds and formulation development.
- Rubber Compounding for roll-covering applications.
- Specialty Products – A comprehensive line of custom and standardized performance additives and color concentrates.
- Tire & Toll – Large-volume rubber compounds for tread, retread, sidewall, coating stocks, bead, inner liner, bladder, and white compounds.
- Curing envelopes and tubes for retreading.

The rubber compounds 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 end products their elasticity properties. HEXPOL Rubber Compounding's production units have sophisticated quality assurance systems. The production process is computerized to ensure efficiency and quality.

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, HEXPOL Compounding's 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.

TPE compounding

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

- Styrenic block copolymers (TPE-S or TPS compounds based on SBS, SEBS).
- Polyolefin compounds (TPE-O or TPO).
- Elastomeric compounds (TPE-V or TPV).
- Thermoplastic polyurethanes (TPE-U or TPU).

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

TP compounding

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

Gaskets

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

Wheels

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

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

Environmental aspects

Significant environmental aspects, associated with the core technologies and products, include the use of resources in the form of polymer raw mate-

rials (rubber, plastic), chemical products, energy and water. Other significant aspects are related to emissions into the atmosphere and waste generation. Indirect environmental aspects include a life cycle perspective on supplier activities, transportation of raw materials and finished products, as well as customers' use of the Group's products. Further information about how environmental aspects are ranked are found in the materiality analysis on page 9.

ENVIRONMENTAL LEGISLATION

HEXPOL is subject to a massive amount of national and international environmental legislation. The operation of the majority of the manufacturing units requires various types of permits. All the facilities in Sweden are subject to environmental licenses, or notification according to the Swedish Environmental Code. The units in the Czech Republic, Belgium, Spain, the US, Mexico, Sri Lanka and China maintain environmental licenses

POLYMER COMPOUNDS IN A LIFE-CYCLE PERSPECTIVE

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 defined 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 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 described below.

Synthetic rubber

About 60 percent of world production of synthetic rubber is used for tire manufacture. HEXPOL's rubber product portfolio contains close to 90 percent synthetic rubber, the remainder being natural rubber. Synthetic rubber is a product of the petroleum industry and our experience is spread over a large number of polymer types, for example, EPDM, SBR and NBR.

The environmental impact from the production and use of synthetic rubber derives primarily from energy consumption, use of fossil raw materials, emissions to air and water, and waste products. The positive environmental aspects of synthetic rubber is, for example, associated with products that contribute to energy saving and reduction of noise and vibration.

Natural rubber

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

An overview of the production process for natural rubber shows that the environmental impact are associated with clearing of forest, the use of energy, chemicals, nutrients and biocides, and from emissions to water.

HEXPOL has no rubber plantations of its own and natural rubber makes up around 10 percent of the total use of rubber polymers and around 7 percent of the total use of polymers.

Thermoplastic Elastomers

Thermoplastic Elastomers (TPE's) are a family of rubber like materials that combine the performance of thermoset rubbers with the processing ease of plastics, to deliver enhanced design possibilities for a diverse range of markets including household, automotive, industrial, medical, construction, electronics, sports, toys and caps and closures.

One thing that TPE materials have in common is that they are completely recyclable. TPEs can also be combined with natural materials, for example, cork.

Thermoplastics

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

Conventional thermoplastics are produced from fossil petroleum products and the main environmental aspects are the use of non-renewable raw materials, emissions of climate-changing gases and generation of waste.

In recent years composite materials have been obtained from the combination of recycled thermoplastics and biodegradable waste of little economic value, for example, rice husks and recycled cotton. Life-cycle analyses show that such composites exhibit a significantly reduced environmental impact during the materials acquisition and processing phases compared to conventional virgin thermoplastics.

In HEXPOL, the RheVision line utilizes bio fiber reinforced polypropylene and the result is a lower carbon footprint compared to traditional thermoplastic products.

that either cover all areas of their operations, or that apply to specific environmental aspects, for example, emissions to the atmosphere. Some minor operations in the UK and one facility in Germany are not subject to any environmental permit. Compliance with license conditions and emission limits is monitored through measurements and inspections. More than 30 of the units submit environmental reports to the supervisory authorities. Half of the units are planning to apply for minor updates of the environmental permits in the near future.

Environmental legislation, in the form of EU Directives (REACH, RoHS, CLP, WEEE, energy efficiency), and other national or international legislation, affects most of the Group's operations and products. One third of the units are subject to the producer responsibility legislation for packaging materials.

The following events related to environmental legislation occurred during the year:

- The EU Energy Efficiency Directive was implemented in 2015 and, within the framework of the Directive, HEXPOL's facilities in Europe have to carry out for energy audits and report to supervisory authorities. At relevant units energy audits have already been conducted, or will be conducted in the future. The requirements in the Directive can also be met by implementation of the ISO 50001 energy management system. Within the EU, ISO 50001 two units in Germany are certified and some other units are working to implement the management system.
- The CLP Regulation, which was implemented in 2015, concerns the classification, labeling and packaging of chemical substances and mixtures placed on the market in the EU. At HEXPOL, the regulation resulted in many measures, such as new classification of chemical products and that labeling and safety data sheets have been updated.
- The supervisory authorities conducted inspections at 15 of the units. No major non-compliances with the environmental legislation were reported.
- Minor violations of environmental legislation in the form of emissions into the air and water occurred at an unit in Sweden and at one unit in the US. Actions have been taken and the violations did not result in any legal consequences. A preliminary investigation, regarding potential violation of the environmental license at Gislaved Gummi AB, Sweden, is in progress.

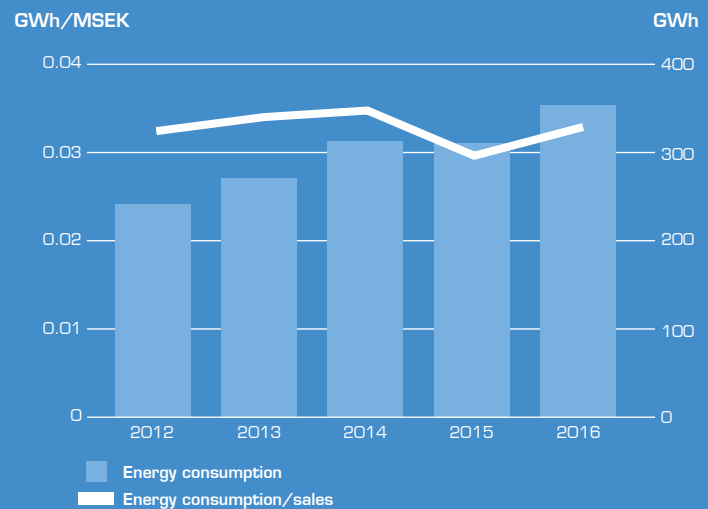
ENERGY CONSUMPTION

The use of energy is one of HEXPOL's most important environmental aspects. In 2016, 355 GWh (309) was needed to keep the business running. This can be compared to the energy consumption of 17,000 one family houses, or a small town. The energy cost was 220 MSEK (193) and caused emission of 143,000 tons of the greenhouse gas carbon dioxide. Mixing equipment, presses and other heavy production equipment have a major contribution to the energy usage, but, in this context, compressed air, cooling, lighting, ventilation and moving of

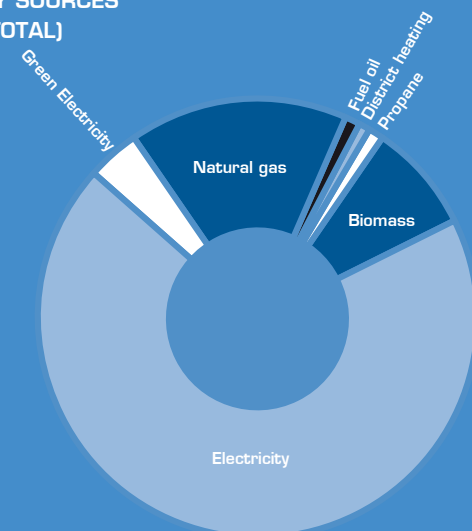
materials are also important factors. More than two-thirds of the energy usage was based on purchased electricity, 16 percent (20) on natural gas and the rest derived from other sources. The use of biofuels and fossil-free electricity amounted to 11 percent (16).

The Group is growing both in terms of number of units and production volume, and with this follows increased energy use. The aim is to use energy more efficiently, and therefore every year, many energy projects are carried out. Despite this, the key performance indicator for energy (GWh/net sales), remains unchanged in a five-year perspective. The indicator is linked to net sales and as the prices on raw materials have fallen in recent years, something that affects sales, the increased energy efficiency is not clearly reflected in the diagram below.

ENERGY CONSUMPTION



ENERGY SOURCES (% OF TOTAL)



During the year energy saving measures were implemented, such as:

- Energy audits were conducted at a number of units. Further implementation of the ISO 50001 energy management system.
- Installation of AC drives instead of DC drives, provide better control of the speed (frequency control) of the electric motors in the rubber mixing equipment, thus reducing energy use.
- Detecting leaks in the compressed air systems in order to reduce unnecessary energy losses.
- Installation of cooling systems with improved energy efficiency.
- Replacement of lighting with LED lamps. Improved systems to control the lighting and to automatically turn it on and off. Increased use of daylight in some warehouses.
- Installation of steam traps on presses and insulation of furnaces. Switching off equipment that is not in use.
- Better control of the processes for mixing rubber and shorter cycle times reduced energy consumption at several units. Faster conversion of equipment when changing products. Pre-heating of presses.
- Reducing energy consumption during peak periods on the electricity network. Surplus energy sold to the local district-heating network in Gislaved, Sweden.

WATER CONSUMPTION

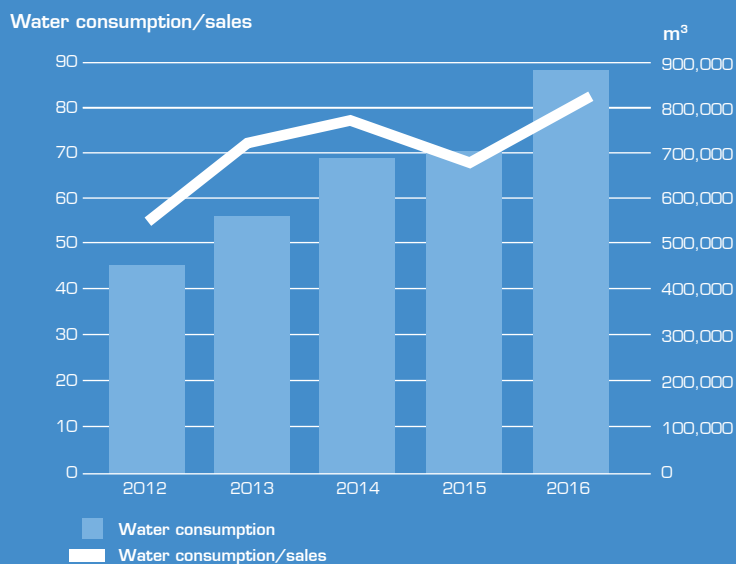
In 2016, around 340,000 m³ (250,000) of municipal water was consumed, 98,000 m³ (25,000) from own wells and 447,000 m³ (428,000) from rivers. Acquired companies and increased production contributed to the increase in water consumption. An additional explanation to the reported higher consumption is that some of the units have improved the monitoring of the actual use of water from wells and surface waters. A number of actions have been taken to reduce the water consumption, such as search for leaking pipes, awareness programs and technical measures. Most of the production facilities have installed closed-loop cooling systems for mixers and other types of equipment. The total cost of water was 4.3 MSEK (3.7).

