



Sustainovate
Progress Report 2018

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Turning technology into opportunity

Husqvarna Group is a leading global producer of outdoor power products for forest, park and garden care, watering products, and power tools for construction. With a passion for innovation, we create performance, pride and improved results for customers.

Key data

41,085

Net sales, SEKm (39,394)

3,241

Operating income excluding items affecting comparability, SEKm (3,790)

7.9

Operating margin excluding items affecting comparability, % (9.6)

13,206

Average number of employees (13,252)

-21

CO₂ emission intensity reduction, % (-24)

Our divisions and brands

Husqvarna Group has three empowered divisions that focus on premium products and solutions under strong brands.

Husqvarna

A leader in forest and garden products. The undisputed market leader in robotic lawn mowers.



66%

Share of Group net sales



Gardena

A leader in watering products, garden hand tools and smart garden systems.



20%

Share of Group net sales



Construction

A leader in light construction products for professionals.



14%

Share of Group net sales



Celebrating 330 years

Husqvarna Group is one of the oldest companies in the world and will celebrate 330 years of innovation in 2019. Over time, the once-local Swedish company has developed into a global group with world-leading market positions. Innovating and adapting to customer needs has always been a common thread and the company is investing more than ever in exploring new business opportunities. Products and solutions that reduce environmental impact and improve performance among customers will continue to be our drivers for long-term growth and success.

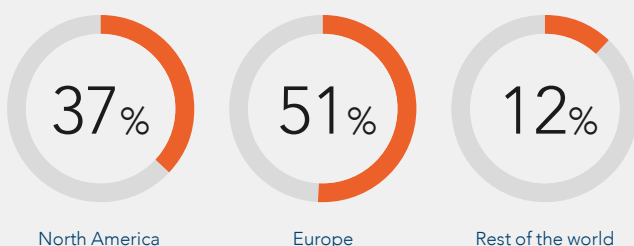
Important events in 2018

- Entered professional segment for robotic lawn mowers.
- Launched a new generation of the iconic Husqvarna professional chainsaw with improved cutting performance and lower emissions.
- Broadened the product range in the Construction Division by acquiring Atlas Copco's Light Compaction & Concrete Equipment business.
- Decision to restructure and dissolve the Consumer Brands Division as of January 1, 2019.

Our markets

Global presence in attractive markets with steady underlying growth.

