

aq

2021

AQ Group Communication on Progress and Sustainability report



WE SUPPORT



James Ahrgren

AQ Group AB

AQ Group Communication on progress

Purpose

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

Scope

This report applies to AQ Group and covers the period from joining the UN Global Compact initiative in September 2012 until December 31st, 2021.

Statement of continued support

December 31st, 2021

To our stakeholders:

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

In this annual Communication on Progress for 2021, we describe our actions to continually improve the integration of the Global Compact and its principles into our business strategy, culture and daily operations. We also commit to sharing this information with our stakeholders using our primary channels of communication.

Sincerely yours,



James Ahrgren
CEO

Report structure

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

AQ Group Sustainability report 2021

AQ consists of seven business areas which are Electric cabinets, Wiring systems, Precision stamping and Injection molding, Sheet metal processing, System products, Inductive components and Special technologies and Engineering. We take pride in being a reliable supplier by producing products with high quality, delivered on time in a sustainable way.

AQ has been an active member of the UN Global Compact since 2012.

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

Human Rights Principles

Principle 1: Support and respect the protection of internationally proclaimed human rights; and

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

Assessment, Policy & Goals

AQ Group's goal is for all our employees and business partners to live up to the Universal Declaration of Human Rights. The goal is to have zero human rights violations reported.

Our core values and code of conduct outlines the way each of us should behave and clarifies our responsibility to report instances of human rights violations. The Code of Conduct is communicated to all employees within the company. Also, our immediate supply chain should adhere to the same principles. The principles are clearly stated in the AQ Supplier Code of Conduct.

Implementation

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

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

All employees and external stakeholders can report violations directly by sending a message to whistleblower@aqq.se if there are any violations against human rights.

Measurement of outcomes

In AQ Group there has been no reported incidents of human rights abuses during the year. If any issues should occur in the future they will be recorded and brought to the attention of group management and the relevant authorities. AQ Group is fully committed to handle any such occurrences objectively and to act quickly. In the last five years we have had zero human rights violation reports in AQ

Labor Principles

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

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

Principle 5: uphold the effective abolition of child labor; and

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

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

Assessment, Policy & Goals

Our Code of Conduct shows employee rights and responsibilities. All employees work here willingly, and no employee is forced to work overtime unless it is ordered legally and according to contract. In AQ Group we have a non discrimination policy that take stand against all kind of discriminations and this is stated clearly in our code of conduct. We uphold the law and our ethical responsibility by only employing people of a legal working age.

The AQ Group goal for Labor Principles is to have an average self-assessment score higher than 3.5 and that no subsidiary should score below 3 in our yearly self-assessment where the lowest score is

1 and highest is 4.

Implementation

The labor unions in AQ Group are working well. AQ applies collective agreements that are negotiated by the parties and follow laws and regulations in the countries where we operate. With regards to the safety of our employees we evaluate, and audit working conditions and make sure that the correct protective clothing and equipment are used. We fully commit to providing a safe working environment. New employees receive relevant orientation training to carry out their tasks safely and existing employees receive continuous training at various intervals based on their need to be able to perform their respective tasks.

Continuous work with health and safety is something that helps us becoming a more attractive employer as well as creates a better functioning business. Special focus has been put on working with identifying risks and leadership to getting more people involved with safety related work.

Measurement of outcomes

AQ Group Board of Directors consists of six men and two women. In the AQ Group management team four are women and eight are men (including the CEO). Within the entire AQ Group, we have an even gender distribution with 43% women and 57% men.

AQ has since 2015 implemented a company self-assessment that is done by the management of every subsidiary within the group. This gives the group management a good understanding of how well the principles in UN Global Compact are adhered to. The results from the survey 2021 show high scores on average. An action plan is made to strengthen the subsidiaries where the score is considered low.

In 2021 the score for Labor principles was on average 3,83 on a scale from 1 to 4 where 4 is

highest. No subsidiary within the group has scored lower than 3.