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

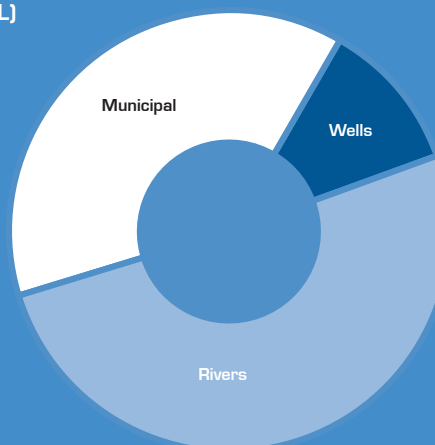
Emissions to wastewater from the manufacturing processes are limited and the indoor premises are normally not fitted with sewers. Wastewater therefore mainly consists of organic materials and nutrients from sanitary facilities and cleaning. Discharges of cooling water, that has not been in contact with raw materials and products, as well as rainwater from roofs and land areas, also

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.

WATER CONSUMPTION



SOURCES OF WATER (% OF TOTAL)

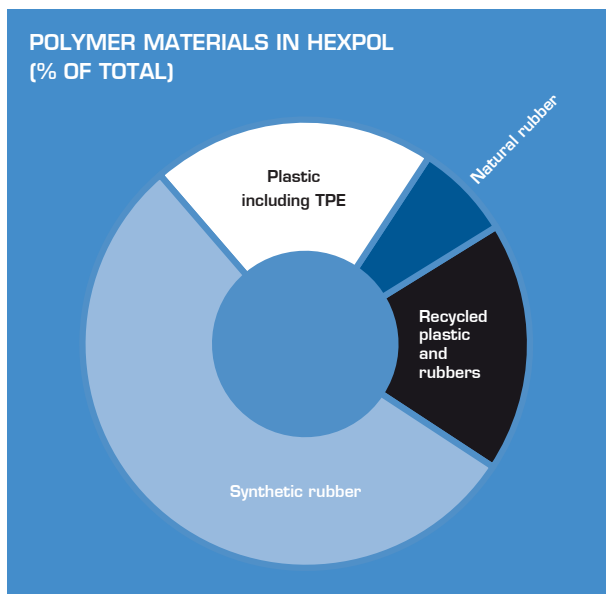


POLYMERS AND OTHER CHEMICAL PRODUCTS

Most of the Group's manufacturing processes are based on the use of polymers, softening agents, fillers, and a large number of chemical substances. The recipes depend on the desired technical properties of the final products. 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 the above-mentioned raw materials, 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 accounts for about 7 percent (8) of total polymer consumption. The use of recycled polymers has increased and now accounts for about 18 percent (1). 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

At HEXPOL a large number of recipes and chemical substances are used. The Group 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 labeling and risk information, is crucial for the long-term strategy for how we manage chemicals in a safe way. Equally important are the requirements placed by our customers.

Precautionary work

Around twelve chemicals, that are mentioned in the REACH SVHC List (Substances of Very High Concern Candidate List), are used in HEXPOL. Precautionary activities have high priority and a number of chemicals have been phased out or had their usage reduced. Efforts to reduce the risks continued in 2016, for example, by substitution of certain phthalates, solvents, biocides and accelerators. Examples of chemicals that we have focus on are ETU, DETU, DINP and DOTG (see Definitions). The substitution work is complicated since there is no global harmonised legislation and 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) extender oils are used to facilitate the processing of the rubber compounds. They are also an essential component for the technical performance of tyres and in particular for the road adherence (or grip) properties. Polycyclic aromatic hydrocarbons (PAHs) are, however, present in aromatic oils and the European Union has classified eight PAHs as carcinogenic. In EU there are since 2010 restrictions in the use of PAH in tyres for vehicles. The threshold limit is maximum three percent of PAHs in the extender oil.

At HEXPOL in Europe such oils are phased out but, as they are allowed in China, Mexico and USA, HA oils above the European limit are still used in some formulations. In a global perspective more than 89 (93) percent of the extender oils have a low PAH concentration and we strive to convince customers that more environment-friendly options are available.

EMISSIONS TO THE ATMOSPHERE

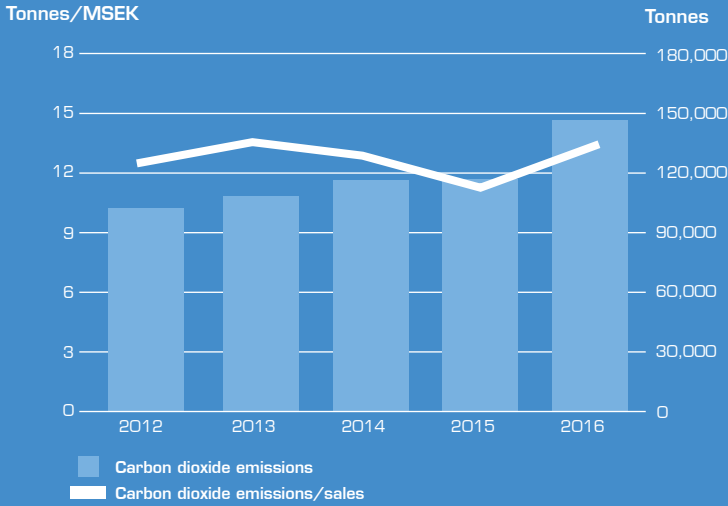
Climate changing gases

The aim is to reduce the emission of the greenhouse gas carbon dioxide from energy consumption. The emissions result from the use of fossil fuels (oil, natural gas and propane) and purchased electricity and were 143,000 tons (117,000) during 2016. The indirect emissions through purchase of electricity dominated and accounted for 88 percent (87) of the total amount of carbon dioxide. The Group’s carbon dioxide footprint has increased and here are some explanations:

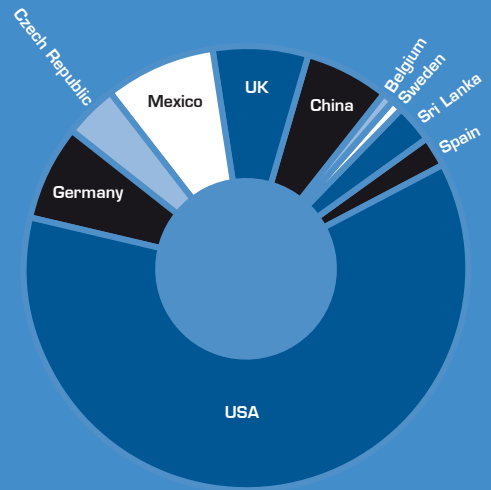
- Increased production, increased used of energy, and increased number of acquired facilities. Significant parts of the production take place in USA, Mexico, Germany and China. As a result our indirect emissions are highly affected by electricity that is produces from fossil sources (coal, fuel oil) in these countries.
- The purchase of “green” electricity in the Czech Republic has fallen dramatically. Previously, priority customers, including HEXPOL, were offered almost fossil-free electricity but now all companies get the same portion of “clean” and “dirty” energy. This year’s allowance of “green electricity” was only four percent compared to more than 90 percent during the previous years. This affected the Group’s total emissions of carbon dioxide in a negative way.

In a five-year perspective, the Group’s KPI (tons of carbon dioxide/net sales) is unchanged. The measures for improving energy efficiency contribute to reduced emissions, which is positive. The same applies to the increased use of biomass (wood, sawdust) in Sri Lanka. The purchase of “green electricity” at some units also has a positive impact on the carbon dioxide footprint. Similar to the situation as for the KPI for energy, the climate change KPI is negatively affected of the lower raw material prices.

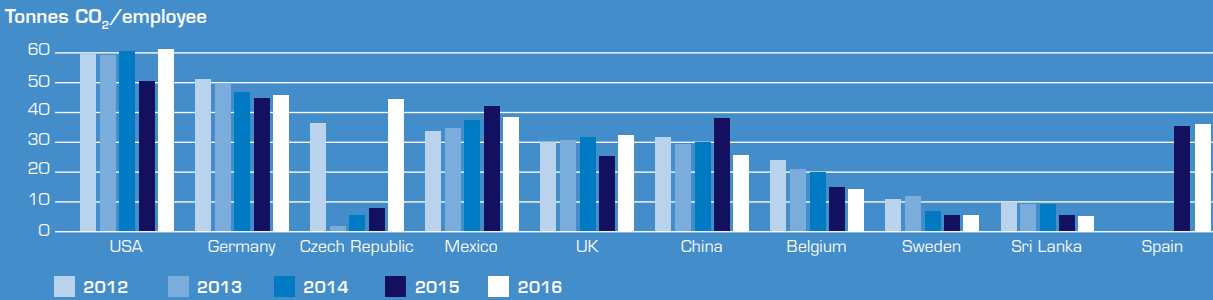
CARBON DIOXIDE EMISSIONS



CARBON DIOXIDE EMISSIONS PER COUNTRY (% OF TOTAL)



CARBON DIOXIDE EMISSIONS PER EMPLOYEE

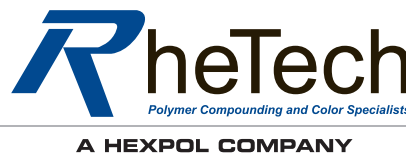


RHETECH ENVIRONMENTAL AWARD

RheTech LLC has received the Pollution Prevention Award from the Washtenaw County Environmental Excellence Partnership Program (E2P2). The Environmental Excellence Partnership Program (E2P2) recognizes businesses and non-profits that provide leadership in environmental protection and practice environmentally sound behaviour in the areas of water quality protection, waste reduction and recycling, and pollution prevention.