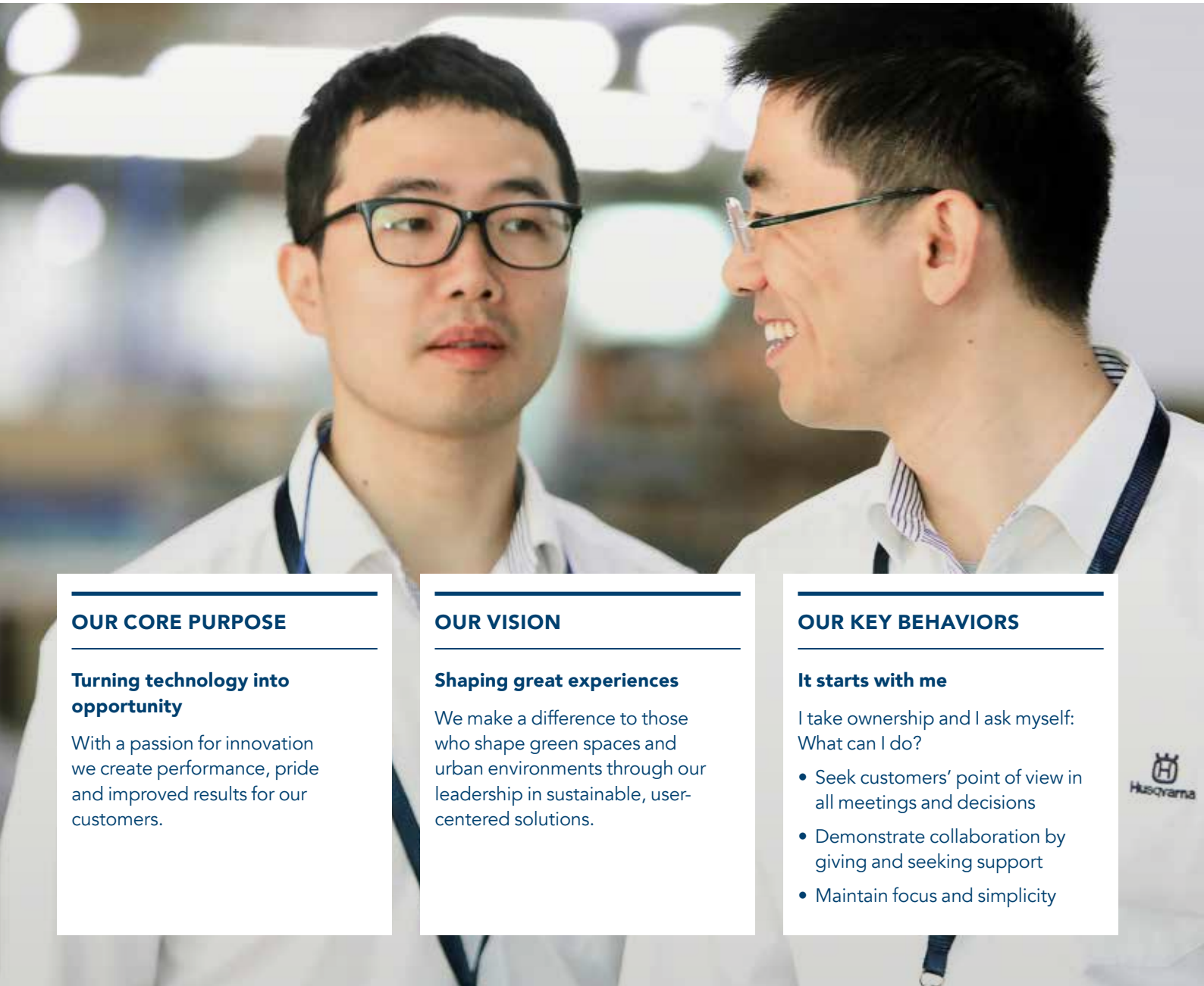
SHARE OF GROUP NET SALES



Sustainovate

Anchored in a passion for innovation and connecting people with nature, Sustainovate is Husqvarna Group's way of integrating sustainability into its business.

Creating a strong company for the future demands the ingenuity and courage of our people, forward-thinking leadership and the insights of our strategic partners. With our customer focus, we are committed to raising the bar on safety and product efficiency and finding new ways to reduce their consumption of energy, water and other resources. Realizing our vision means exploring innovative product ideas and business models that deliver positive impacts for people and the planet and making these products widely available.



OUR CORE PURPOSE

Turning technology into opportunity

With a passion for innovation we create performance, pride and improved results for our customers.

OUR VISION

Shaping great experiences

We make a difference to those who shape green spaces and urban environments through our leadership in sustainable, user-centered solutions.

OUR KEY BEHAVIORS

It starts with me

I take ownership and I ask myself: What can I do?

- Seek customers' point of view in all meetings and decisions
- Demonstrate collaboration by giving and seeking support
- Maintain focus and simplicity

A changing world

Climate change, access to energy, water and raw materials. Demographic shifts and an ever-more globalized and technology-driven world. These megatrends influence how society and markets are evolving. Understanding the impact of megatrends on our markets and operations is critical to executing on our strategy with agility and resilience.



Speed of technology

Digitalization is transforming how products are developed, used, serviced and shared. Through a digitized offering such as fleet management systems for commercial users and smart garden solutions, we are better able to deliver more efficient services and products.

Sustainability opportunities and risks

- Analyzing data from devices and robotic technology enables customer insights and product features for the sharing economy, productivity, efficiency and safety gains
- Digitalized manufacturing and product development improves quality, shortens time-to-market, increases efficiencies in factories and the workplace
- Risks regarding cybersecurity, privacy and regulation are increasing



The energy transformation

The shift towards low-carbon solutions is a growing priority among customers and regulators. Improved technologies make energy storage affordable and viable.