AQ Group's subsidiaries are continuously being audited by our customers. During 2021, several customers, such as Volvo, Scania, ABB, Hitachi, Alstom and Getinge, performed audits on our production sites. These companies focus strongly on corporate social responsibility and work environment which helps us to comply with Labor Principles.

Environmental Principles

Principle 7: Support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Assessment, Policy & Goals

In our environmental policy on our website, we explain AQ's view on how we will improve the environment. "Our business and processes are designed in such a way that energy and resources are used efficiently, and waste and rest products are minimized over the life cycle of our products". We shall follow rules and legislation and constantly work on improvements to reduce or prevent our environmental impact, from design to delivery. A key environmental goal for AQ is that all production sites shall be ISO 14001 certified and have a higher environmental result than 3 on our annual self-assessment.

During the past two years it has been clear both within the Group, from shareholders and from other stakeholders that we need to do more to reduce carbon dioxide emission. Within the Group we have chosen to act through our

environmental management system, where there are concrete goals and actions to reduce carbon dioxide emissions in all companies.

Implementation

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

We also share best practices between our sites through our CEO's weekly newsletter. One example of this is the widespread implementation of LED lighting in most of the AQ production units and offices to reduce electricity consumption. Another example is the use of heat exchangers in our plants to reuse excess heat from production processes.

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

Measurement of outcomes

At the beginning of 2022, we carried out follow-up with all operational companies and reviewed what has been achieved in 2021 and what goals there are for 2022.

All AQ units ensure that national environmental laws are complied with. This is ensured at

Group management level through AQ's self-assessment and the external ISO audits that are carried out. The result of the self-assessment with respect to the environment in 2021 was 3.91 on a scale between 1 and 4.

For 2021, we have for the first time compiled our carbon dioxide emissions according to scope 1 (direct emissions) and scope 2 (indirect emissions). This is complex to measure and we will work on improvements during 2022. In total, our carbon dioxide emissions according to scope 1 amount to 34,246 tons in 2021 and according to scope 2 to 5,442 tons. The total amount is 39,688 tons. The goal for 2022 is to reduce our carbon dioxide emissions in relation to our sales by 2% and for 2023 by 4%.

AQ is convinced that continuous improvement through more efficient, more economical and more sustainable energy consumption is a key to success and cost-effectiveness. We have processes in place to identify and follow up on changes in our purchasing, production and delivery processes that contribute to improving the environment. Some of the concrete measures that have been taken in this regard are:

AQ is supplier to companies with purifying ballast water that protect the biodiversity of our oceans

- The Covid-19 pandemic has led to a drastic reduction of business trips and a widespread use of digital meeting technology.
- Many of the AQ factories have implemented LED lighting and motion sensors to reduce energy consumption.
- AQ has four production sites that have installed solar panels or solar heating devices.

- All AQ's facilities in Sweden are powered with 100% renewable energy.
- Many of AQ's production facilities reuse the heat generated from production processes to heat the factory.
- Many companies have installed so called BMS systems to better control and monitor their consumption of energy for heat, cooling and ventilation.
- AQ is as a supplier actively taking part in the conversion from conventional to electric commercial vehicles.
- We work to reduce scrap percentage from the material we use. This is for example done by improved programming in sheet metal working machines and by adapting the design together with our customers.
- We continue the work to increase the recycling of rest products from the injection molding process. We grind it and reuse it in our production.
- We continuously reduce hazardous chemicals in cooperation with our customers.
- We implement a process to reuse packing material in cooperation with our customers

Anti-Corruption Principle

Principle 10: Work against corruption in all its forms, including extortion and bribery.

Assessment, Policy & Goals

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

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

Every employee that is involved in business transactions receive training on our code of conduct and our supplier code of conduct which clearly indicates our stance on corruption: "If an employee is offered a gift, a bribe, an illegitimate commission, or any other form of personal payment, it must not be accepted."