"We are very excited to be recognized with this award. Here at RheTech, we continuously aim to improve and reduce the environmental footprint of our products and facilities," said Brian Gillette, corporate safety & environmental officer, RheTech. "We have always taken a very proactive role in our green initiatives, which not only helps our company and the local communities in which we do business,

but also helps our customers and other companies achieve their environmental goals as well." Some of the environmental policies put in place at RheTech include: working towards becoming a "zero waste" facility; maintaining exemplary compliance during all partnership program inspections; installing solar tubes in office hallways; recycling cardboard, pallets, bags, and office paper; replacing light fixtures with LED lights; automatic light turn-off devices installed in most common areas; and installing screens in catch basins to ensure clean and safe water.



Other air emissions

Energy consumption caused 9 tons (9) of atmospheric emissions of sulfur dioxide and nitrogen oxide. 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 30 tons (24) and were caused by the manufacture of polyurethane wheels. The total amount of installed cooling agents is approximately one ton. No emissions of such ozone-degrading gases (HCFC) occurred during the year.

RESOURCE-EFFICIENT USE OF MATERIALS

By minimizing scrap, improving waste sorting at source and reducing the overall amount of waste, our units are using raw materials in a more efficient way. Examples of actions that are beneficial from an environmental point of view include internal recycling of process waste and the utilization of purchased recycled polymers. During 2016, purchased recycled material accounted for about 18 percent (1) of the total volume of polymer raw materials. It is mainly RheTech (USA) that uses recycled plastic on a large scale. In an ongoing project, conducted at the Group's units in the US, a significant amount of carbon black was recycled from dust filters and used in certain products.

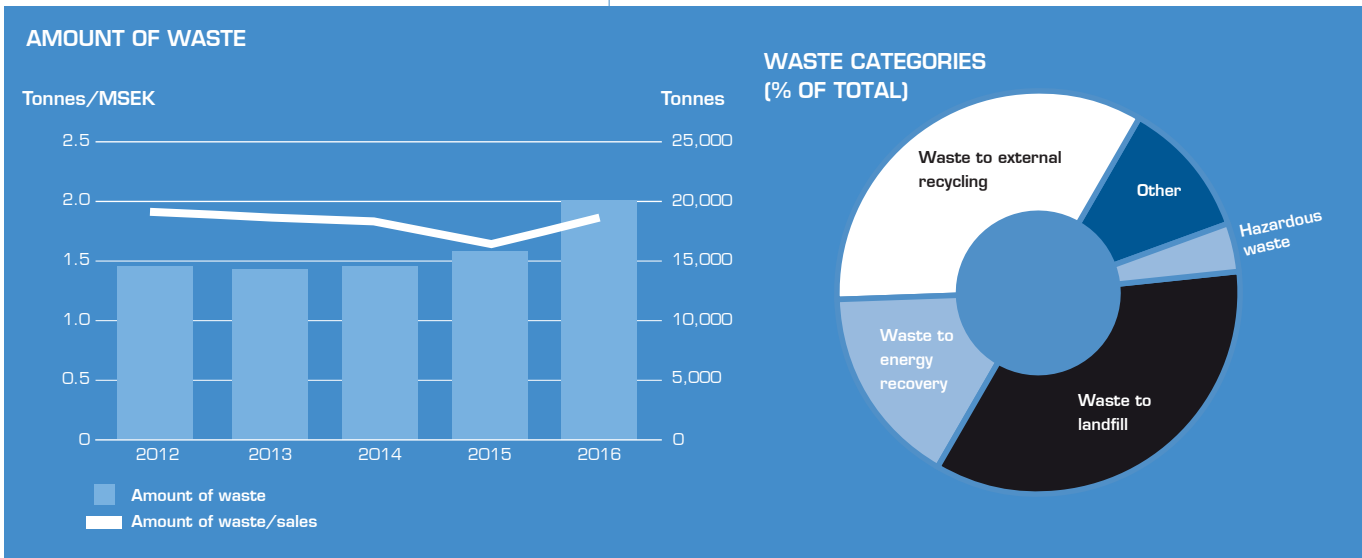
During 2016, the total volume of waste was 20,000 tons (16,000), of which hazardous waste accounted for 810 tons (638). In a five-year perspective, the KPI for waste (tons/net sales) is showing a slightly declining trend. The key indicator is affected by raw material prices (net sales), which in 2016 was one of the reasons for the deviation in the downward curve. The cost of waste management amounted to 18.4 MSEK (13.3).

PRODUCTS CREATING ENVIRONMENTAL BENEFITS

The interest in the cleantech concept – products and services that both create environmental and business benefits – increases in society. As a result many of HEXPOL's customers are taking actions to improve the environmental performance

of their products. Actions may, for example, include measures to reduce the risks associated with hazardous chemical substances, reducing fuel consumption in vehicles, increasing energy efficiency in industrial processes, or increase the use of renewable materials. There are a number of good examples where products that are developed by HEXPOL create environmental and business opportunities:

- RheTech in the USA uses recycled polymers. The product line, RheVision, is based on renewable materials. The polypropylene plastic is reinforced with fibers from, for instance, Agave cactus, coco-nut or rice shells. The raw materials are considered as waste but are instead re-used for the production of plastic products. In the products RheTech may use up to 15 percent of biological material and combined with recycled polymers, more than half of the product may consist of recycled material.
- HEXPOL TPE Compounding has recently launched product line Dryflex Green. A thermoplastic elastomer based on raw materials from renewable sources.
- HEXPOL has developed a type of EPDM rubber with low electrical conductivity, which is something the automotive industry demands. The risk of electrolytic corrosion occurs when the use of light aluminum and magnesium alloys increase in cars. Door strips containing the new type of EPDM reduce the risk of corrosion.
- Recycled polymers are used in materials in mud flaps, mats and bumpers for the automotive industry.
- HEXPOL Engineered Products manufactures rubber gaskets that are used in plate heat exchangers saving energy worldwide. The gaskets also contribute to energy saving, less climate impact and secure handling of chemicals and food products.
- HEXPOL Compounding produces a porous rubber material that reduces the material use and the weight. This contributes to lower fuel consumption in vehicles.
- Thermoplastic elastomers (TPE) are easy to



DRYFLEX GREEN THERMOPLASTIC ELASTOMER (TPE) COMPOUNDS OFFER PLASTIC PRODUCT MANUFACTURERS NEW OPPORTUNITIES FOR SUSTAINABILITY

With advances in technical properties and functionality and a growing number of manufacturers, materials and applications, the bioplastics market is emerging from the sidelines. Although we are currently in a period of unpredictability in oil prices and supply, it is recognised that in the long-term industries that have traditionally relied on fossil based feedstocks will need to embrace new technologies to sustainably meet the demands of a growing global population. As an active player in this transition, HEXPOL TPE recently launched a new family of bio-based thermoplastic elastomers to the market called Dryflex Green.

Currently biodegradable and biobased plastics represent less than one percent of global plastics production. In 2014, global production capacity amounted to around 1.7 million tonnes. However, there is a growing number of bioplastic materials and feedstocks entering the market. In 2015 European Bioplastics in cooperation with the Institute for Bioplastics and Biocomposites and the nova-Institute presented data that the global market for bioplastics will quadruple to 7.8 million tonnes by 2019. Biobased represents the largest driver with an increase from 60% of global bioplastics production in 2014 to over 80% in 2019.

What are Bioplastics?

We can categorise bioplastics in three groups:

- **Biobased or partially biobased:** a bioplastic where a percentage of the content comes from renewable agricultural or biological materials.
- **Biodegradable and biobased:** a bioplastic that is designed to degrade under compost conditions. Containing renewable content.
- **Biodegradable:** a bioplastic that is designed to degrade under compost conditions. Based on fossil resources.

Why use Biobased?

There are numerous potential benefits from utilizing bioplastics:

- Biobased plastics help to reduce the usage and dependency on limited fossil resources, which also are expected to become more expensive in the coming decades.
- Plants absorb carbon dioxide from the atmosphere as they grow. By using these crops to create biobased plastic products, greenhouse gases (CO₂) are removed from the atmosphere.
- As many bioplastics can be mechanically recycled in existing recycling streams, they also have the potential to contribute to an improved LCA (Life Cycle Assessment). They can first be used for products (both as virgin- and recycled materials), then at the end of the product life they can be used for renewable energy generation.
- Crops for industrial use can be grown in poor soil which is unsuited to food crops, thereby avoiding food crop displacement and improving biodiversity.

Dryflex Green TPE Compounds

Dryflex Green is a family of biobased thermoplastic elastomer (TPE) compounds. A range of options has been developed containing raw materials from renewable resources that have been responsibly grown. Raw materials can be produced from various renewable sources, these include products and by-products from agricultural that are rich in carbohydrates, especially saccharides such as grain, sugar beet, sugar cane, etc. The biobased content could derive from different raw materials such as polymers, fillers, plasticizers or additives. The Dryflex Green family includes compounds with amounts of renewable content up to 90% (ASTM D 6866-12) and hardness from 30 Shore A to 50 Shore D. Dryflex Green TPE compounds display mechanical and physical properties close to and comparable to TPE compounds from fossil based raw materials. Dryflex Green TPE compounds can be used in many applications that currently use conventional TPD compounds, such as soft-touch grips and handles, sealing and closures, sports equipment, toys, packaging and tools.



recycle and are used in many applications, such as the automotive industry. The TPE range also includes products that contain flame-retardant substances that constitute an environmentally beneficial option compared to the use of traditional hazardous flame-retardants.

- TPE, combined with natural material such as cork, produces technically interesting properties and reduces the use of fossil raw materials. TPEs can also replace PVC in certain applications.
- 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. The development of polyurethane wheels for use in offshore wave power plants is another example of a cleantech application.

SUSTAINABILITY-RELATED RISKS

Environmental legislation

The ongoing 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. The Group is working systematically to analyze and implement the news and changes in the environmental legislation. We don't fore-see 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.

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. So far, the R&D departments have reformulated a number of recipes and the use of several substances 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.

As a large company, HEXPOL has to comply with the EU Directive concerning mandatory sustainability reporting. The first reporting year is 2017. Our view is that HEXPOL, by publishing the annual sustainability report according to the GRI guidelines, fulfills the new Directive. No material changes in the reporting system are expected.

Contaminated soil

Most 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

A UNIQUE PROJECT FOR RHETECH

RheTech LLC – a HEXPOL Company was approached by CK Technologies of Montpelier, Ohio USA, to work on a unique project. CK Technologies was approached by a startup company that had developed an aerodynamics package that could improve fuel economy for the over-the-road tractor trailer. The part package included a complete aerodynamic system that reduces aerodynamic drag and improves fuel efficiency of the tractor by 2.23%, typically providing a return on investment for long haul trucking fleets in one year or less.