Sustainability opportunities and risks

- Products that go beyond standards for fuel efficiency deliver a competitive advantage
- Energy use and recycling are regulated in more markets and battery technologies allow for renewable energy sources
- Use of lithium-ion batteries requires greater transparency on human rights and environmental risks along the value chain



Rising demand for safety

Safety in the workplace and at home is central to people's well being. Products and practices that go beyond the baseline for safety and durability are impacting expectations on the Group's brands.

Sustainability opportunities and risks

- Product safety is regulated in more markets, and product and workplace safety performance can influence brand reputation
- Consistently improving product safety reassures customers and is an indicator of market leadership



Shifting consumer values and purchasing behavior

Purchasing decisions are guided by sustainability values, individualism and expression, as well as ease of use and affordability.

Sustainability opportunities and risks

- The shift to e-commerce is changing sales channels and thereby potentially increasing our carbon footprint
- Expectations to deliver high standards for human rights and environmental practices along the supply chain are on the rise
- Demand for customer experience provide opportunities for circular business models



Urbanization and new customer groups

By 2030, global middle-class spending is projected to triple and two thirds of the population will be living in cities. In Europe and North America, people older than 55 will outnumber people under the age of 18.

Sustainability opportunities and risks

- Parks and green spaces are increasingly important as cities grow, opening opportunities in public-sector procurement and growing our role of connecting people with nature
- Consumer demographics and customer demands are changing, opening opportunities for innovation for ergonomics and expansion in new geographical regions, yet may also result in a smaller home-owning market

For an analysis of the impact on these megatrends on our markets and customers, see The Husqvarna Group's Annual Report 2018 page 10.

INTEGRATING SUSTAINABILITY ACROSS THE GROUP

Integrating sustainability across the Group

Innovation that brings people and nature closer together. This is the heart of Sustainovate, the Group's strategic approach to sustainability.

Sustainovate is founded on the principle that a strategic approach to sustainability is vital for creating long-term value and critical for market leadership. The strategic framework is built on five key challenges where the Group aims to reduce its impacts and enhance its ability to positively affect people's lives and the environment.

As an integral part of the Group's business model, Sustainovate includes Group-wide targets to drive sustainability performance to 2020. The targets are compared to 2015, unless otherwise stated. Each division is responsible for driving its own initiatives in the areas where they can add the most value.

Carbon Challenge

Decouple business growth from CO₂ emissions



AMBITION

Through innovation, energy-efficient operations and new products, the Group aims to grow its business while reducing emissions across the value chain, from product design and development to suppliers, manufacturing, logistics and smarter product use

TARGET

10%

CO₂ intensity reduction across the value chain

33%

absolute CO₂ intensity reduction from product use by 2035

PROGRESS

21%

CO₂ intensity reduction across the value chain

8%

absolute CO₂ intensity reduction

HIGHLIGHTS

- Around 27 percent of sales of motorized products are battery-powered or electrical, compared to 11 percent in 2015
- 59 percent of electricity used in operations derives from renewable sources

NEXT STEPS

- Explore internal carbon pricing options for airfreight and carbon offsetting for product sales
- Exit some low-margin petrol-powered product segments, mainly in North America
- Perform life-cycle assessments on key products

Team Challenge

Be the best place to work



AMBITION

Efforts to build an attractive, behavior-led workplace should never stop. By providing a platform for employees to make a difference and offering opportunities for people of all backgrounds to maximize their talents, the Group aims to be the employer of choice

TARGET

+9

Net Promoter Score (NPS) equal to or better than the peer group

PROGRESS

+11

NPS

HIGHLIGHTS

- 93 percent (approx. 12,000 employees) responded to the 2018 Team Survey
- NPS increased for the sixth consecutive year
- Since 2015 some 600 managers have taken part in leadership training, 158 of them in 2018
- Working climate continues to improve

NEXT STEPS

- Update and sharpen the diversity strategy
- Develop Group leadership behaviour model
- Launch new Employee Value Proposition

Supplier Challenge

Inspire and build a sustainable supplier base



AMBITION

By evaluating strategic suppliers' environmental, human rights and safety performance and ethical standards, the Group aims to motivate suppliers to improve and prioritize those with high sustainability performance