A preliminary evaluation of the risk of corruption has been made. The biggest risks come in the form of gifts and bribes from suppliers. Therefore, we have made this clear to our suppliers that it is strictly forbidden to give personal gifts to our employees.

The AQ Goal for anti-corruption is to have zero reported corruption cases. We also stimulate a culture where you should raise your hand and advise your manager and colleagues if you are not sure what to do. This way we can advise and support the right behavior according to our Code of Conduct.

Implementation

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

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

- Implementation of a rigorous procurement process including cross functional approval of suppliers.
- All suppliers shall read and commit to AQ Supplier Code of Conduct.
- Periodic market research of prices of key materials to be compared against existing purchasing prices.
- Reviews of personal expense claims.
- The UN Global Compact logo is inserted into our company presentation to our supply chain partners and customers.
- When integrating new AQ companies in the Group we perform a workshop and work through AQ's Core Values and Code of Conduct.

Measurement of outcomes

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

Audits from senior management take place at various intervals to check that standard procedures are being followed. And to cement these principles the management of each subsidiary need to commit to our principles in our yearly self-assessment. The score from the 2021 self-assessment was 3.77 on a 4-grade scale.

Whistleblower function

AQ has a global whistleblower policy where internal and external stakeholders can report violations.

In 2021 we have received two reported cases. The AQ group management team has analyzed them and taken actions in line with the process.

Sustainability risk assessment

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

Finally, AQ then assesses how environmentally sustainable our operation is based on the technical decision criteria found in the Commission's delegated act on the EU's climate taxonomy.

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

There is a potential risk that violations of our principles may occur if AQ does not ensure that every employee understands and follows our Code of Conduct. In Sweden, acceptance of the Code of Conduct and AQ's Core Values are part of the employment contract.

AQ is doing its utmost to control that the full AQ supply chain respects and follows the rules set forth in the AQ Group Supplier Code of Conduct. We perform regular supplier audits and every supplier need to respect our code of conduct. It is a risk that our suppliers willfully or by lack of knowledge break our rules. AQ is committed to mitigate this risk by constant monitoring of the supply chain.

Risks to the Environment

AQ has several surface treatment facilities with notifiable operations. An accident at a surface treatment facility can affect the environment. Furthermore, there is a risk that current and previous activities may have resulted in contamination of land where the activities have taken place from time to time. AQ Group is constantly monitoring the impact its operations have on the environment through the ISO

14001 management system approved productions sites. This mitigates most of the risks for that our operations may harm the environment.

Sustainability assessment according to EU's taxonomy

As described by the European Commission, the EU's taxonomy is a classification system that establishes a list of environmentally sustainable economic activities and sets criteria for when an economic activity can be classified as "environmentally sustainable". The purpose is to promote financing of more environmentally and climate-friendly activities. AQ is covered by EU directives and must state the extent to which the activities conducted meet the criteria in the EU taxonomy. AQ has assessed how environmentally sustainable our operations are based on the technical criteria contained in the Commission's delegated act on EU climate taxonomy (Article 8 of the Regulation) and which should be considered as contributing to the first two environmental objectives (on limiting and adapting to climate change). The assessment is based on the fact that AQ is a component manufacturer for large global OEM customers and we thus do not own and develop products under our own brand.

Component manufacturing is not yet included in the taxonomy and other economic activities according to the definition of the taxonomy are below 1% of total sales. Thus, AQ's share of sales covered by the Taxonomy Regulation is 0%. Based on AQ's financial activities and the current taxonomy regulation, AQ's investments in Note 18-22 have been examined. The conclusion is that AQ's share of the capital expenditure and operating costs covered by the Taxonomy Regulation is 0%.

References

There is more information on AQ's website for how AQ works with sustainability:

AQ's Core Values, Code of Conduct and Supplier Code of Conduct:

www.aqgroup.com/en/core-values

AQ's sustainability guideline:

www.aqgroup.com/en/aq-group/sustainability

AQ's Policies:

www.aqgroup.com/en/aq-group/policies

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