The part package application required a material compound with a unique set of performance requirements to meet the rigors of over the road miles. RheTech came through with a thermoplastic polyolefin (TPO) compound that met all requirements, and is currently in production in black or custom colors to match specific customer requirements.

So as you pass those "Big Rigs" on the highway in US, glance over and you may see where RheTech, is doing its part to help the environment as well as the economics of getting product transported across North America.





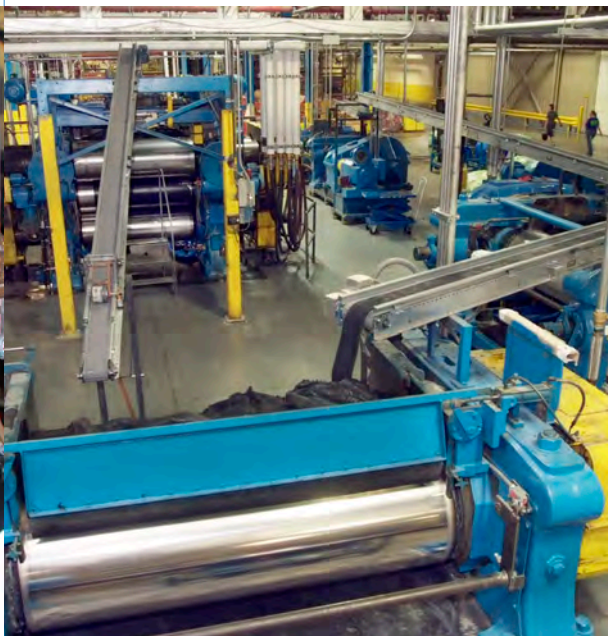
in 2016. During acquisitions of companies risks for soil and groundwater pollution are scrutinized.

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.

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 sealings in a number of buildings and the caulking compound will be remediated as the windows are gradually replaced. The risks to humans and the environment are very low.





Accidents and uncontrolled emissions to the environment

Systematic and preventive work is conducted to reduce the risk of fires, leakage and other accidents that could harm people and the environment. The preventive effort includes risk analyses and other forms of inspections and audits, and the “Blue Grading System,” which identifies strong and weak aspects, is applied within the Group. The procedures applied in the units are based on requirements from legislation, insurance companies, ISO 14001 and the Group’s internal regulations. During the year, there have been no accidents or uncontrolled emissions to the environment. A fire in an electrical box, without consequences for the environment or people, occurred at one of the units in Germany. A small fire in a waste container outside the plant occurred at one of the Swedish units.

Climate-related risks

Three of the units have identified flooding as a climate-related risk and certain precautions have already been taken. Three facilities are located in areas that could be exposed to extreme weather. The Group keeps itself informed of risk analyses on climate changes that are performed in countries in which it has operations. Climate related risks are taken into account during acquisitions of companies and evaluation of suppliers.

Environmental adaptation of products

Many customers are taking actions to make environmental adaptations of their products. Examples are found in the automotive, construction and consumer goods industries. We are monitoring the trends in the area and offer expertise in the development of environmentally friendly polymer compounds and other products. Accordingly, the risk of losing business is considered as small.

Social responsibility

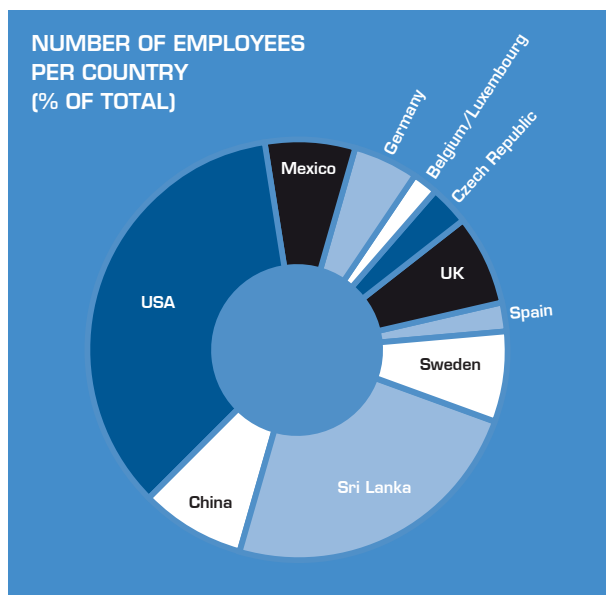
Diversity,
competence,
commitment
and well-being

EMPLOYEES IN ELEVEN COUNTRIES

At the end of 2016, the number of employees was 4,140 (3,867), 2,679 (2,429) in HEXPOL Compounding and 1,456 (1,433) in HEXPOL Engineered Products. The Parent Company had 5 employees (5).

HEXPOL is a global group and 93 percent (92) of the employees are located outside Sweden. The workforce is spread across the US/Mexico (42 percent), Europe (26 percent) and Asia (32 percent). This means diversity in the form of various cultures is a natural feature of HEXPOL's daily activities. With its presence in global markets, the mix of competencies is an important precondition for HEXPOL to succeed nationally and internationally. Because local presence in the various geographical markets is particularly important, HEXPOL endeavor to recruit necessary competencies in the region or country concerned.

Diversity is a matter of seeing the big picture and showing respect and professionalism, as supported by the open corporate culture, "Materializing Our Values" and the ambition to constantly improve. Good leadership is a prerequisite for success and the work climate should encourage responsibility, creativity and innovation. HEXPOL encourage involvement and seek to engage all employees in the improvement work. Considerable emphasis is placed to keep a culture of rapid decision-making paths without unnecessary bureaucracy.



A GOOD WORK ENVIRONMENT AND RESPECT FOR HUMAN RIGHTS

Our Code of Conduct – "Materializing Our Values" – has its background in international agreements and guidelines on 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 personal 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.

HEXPOL encourages diversity and distances itself from all forms of discrimination. Equal rights issues are addressed in a decentralized manner and half of the units have formal equality plans. The employees are entitled to form and join trade unions and to collective negotiations. They also have complete insight into and the right of co-determination in accordance with the provisions of national legislation. During the year, many of the employees were informed about "Materializing Our Values" and in the introduction of new employees the education about the Group's values is an important point.

The management of health and safety issues focuses on preventive measures and includes risk analyses, training programs, registration of incidents ("near misses") and technical improvements. Creating a good work environment and wellbeing are the responsibilities of executive management and improvement programs are conducted in cooperation with employees and their representatives. About half of the units have reward systems in place for improvements made in the environmental and working environment fields.

Diversity

In the global polymer industry, men account for a substantial part of the workforce, and this also applies to HEXPOL. Within the Group, the proportion of female employees is 13 percent (14). The highest percentage is in Sweden and China (about 35 percent) and lowest in Sri Lanka (4 percent). The share of females in the HEXPOL Board was 43 percent (29), and 17 percent (17) in Group management. The share of females in the local management teams was on average 15 percent (11). There is a HEXPOL Equal Opportunities Policy and Group management has issued a clear message that an increased share of women should be sought for in connection with external and internal recruitments for various positions.

No breaches of "Materializing Our Values" concerning human rights, equal opportunities or diversity were reported during 2016.

Right to representation

"Materializing Our Values" recognizes 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 HEXPOL is active. All employees are covered by collective agreements at about one third of the units and this applies in Sweden, Sri Lanka, Germany, Spain and China. For other units, the affiliation to trade unions is between 0 and 75 percent.

Equal opportunities and equal rights

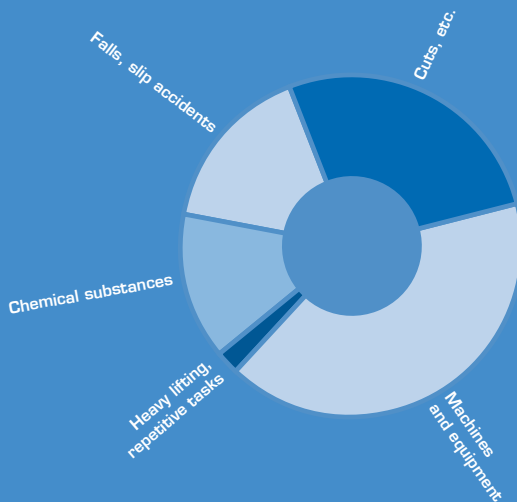
To promote equality and work against discrimination are important issues for HEXPOL. Similar view on social responsibility and equal rights applies in the relationship with our suppliers. No infringements were reported during the year.

PREVENTIVE MEASURES FOR OCCUPATIONAL HEALTH AND SAFETY

During 2016, there were 127 occupational accidents (111) resulting in more than one day's absence from work. Total absence due to accidents amounted to 2,319 days (2,058). Almost one third of the units were completely injury-free during the year, but the total number injuries and lost workdays were higher than in the previous year. The increasing number of manufacturing units is one of several factors affecting the accident statistics.

Over five years, the average accident rate for absence per million hours worked is 13.6 accidents. The outcome of 2016 was slightly above average and amounted to 15.1 accidents per million working hours and is at the same level as other manufacturing industries. The causes of the occupational accidents consist primarily of falls, equipment, manual work and heavy lifting. Three occupational accidents involving contractors were reported and 13 work-related illnesses (8) were confirmed. Impaired hearing, allergies and injury to muscles and skeleton are examples of illnesses that occurred during the year. We cannot demonstrate a clear downward trend in the number of work accidents and occupational diseases.

CAUSES OF OCCUPATIONAL ACCIDENTS 2016
(% OF TOTAL)



ACCIDENTS AT WORK 2012 – 2016

	2016	2015	2014	2013	2012
Lost Work Cases (LWC)	127	111	104	68	73
Lost Work Days (LWD)	2,319	2,058	1,875	1,016	847
LWC/million worked hours	15.1	15.9	14.3	10.0	12.6
LWD/million worked hours	275	295	257	150	146

The Group has a zero vision regarding accidents and diseases, and efforts have been directed at preventive activities, training and a systematic approach. One example is the OHSAS 18001 occupational health and safety system which is implemented at the companies in Sri Lanka, and during the year also in one company in UK. Many of the units manage health and safety in a systematic way within the legal frameworks of their respective countries. The safety committees are important and such organizations exist in 94 percent (86) of the facilities. Risk analyses, occupational health and safety monitoring, technical measures, training, health checks, and safety rounds, were conducted during the year. The measurements included exposure to dust and noise. Special health checks of the workforce are conducted at the few units handling isocyanates. Other types of recurring health checks are common in the Group.

The systems for registering near misses, meaning incidents that could potentially cause an occupational accident, were further developed in 2016. Such systems have been introduced in 82 percent (86) of the units and are being used in an efficient way. A total of 308 near misses (365) were registered, resulting in preventive and remedial measures to reduce the risk of accidents.

Training programs involving the environment, occupational health and safety were conducted regularly during the year and included an average of 8.5 hours (8.1) per person. The training programs pertained to protection against fire and accidents, evacuation exercises, safe management of chemical products, use of personal protective equipment and much more. A key target group for this type of training program is new employees. Information activities about "Materializing Our Values" continued and include all employees.

EMPLOYEE DEVELOPMENT

By working in networks and project organisations, the overall level of competency is enhanced and, for this reason, many projects are implemented with participants from various cultures, with knowledge in different areas. This could be technology and product development or purchasing and marketing. At our annual conferences for the Group's top management, the topics discussed include strategic issues, the outcome of projects, finances, markets, products and sustainable development.

Training and competency development occur continuously in Group companies and totaled 79,000 hours (88,600) in 2016. This corresponds to 19 hours (23) per employee. About 2,650 employees (2,400) participated in developmental discussions or other form of performance reviews. Surveys of employee views of the work situation are conducted at several of the units and ten such surveys were conducted during the year. The results show that employees are satisfied with the company and their own situation, but also areas that can be improved, such as better internal communication

HEXPOL NAFTA COOPERATIVE EDUCATION PROGRAM MENTORING TOMORROW'S LEADERS

To help ensure continued success and growth, HEXPOL NAFTA has always been committed to investing in the company's most appreciable asset: people. Not only for our current valued associates, but university and technical school students as well. We are dedicated to mentoring students who are studying for a career in the elastomer compounding industry.

The HEXPOL Cooperative Educational Program (Co-Op) offers students the opportunity to gain hands-on experience in their field of study, whether it's to become a chemical engineer, development chemist, or environmental health and safety professional, to name a few. Leadership development skills, applicable to all areas of the compounding business, are an important part of the mentoring process. Students get the chance to work on real projects that help them prepare to enter the workforce after graduation.

Efforts to expand and enhance the Co-Op Program – spearheaded by Don Purdy, Director of University Relations & Development for Co-op Programs – began several years ago. Today there are Co-Op programs

at all 11 HEXPOL campuses across NAFTA. During the last five years 92 students have participated and 16 have become full time HEXPOL associates.

A very popular feature of our Co-Op offering is the Rotation Program, which provides students with work experience at three different HEXPOL campuses: Burton/Middlefield, OH; Dyersburg, TN; and Kennedale, TX. Students complete the program by preparing and presenting a "Highlights and Accomplishments" report to each location's management team. HEXPOL recruits co-op students from 20 different educational institutions throughout North America. Youngstown State, Akron University, and The Ohio State University are the hub schools for chemical engineering students.



RHETECH SCHOLARSHIP PROGRAM

The Janice L. Pearson Memorial Scholarship program at RheTech started in 2013 and the first awards were made in 2014. The scholarship funds are generated through private donors and the company RheTech LLC. The awards are provided to immediate family members (children or grandchildren) of a current RheTech employee based upon an application process managed and controlled by an independent company. For 2016, RheTech awarded four \$2,500 scholarships and seven \$1,000 scholarships. The winners of the \$2,500 scholarships included: Audrey Braun (daughter of Deb Braun from RheTech

Colors accounting), Jaime Hansen (daughter of Jeff Hansen RheTech Manager of Technical Services), Alexandra Clave (daughter of Shelley Clave Customer Service Manager RheTech) and Sarah Richardson (not pictured - daughter of Tom Richardson RheTech Colors Sales). Over \$54,000 has been awarded to RheTech employee children since the program began making awards three years ago.



and personal development opportunities. HEXPOL Burton Rubber received the award "Best Work place 2016" in an independent evaluation based on employee assessments.

Personal development and remuneration

Job satisfaction, employment security and opportunities for personal advancement are important factors for many employees. Furthermore it is important that the remuneration levels are on market terms and are competitive. Basic principles for HEXPOL are that wage formation should comply with legislation, at least match the minimum wage levels in the countries in which HEXPOL is active and be fully market based. Variable remuneration linked to the performance that a person can influence is paid to employees in certain parts of the Group. Personnel costs during 2016 totaled 1,448 MSEK (1,385).

SOCIAL INVOLVEMENT

HEXPOL engages in social activities throughout the world. These include "open houses" for employees and their families, contacts and projects with schools and universities, and financial support for sports, health care and associations. From a strategic perspective, it is important that young people and students are informed about the future opportunities offered by the polymer industry. Many of the Group's units are active in contacts with schools and universities, for example, on field trips, development projects, theses and internships. In total, several hundred students participated in activities at the Group's units.

During the year, the units in Statesville, Burton and Middlefield in the US undertook several activities to create interest among secondary school students and engineering students to apply for the polymer industry. The students got, for example, help with career planning, they could participate in graduate programs and were briefed on HEXPOL's technology and values. Similar activities were carried out at Gislaved Gummi in Sweden, where the company is a mentor for young entrepreneurs. More formal research collaborations with universities were conducted for example at Elastomeric Engineering in Sri Lanka and at RheTech in the US. The Group collaborates, since long, with the International Institute for Industrial Environmental Economics (IIIEE) at Lund University in Sweden.

HEXPOL TPE HELP TO INSPIRE THE NEXT GENERATION OF POLYMER SCIENTISTS

As a member of the British Plastics Federation (BPF), HEXPOL TPE's UK site, were among the companies sponsoring the Polymer Study Tours 2016. The Polymer Study Tours are courses for teachers of science and design technology. They are designed to improve knowledge and understanding of the curriculum related to polymers.

The courses include a mixture of lectures, laboratory and workshop sessions as well as visits to plastics processing companies. The sessions are delivered by leading figures from industry and academia who are keen to encourage discussion on all things polymer

related. Delegates are given valuable teaching resources which relate to the curriculum and promote the knowledge of polymers and their importance to the quality of everyday life. The courses are located at three centres around the UK; Edinburgh Napier University, London Metropolitan University and Manchester University.



BURTON RUBBER PROCESSING LISTED AMONG 2016 TOP WORKPLACES IN NORTHEAST OHIO

HEXPOL Compounding LLC (Burton Rubber Processing) was recently honored in 2016 Top Workplaces listing, ranked number two among Northeast Ohio midsize companies. Burton Rubber Processing, located in Burton, Ohio, made the prestigious list for the second year in a row. Founded in 1957, 220 associates currently work at the campus.

“Our goal is to keep all aspects of Burton Rubber Processing amazing – amazing to our associates, valued customers, and the community we serve,” said John Gorrell, General Manager, Burton Rubber Processing. “It’s an honour and privilege to have our company recognized for the second consecutive year. We are proud to be associated with so many other well respected businesses in our region.”

The 2016 Top Workplaces list was published in the Plain Dealer on June 19. Employees of participating companies responded to a detailed survey conducted by an independent workplace consultant. Company rankings were based solely on employee responses to 20 statements addressing multiple work-related factors.

Engaged employees agree that they are motivated to do excellent work and deliver quality products and services to their customers. Survey results certainly support that premise, with respondents indicating that the HEXPOL Burton Rubber Processing campus is comprised of individuals who are dedicated

to HEXPOL through meaningful work and a vibrant connection with the company. They stressed the benefits of a positive culture and the support provided through personal and leadership development programs. Respondents also have a strong belief that HEXPOL Compounding is moving in the right direction.

“We continually train our associates and equip them with the skills they need to take on new responsibilities when advancement opportunities appear,” Gorrell said. “It’s very rewarding to add value to their lives and watch them grow, better serving our customers and progressing into leadership positions. If we don’t care about the people we lead, we have no business leading them.”

Respondents also felt that HEXPOL leadership provides a clear vision of company goals and makes a significant effort to ensure each associate feels valued and recognized for contributions to HEXPOL’s success.



VOLUNTEERS FROM RHETECH HELP VICTIMS OF THE HURRICANE ON HAITI

An October evening, 2016, a team of HEXPOL RheTech employees, families and friends contributed to help package food to be delivered to Haiti in the wake of Hurricane Matthew. The 15-member team helped package more than 285,000 meals to be immediately shipped to Haiti by Lifeline Christian Mission. The volunteers were informed that more than 1.5 million meals have been shipped to Haiti by this organization in response to the hurricane.



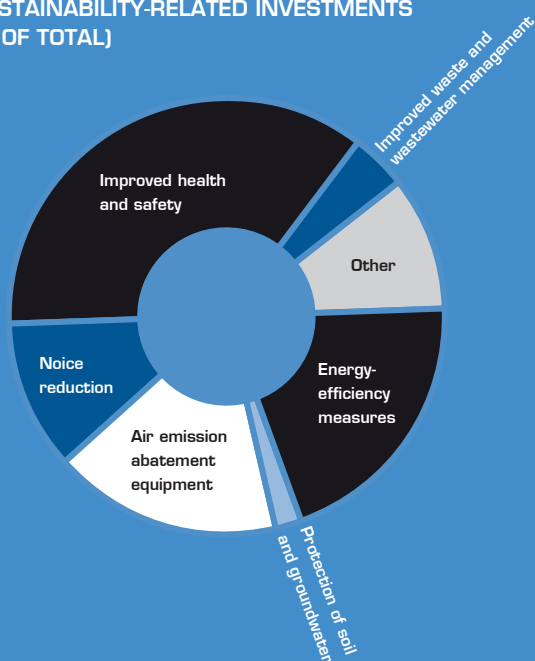
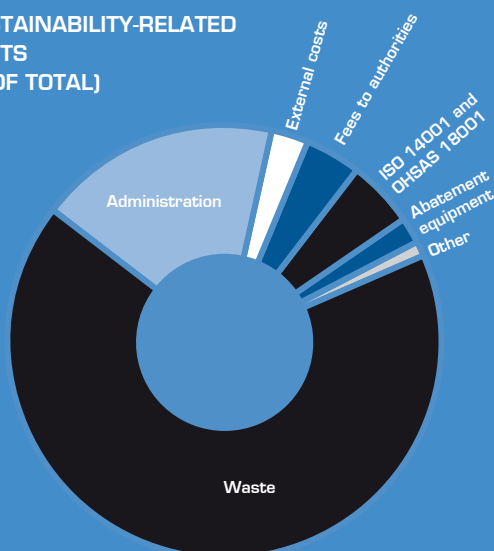
Economic responsibility

Investments,
costs, savings
and distributed
value

2016 IN BRIEF

During 2016, the volumes increased in our principal markets. However, sales decreased slightly to 10,879 MSEK (11,229) but sales were impacted by substantially lower sales prices due to substantially lower prices for our principal raw materials, compared with the preceding year.

In 2016, we yet again improved our earnings per share, which amounted to SEK 4.06 (4.05). The constant focus on the efficient management of working capital also generated results in the form of a very strong operating cash flow, 2,057 MSEK, and a healthy return on capital employed of 26.8 percent.

**SUSTAINABILITY-RELATED INVESTMENTS
[% OF TOTAL]****SUSTAINABILITY-RELATED COSTS
[% OF TOTAL]****KEY FIGURES**

	2016	2015	2014
Sales, MSEK	10,879	11,229	8,919
Operating profit (EBIT), MSEK	1,921	1,964	1,456
Operating margin, %	17.7	17.5	16.3
Profit before tax, MSEK	1,913	1,943	1,436
Profit after tax, MSEK	1,397	1,393	1,048
Earnings per share, SEK	4.06	4.05	3.05
Equity/assets ratio, %	77	72	69
Return on capital employed, %	26.8	28.6	28.5

SUSTAINABLE DEVELOPMENT AND FINANCE**Investments, costs and savings**

During 2016 the sustainability-related investments amounted to 18.1 MSEK (19.1). The main areas for investments were measures for increased energy efficiency, installation of emission abatement equipment, and preventive health and safety actions.

The overall cost for environmental and workplace measures amounted to 27.7 MSEK (22.7). The costs include, for example, administration, operation of emission abatement equipment, and fees to authorities and certification bodies. The cost for management of waste accounted for 67 percent (60) of the total costs.

Environmental and work-environment-related measures resulted in savings of 10.8 MSEK (14.1). Improved energy efficiency and smarter waste management made the main contribution to the savings. Savings were also as a long-term result of investments in previous years.

FINANCIAL VALUE FOR STAKEHOLDERS

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

During 2016, the Group had net sales of 10,879 MSEK of which 2,559 (2,366) MSEK was distributed according to the table.

FINANCIAL VALUE FOR STAKEHOLDERS, MSEK

Stakeholder	2016	2015	2014	Comments
Employees	1,448	1,385	1,025	Salaries and benefits
Shareholders	585	413	310	Dividend
Creditors	10	18	20	Interest expenses
Society	516	550	388	Total reported tax expenses
Total	2,559	2,366	1,743	

Highlights during 2016

Small and big
steps towards
sustainable
development

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

Belgium

- The Eupen unit optimized the weighing accuracy of the auto-SMC. By doing that the amount of scrapped bags was reduced from 5 percent to 0.2 percent. Installed new racks with collection pan for oil. Installed a lifting device for breaker plate gear pump line 1.

China

- Gislaved Gummi in Qingdao kept focus on renovating worn molds to improve productivity and reduce flash. Continued to increase the double daylight operations to reduce energy consumption. Implemented more energy saving projects (include natural gas and electric), as well as improvement safety and working environment and the 5S and TPM programs. Passed ISO 9001 and 14001 annual audits.
- HEXPOL Compounding in Qingdao took actions to reduce the energy consumption, for example changed lighting to power safe lighting bulbs and tubes. Installed a waste compactor to reduce the volume of waste. Replaced an old forklift truck with a new lithium battery truck. Completed refurbishment of workers sanitary installations with environmental and health friendly equipment and built an outside rest area.
- Stellana in Qingdao reduced the energy consumption by updating the other three motors of the injection machine to variable frequency motors. New O-type curing oven decreased energy consumption.

- The Foshan unit continued the removal of nitrosamine generators and phtalates. Utilized returnable containers and returnable plastic pallets with all the rest of customers to reduce waste footprint. Replaced the roof lamps in the workshop to energy saving LED lamps, warehouse will be the next step. Got the official Environment Protection License for TPE.

Czech Republic

- The Unicov unit installed a new exhaust and filtration unit of air from mills L3 and L4. The capacity of exhaust from granulation line 1 was increased. Improved workplace conditions.

Germany

- The Lichtenfels site successfully performed re-certification of ISO 14001 and ISO 50001 at both plants.
- The Hückelhoven unit completed the installation of a new cooling system, including a heat-recovery system to reduce the consumption of heating oil. Continued to reduce the use of hazardous substances. Hosted a master thesis student that investigated further actions to increase the energy efficiency.



Mexico

- The unit in Aguascalientes initiated a formal internal safety program and appointed a mentor.
- The Querétaro unit took several actions to improve safety and environmental aspects, for example, a new plan for internal auditors for ISO 14001, training plans and chats with people to promote environmental consciousness. Internal communication bulletins. Started migration strategy for 2015 version of ISO 14001.

Spain

- At the compounding unit in Barcelona the surveillance audit was completed for ISO 14001 and ISO 9001. Work continued on the phasing out of nitrosamine generators and phtalates. Started recycling program of wooden pallets and cardboard. Completely cleaned the dust collection system.

Sri Lanka

- The Horana unit initiated a project together with the University of Sri Jayawardanapura to develop a color antistatic compound for castor wheels.
- Within the framework of HEPS (production management system) the Bokundara site introduced a new project to reduce waste from molding. Around eight percent waste reduction through new spew groove design for new tools and standardizing with sister companies. The company hired female operators for double day-light presses.

- The biomass boilers at the Bokundara and Horana units were successfully running resulting in a substantial reduction of the emissions of fossil carbon dioxide and sulphur dioxide.

Sweden

- Gislaved Gummi decreased the number of accidents and continued with actions to increase the energy efficiency.
- At Stellana in Laxå the energy consumption (GWh/net sales) is reduced by 48 percent since 1998. CO₂ (tonnes/net sales) down 22 percent compared to the previous three years, down 61 percent since 1998. Waste to landfill down 93 percent since 1998 (220 to 14.3 tonnes).
- The Åmål site initiated Lean and 5S programs. The purpose is to improve capacity, efficiency, good housekeeping, and the working environment. The Dryflex Green concept was launched.

United Kingdom

- The HEXPOL TPE unit in Middleton completed factory bay lighting replacement of 136 metal halide tubes to T5 tubes.
- The Dukinfield unit was recertified according to ISO 14001 and achieved certification according to OHSAS 18001.
- Berwin in Dukinfield and Lydney introduced monthly environmental management meetings.
- FlexiCell took actions to reduce the energy consumption. Installed a new extrusion Line 04 (better insulation, improved salt bath heating to give lower energy consumption).



USA

- The use of recycled carbon black at the Statesville unit increased to over 19 tonnes in 2016. Each kg replaces new raw materials and decreases the use of raw feed stocks, transportation and packaging.
- Monthly safety meetings were introduced and the Material Review Board was started to increase communication between unit departments.
- The Jonesborough unit redressed the area around carbon black unloading. Implemented monthly cleaning for silo pad and unloading area. Reached 80 percent completion of particulate sensors to eliminate release of carbon black to atmosphere. Implemented compliance and training for arc flash regulations.
- The Santa Fe unit reported 28 months without recordable incidents.
- The Kennedale unit reduced the paper consumption, upgraded the fans in production and installed dock shelters. The company reported zero accidents at work, eliminated cleaners in floor scrubbers, and improved plant security.
- At the Dyersburg campus safety is a priority with participation in the NAFTA safety team, as well as internal audits done weekly by all associates. Lockout tag-out has been a major emphasis in 2016 with improved training, communication signage and focus. The unit continued the plan developed in late 2015 to become landfill free in 2016. Reduction of waste streams to landfill declined by 65 percent. The use of dynamic cooling on mixers remains a priority to aid in the reduction of water usage. The focus on people development continues with programs such as the mentoring program and a dedicated training room. Commitment to the program is a must for those associates with a desire to become mentors. The company continued with the presence in the community through contributions and volunteers donating time to work. The company also became very involved in Relay for Life. This is a fund raising challenge with proceeds going to cancer research.
- The Stellana site in Lake Geneva implemented two new work cells to improve safety for employees within the trim department. Through the development of a continuous improvement team, the company reduced scrap due to bond failure to less than one percent of all large tires that are produced.
- The Burton campus began a program that recycles the tailings from the compound. Sent out a letter to the customers suggesting that they try using material as start up compound. Many of the customers bought into the program. The unit received the prestigious honor of being selected for the "2016 Top Workplace" award, ranking number two for the best places to work in Northeast Ohio among midsize companies. The company was honored for the Community Improvement Corporation (CIC) Annual Salute 2016 Legacy Award in recognition of the continued commitment and growth in Geauga County.
- The Middlefield unit was recognized by Parker Haniffin ESD with Gold Link award, and HPD with Silver Link award for the outstanding performance in quality, environmental, safety, delivery and service. The company continued programs to focus on the health and wellbeing of the associates, for example, hearing testing, walking programs, fruits and vegetable day, and flu shots to prepare for the winter influenza season. The company worked with Geauga family services to connect with a family that is in desperate need of our support. As part of the sharing, learning and growing between employees a number of associates spent time at other facilities to review best practices. This included leadership, EH & S, community programs to drive continuous improvement and best practice sharing with in the business. Other actions included energy efficiency measures, contacts with local schools, internships, co-operative educations students from Youngstown State University. Contacts with young people are a part of Gold Keys mission to "Build Tomorrow's Workforce Today".
- The first surveillance audit of ISO 14001 at Muscle Shoals plant was successfully completed.
- The Kardoes unit improved internal processes, reduced turnover rate, and reduced workplace accidents with a "zero" goal in mind. Participated in NAFTA safety and quality audits. Promoted internally and establishing mentorship/leadership programs on campus.
- The RheTech Whitmore Lake plant renewed its ISO 14001 certificate and received the Washtenaw Pollution Prevention Award.
- The RheTech facility in Fowlerville renewed its ISO 14001 certificate.
- RheTech Colors installed a bulk bag handling system to reduce dust inhalation from hand bucketing talc powder. Implemented a Safety Committee made up of salary and hourly employees. Installed self-compacting compactor to reduce spills of trash to the environment during container pick up.



About the sustainability report

Scope and reporting principles

PURPOSE

The purpose of this report is to provide an overview of HEXPOL’s sustainability performance during the calendar year of 2016, and, where practicable, provide a comparison to the performance during previous years. The report describes our impacts on our environment, people, our local communities and the economic contribution the company makes in the areas in which we operate. The aim is to provide a focused report that supports the needs of HEXPOL and our stakeholders.

SCOPE AND BOUNDARY

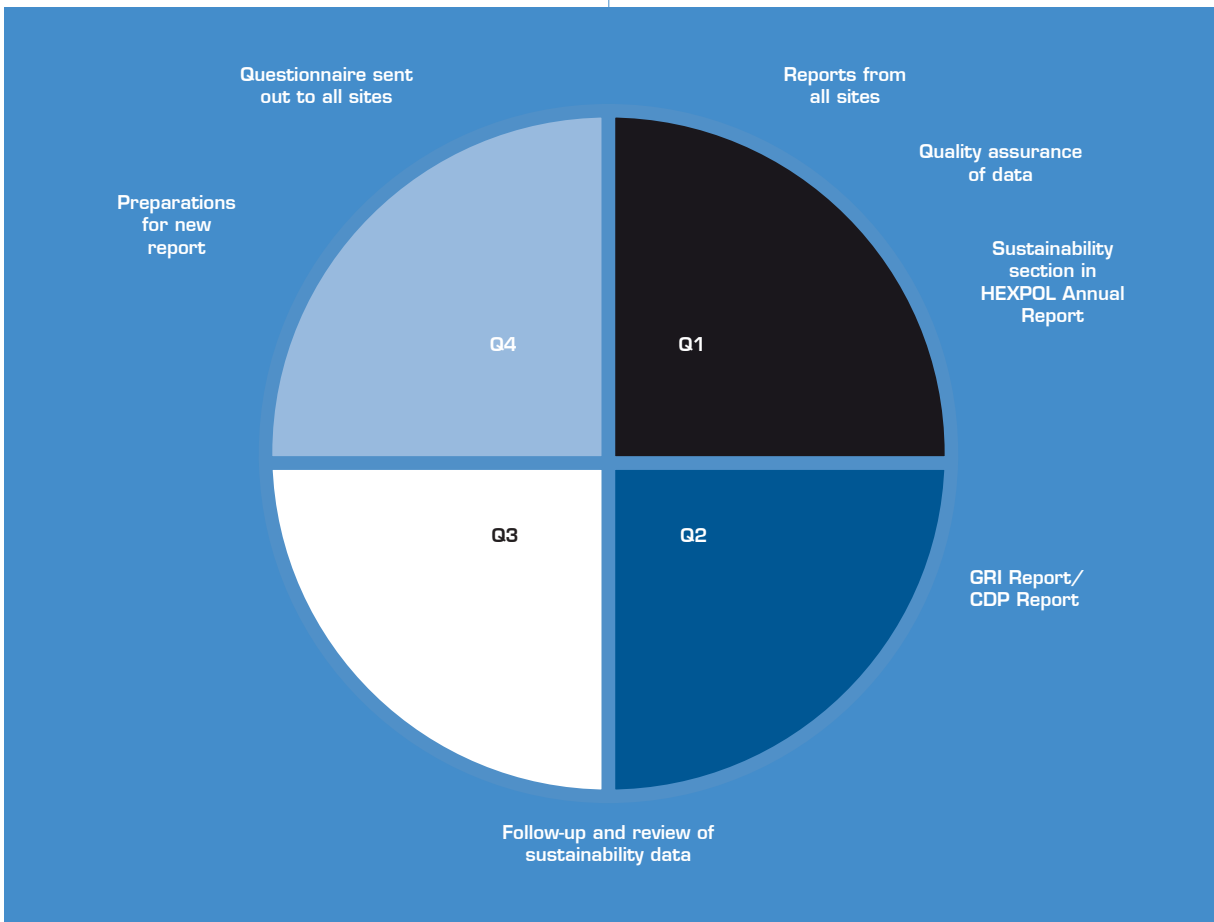
The Sustainability Report covers performance relating to the environment, health, safety and social conditions at the production units worldwide. Operations that belonged to the Group for most of the fiscal year are included in the report. A total of 34 (29) manufacturing sites throughout the world contributed to the report. Companies located at the same site are reported as one unit. Six acquired companies were added (Berwin, UK; RheTech, USA) to the report. One company with four employees does not any longer submit a report. The following table shows all units that formed the HEXPOL Group by the end of 2016 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 HEXPOL 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.

Sustainability data, that was presented in the Board of Director’s Report (Annual Report), was briefly audited by the financial auditors.

Conversion factors, based on the energy content and quality of the fuel used, are applied for the calculation of emissions of carbon dioxide, sulphur dioxide and nitrogen oxide from the use of direct energy. For companies within EU, emissions of carbon dioxide from indirect energy (mainly electricity) are based on conversion factors in the Covenant of Mayors (EU 2010). For companies outside EU the conversion factors in the GHG Protocol were used. Figures for emissions of VOCs (solvents) are based on measurements at the units where they occur, but in most cases VOC emission data is based on mass balance calculations. The report also includes VOC emissions from paints and lacquers, adhesives and glue.



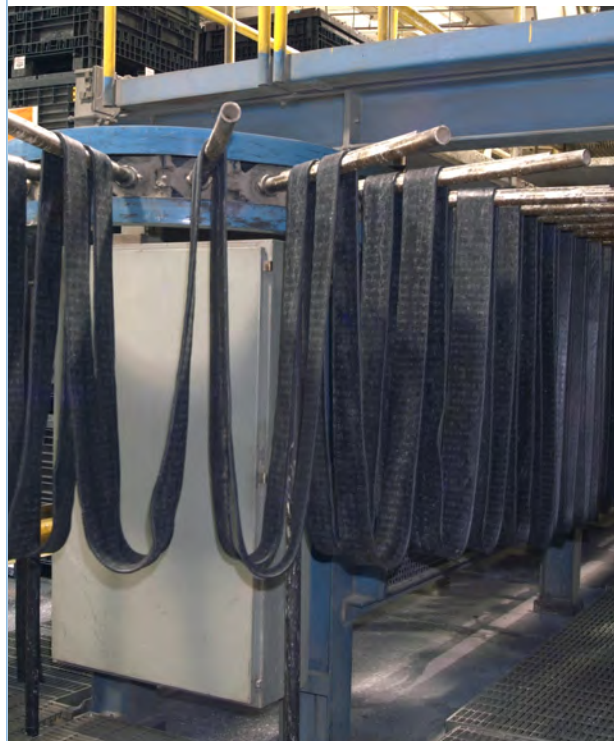
Operating unit	Location	No of employees	Building area (m ²)	Environmental licence	Included in Sustainability Report
HEXPOL Compounding North Carolina	Statesville, USA	94	3,400	Yes	Yes
GoldKey Processing	Middlefield, USA	195	13,900	Yes	Yes
HEXPOL Compounding – Burton Rubber Processing	Burton, USA	254	20,800	Yes	Yes
HEXPOL Compounding – Burton Rubber Processing	Jonesborough, USA	113	9,800	Yes	Yes
HEXPOL Compounding – Colonial Rubber Works	Dyersburg, USA	223	45,700	Yes	Yes
Chase Elastomer	Kennedale, USA	79	7,200	Yes	Yes
HEXPOL Compounding – California	Santa Fe Springs, USA	42	3,250	Yes	Yes
Robbins	Muscle Shoals, USA	52	22,600	Yes	Yes
HEXPOL Compounding Aguascalientes	Aguascalientes, Mexico	131	6,500	Yes	Yes
HEXPOL Compounding Querétaro	Querétaro, Mexico	169	12,400	Yes	Yes
HEXPOL Compounding Belgium	Eupen, Belgium	82	3,400	Yes	Yes
HEXPOL Compounding Germany	Hückelhoven, Germany	67	6,290	Yes	Yes
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	118	7,900	Yes	Yes
HEXPOL Compounding UK	Dukinfield, UK	61	2,870	No	Yes
HEXPOL Compounding Qingdao	Qingdao, China	79	6,200	Yes	Yes
HEXPOL Compounding/TPE Foshan	Foshan, China	45	4,950	Yes	Yes
HEXPOL TPE Sweden	Åmål, Sweden	66	5,300	Yes	Yes
HEXPOL TPE UK	Manchester, UK	44	4,500	No	Yes
HEXPOL TPE Germany	Lichtenfels, Germany	130	7,210	No	Yes
Hexpol Silicone Compounding	Mogadore, USA	4	1,600	No	No
Kardoes Rubber	LaFayette	93	13,700	Yes	Yes
Hexpol Compounding Spain	Barcelona, Spain	87	12,400	Yes	Yes
RheTech Compounding	Whitmore Lake, USA	110	10,800	Yes	Yes
RheTech Compounding	Fowlerville, USA	41	5,700	Yes	Yes
RheTech Colors	Sandusky, USA	40	6,500	Yes	Yes
RheTech Engineered Plastics	Blacksburg, USA	16	10,200	No	No
Berwin Rubber	Dukinfield, UK	100	7,300	Yes	Yes
Berwin Industrial Polymers	Lydney, UK	71	5,900	Yes	Yes
Flexi-Cell	Dukinfield, UK	13	2,100	No	Yes
Gislaved Gummi	Gislaved, Sweden	163	20,000	Yes	Yes
Gislaved Gummi Lanka	Bokundara, Sri Lanka	491	9,300	Yes	Yes
Gislaved Gummi China	Qingdao, China	146	8,400	Yes	Yes
Stellana Sweden	Laxå, Sweden	83	12,100	Yes	Yes
Stellana US	Lake Geneva, USA	79	7,500	Yes	Yes
Stellana China	Qingdao, China	53	3,500	Yes	Yes
Elastomeric Wheels	Horana, Sri Lanka	501	11,400	Yes	Yes

Global Reporting Initiative (GRI) Index

The organization GRI (Global Reporting Initiative) has drawn up voluntary global guidelines for how companies and other organizations should report on activities relating to the concept of sustainable development. GRI's guidelines (version G4) 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.

The GRI Guidelines are the most widely accepted and used standard for sustainability reporting. If an organization wishes to demonstrate that the report is "in accordance" with the Guidelines, it must self-declare how GRI's Guidelines have been applied in their sustainability report. We report under the Core option and have selected material aspects and associated indicators.

The following tables show the degree to which HEXPOL meets the minimum reporting requirements in accordance with GRI G4. (AR) refers to page numbers in the HEXPOL Annual Report 2016. SR refers to this Sustainability Report.



GENERAL STANDARD DISCLOSURES

Terminology according to GRI	Requirement or Indicator	Reference/Comment	External verification *
Strategy and Analysis			
G4-1	Statement from the CEO about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	AR 9; SR 7	–
G4-2	Description of key impacts, risks, and opportunities.	SR 9, 14, 25-26; AR 61, 66-68	*
Organizational Profile			
G4-3	Name of the organization.	HEXPOL AB	*
G4-4	Primary brands, products, and services.	AR 17-47	*
G4-5	Location of HEXPOL's headquarters.	Malmö, Sweden	*
G4-6	Number of countries where HEXPOL operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	AR 109-111; SR 29	–
G4-7	Nature of ownership and legal form.	AR 14-15	*
G4-8	HEXPOL's markets and customers.	AR 17-47; SR 5	–
G4-9	Scale of organization: Total number of employees, total number of operations, net sales, debt and equity, quantity of products or services provided.	AR 17-47, 86-97	*
G4-10	Employees (contract, gender, region, variations, etc).	AR 86; SR 29	*
G4-11	Percentage of total employees covered by collective bargaining agreements.	SR 29	*
G4-12	HEXPOL's supply chain.	SR 12	–
G4-13	Significant changes during the reporting period regarding the HEXPOL's size, structure, ownership, or its supply chain.	SR 41	–
G4-14	Whether and how the precautionary approach or principle is addressed.	SR 18-26	–
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	SR 7, 9-11	–
G4-16	Memberships of associations and national or international advocacy organizations in which HEXPOL is active.	SR 7, 11	–
Identified Material Aspects and Boundaries			
G4-17	Entities included in HEXPOL's consolidated financial statements. Entities that are not covered by the sustainability report.	SR 40-42	–
G4-18	Process for defining the report content and the Aspect Boundaries. How HEXPOL has implemented the Reporting Principles for Defining Report Content.	SR 40-42	–
G4-19	All the material Aspects identified in the process for defining report content.	SR 9, 12	–
G4-20	Whether the Aspect is material within HEXPOL. Any specific limitation regarding the Aspect Boundary within HEXPOL.	SR 9	–
G4-21	Aspect Boundary outside HEXPOL. Any specific limitation regarding the Aspect Boundary outside HEXPOL.	SR 9	–
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements.	SR 41	–
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	SR 41	–

Terminology according to GRI	Requirement or Indicator	Reference/Comment	External verification *
Stakeholder Engagement			
G4-24	List of stakeholder groups engaged by HEXPOL.	SR 12-13	–
G4-25	Basis for identification and selection of stakeholders with whom to engage.	SR 12-13	–
G4-26	HEXPOL's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	SR 12-13	–
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how HEXPOL has responded to those key topics and concerns.	SR 12-13	–
Report Profile			
G4-28	Reporting period.	2016 (full year)	–
G4-29	Date of most recent previous report.	April 2016	–
G4-30	Reporting cycle.	Annual, SR 41	–
G4-31	Contact point for questions regarding the report or its contents.	Torbjörn Brorson	–
GRI Content Index			
G4-32	'In accordance' option HEXPOL has chosen. GRI Content Index.	Core, this table shows the GRI Content Index	–
G4-33	Policy and current practice with regard to seeking external assurance for the report.	The sustainability section in the Annual Report is briefly audited and verified	–
Governance			
G4-34	HEXPOL's governance structure for sustainability aspects.	SR 11, 14	–
Ethics and Integrity			
G4-56	HEXPOL's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	SR 9-11	–
Economy			
G4-EC1	Direct economic value generated and distributed.	SR 34-35	–
G4-EC2	Financial implications and other risks and opportunities for HEXPOL's activities due to climate change.	SR 26	–
G4-EC3	Coverage of HEXPOL's defined benefit plan obligations.	AR 89	*
G4-EC4	Financial assistance received from government.	None during 2016	–

ENVIRONMENTAL

Materials			
G4-EN1	Materials used by weight or volume.	SR 20-21	*
G4-EN2	Percentage of materials that are recycled input materials.	SR 21	*
Energy			
G4-EN3	Energy consumption within HEXPOL (direct).	SR 19-20	*
G4-EN4	Energy consumption out side HEXPOL (indirect).	SR 19-20	*
G4-EN5	Energy intensity	SR 19-20	*
G4-EN6	Reduction of energy consumption.	SR 19-20	*
G4-EN7	Reductions in energy consumption in products and services.	SR 23	
Water			
G4-EN8	Total water withdrawal per source.	SR 20	*

Terminology according to GRI	Requirement or Indicator	Reference/Comment	External verification *
Emissions			
G4-EN15	Direct greenhouse gas (GHG) emissions (scope 1).	SR 20-21	*
G4-EN17	Other indirect greenhouse gas (GHG) emissions (scope 3).	SR 20-21	*
G4-EN18	Greenhouse gas (GHG) emissions intensity.	SR 20-21	*
G4-EN19	Reduction of greenhouse gas (GHG) emissions.	SR 20-21	*
G4-EN20	Emissions of ozone-depleting substances (ODS).	SR 23	*
G4-EN21	NOx, SO2 and other significant air emissions.	SR 23	*
Effluents and waste			
G4-EN22	Total water discharge by quality and destination.	SR 20	*
G4-EN23	Total weight of waste by type and disposal method.	SR 23	*
G4-EN24	Total number and volume of significant spills.	SR 25-26	*
Products and Services			
G4-EN27	Extent of impact mitigation of environmental impacts of products and services.	SR 23-24	*
Compliance			
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	SR 19	*
Transport			
G4-EN30	Significant environmental impacts of transporting products and other goods and materials, and transporting members of the workforce.	SR 18, 25, 38	*
Overall			
G4-EN31	Total environmental protection expenditures and investments by type.	SR 35	*
Supplier Environmental Assessment			
G4-EN32	Percentage of new suppliers that were screened using environmental criteria.	SR 15 (partly)	*

SOCIAL

Employment			
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region.	Not reported	–
Occupational Health and Safety			
G4-LA5	Percentage of total workforce represented in formal joint management-worker H&S committee.	SR 29-30	*
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, fatalities.	SR 29-30	*
Training and Education			
G4-LA9	Average hours of training per year per employee.	SR 30	*
G4-LA11	Percentage of employees receiving regular performance and career development reviews.	SR 30	*
Diversity and Equal Opportunity			
G4-LA12	Composition of governance bodies and break down of employees per category with reference to indicators of diversity.	AR 86; SR 29	*
Supplier Assessment for Labor Practices			
G4-LA14	Percentage of new suppliers that were screened using labor practices criteria.	SR 10 (partly)	*

Terminology according to GRI	Requirement or Indicator	Reference/Comment	External verification *
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HUMAN RIGHTS

Non-discrimination			
G4-HR3	Total number of incidents of discrimination and corrective actions taken.	SR 29	*
Freedom of Association and Collective Bargaining			
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated.	SR 13, 30 (partly)	–
Child labor			
G4-HR5	Operations and suppliers identified as having significant risk for incident of child labor.	SR 12 (partly)	–
Forced or Compulsory Labor			
G4-HR6	Operations and suppliers identified as having significant risk for forced or compulsory labor.	SR 12 (partly)	–
Supplier Human Rights Assessment			
G4-HR10	Total number and percentage of operations that have been subject to human rights reviews or impact assessments.	SR 12 (partly)	–

SOCIETY

Local Communities			
G4-S01	Percentage of operations with implemented local community engagement.	SR 32, 37-39	–
Anti-corruption			
G4-S04	Communication and training on anti-corruption policies and procedures.	SR 10	–

PRODUCT RESPONSIBILITY

G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement.	SR 20-21 (partly)	–
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* Information is presented in the Board of Director's Report in the HEXPOL Annual report 2016. Annual accounts and consolidated accounts were audited by Ernst & Young AB auditors, Malmö, Sweden. Sustainability data was briefly audited by Ernst & Young.

Definitions

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

BIOFUEL Renewable fuel from 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 (CO₂) CO₂ is formed in all carbon combustion processes. The gas is released in substantial amounts when petroleum products are used. It is likely that atmospheric emissions of carbon dioxide increase global warming (greenhouse effect).

CDP Carbon Disclosure Project. A voluntary scheme for reporting on an organization's impact on the climate.

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

CLP EU Regulation on Classification, Labelling and Packaging of chemical substances and mixtures.

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 Columbite, tantalite, cassiterite, gold and wolframite originating from the Democratic Republic of the Congo or nearby countries are referred to as conflict minerals. The term refers to the on-going armed conflicts in the region, in which mining operations are often involved and which have resulted in human rights violations.

CORE INDICATORS Core indicators are GRI indicators identified in the guidelines to be of interest to most stakeholders and assumed to be material unless deemed otherwise on the basis of the GRI reporting principles.

CSR/CR Corporate social responsibility and corporate responsibility are terms used to describe a company's approach to issues concerning the environment, social responsibility, financial responsibility and business ethics. These terms are often used interchangeably with the term "sustainable development".

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

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

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

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

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 HEXPOL Group.

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

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

GHS Globally Harmonised System of Classification and Labelling of Chemicals.

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

GLOBAL REPORTING INITIATIVE (GRI) GRI is an organization working toward a method for overall reporting and assessment of an operation, including the social and environmental perspectives, as well as financial aspects.

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, time-liness, reliability, and clarity.

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

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

HCFCs Substances that deplete the atmospheric ozone layer.

ISO 14001 International standard relating to environmental management systems that was introduced in 1996. Just over 325,000 organizations around the world are currently certified according to ISO 14001. A new version (ISO 14001:2015) was launched in 2015. See also "environmental management system".

ISO 26000 International standard providing guidance on how organizations can manage issues pertaining to social responsibility. The standard was introduced in 2010 and provided guidance in the formulation of HEXPOL's Code of Conduct.

ISO 50001 International standard for energy management system.

KPI Key Performance Indicator

LANDFILL Solid waste material sent to a landfill.

MSDS Material Safety Data Sheet.

NGO Non-governmental organization.

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

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

OHSAS 18001 An international occupational health and safety management system standard. It specifies the requirements that an organization must meet when implementing a management system to address workplace risks to prevent injuries and ill health. OHSAS 18001 will be replaced by ISO 45001 during 2017.

PAHS 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.

PCBS 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.

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

REACH Chemicals legislation within the EU intended to ensure safer handling of chemicals. Chemical substances have to be registered for a certain use and particularly hazardous substances can be prohibited.

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

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

SUSTAINABLE DEVELOPMENT Development that meets the needs of the present without compromising the abilities of future generations to meet their needs (Brundtland Commission, 1987).

SUSTAINABLE DEVELOPMENT GOALS (SDGs) The UN goals are officially known as Transforming our world: the 2030 Agenda for Sustainable Development, are an intergovernmental set of aspiration Goals with 169 targets.

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.

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

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

TPE Thermoplastic elastomers are rubber-like materials that combine the properties of vulcanised 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.

WORK-RELATED ACCIDENT A work-related accident is a sudden event related to work that gives rise to a wound or other physical injury. A typical injury in the polymer industry is a minor cut or crushing injury. HEXPOL reports the number of work-related injuries that give rise to one or more days of absence, called Lost Work Cases (LWCs). The injury rate is then normed by stating the number of such injuries per employee (LWC/employee).

WORK-RELATED DISEASE A work-related disease is a disease caused by long-term exposure to a particular factor in the work environment. Such factors can include repetitive lifting or being exposed every day to solvent fumes.

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