TARGET

70%

of purchasing spend from strategic suppliers audited and approved based on sustainability performance

PROGRESS

26%

share of spend from approved suppliers

HIGHLIGHTS

- 52 full sustainability audits conducted in Asia, Europe and Americas
- No zero-tolerance issues were uncovered in supplier audits

NEXT STEPS

- Develop assessments for risk evaluations and prioritize due diligence, for lithium-ion battery suppliers
- Review and update the Supplier Code of Business Ethics
- Ensure corrective measures for audited, not approved suppliers

* Unless otherwise stated.



An inclusive strategy

2018 was a year to prepare for the next phase of integrating sustainability deeper into the business. Aligned to our updated business strategy that will be launched in 2019, we are preparing Husqvarna Group beyond 2020.

A core group of experts representing divisions and central functions is engaged in a six-month initiative to define Sustainovate to 2025, with new challenges and new ambitious goals. "It's an inclusive process, and we are gathering input from key internal and external stakeholder groups of each division," says Calle Medin, VP Business Assurance, who is heading the strategy process.

Safety Challenge

Lead the industry in safety across the value chain



AMBITION

With its strong focus on safety and ergonomics in products and on occupational, health and safety (OHS), the Group will improve safety across its value chain

TARGET

35%

reduction in new product incidents, compared with 2016

40%

reduction in injury rate in operations

PROGRESS

48%

reduction in new product incidents compared with 2016

38%

reduction in Total Recordable Incident Rate (TRIR)

HIGHLIGHTS

- Product safety: 11 cases involving products released since 2016 were reported
- Workplace Safety: Performance in most facilities reflects or exceeds the industry benchmark for manufacturing
- Implemented an ISO 45001-based OHS management system

NEXT STEPS

- Launch a new Occupational, Health and Safety policy
- Product safety: Implement KPI's and increase collaboration with end customers
- Workplace safety: Introduce a Group-wide OHS incident management system

Community Challenge

Build a platform for teams to engage in local communities



AMBITION

By connecting people with nature, the Group aims to protect biodiversity, promote healthier lifestyles and create more resilient communities

HIGHLIGHTS

- Husqvarna Division initiatives in four countries with local conservation and community organizations
- Hosted an international Silent City conference in Germany and several local events in Poland, Lithuania, Australia, Denmark and France to convene through leaders, academics to explore the role of parks
- Under the banner "Every drop counts", Gardena announced a partnership with UNICEF on World Water Day

NEXT STEPS

- Establish a Group-wide framework to align objectives and measure positive impact of emergency response and community work
- Determine Group-wide capacity for emergency response program

Sustainovate helps shift our company mindset

The sustainability agenda is anchored more deeply in the Group's decisions and actions. At the same time, we see that issues relating to an evolving society and the environment are increasingly impacting our business. Husqvarna Group's President and CEO Kai Wörn and CFO Glen Instone explain how.

On the impact of the sustainability agenda on business decisions

Kai Wörn: For us, tackling climate change is both a business and a societal imperative, it's a responsibility towards future generations and we need to do our fair share. This is manifested in our commitment to our science-based target on CO₂ emissions. To be a credible market leader, we can't compromise on sustainability.

This year, we decided to exit certain product segments, predominantly petrol-powered products in North America. We can look at this decision in two ways. From a long-term financial perspective, it made sense to exit now, due to low profitability and limited prospects to improve. From a climate-risk perspective, this is in line with our commitment to decouple growth from CO₂ emissions by promoting growth in battery-powered products. Right now, around 27 percent of our sales of motorized products are battery-powered or electrical, compared to 11 percent in 2015.

On equipping the Group for a changing society

Glen Instone: Access to resources is among our greatest headwinds. Foremost, it impacts cost on the supply side. Prices for energy-intensive commodities such as steel, aluminum and fossil fuel-based plastics and nylon have been volatile. For electronics and batteries, we are also digging down the supply chain to understand human rights and environmental impacts of sourcing minerals such as lithium and cobalt. We expect their access to be increasingly constrained, too.

Kai: We see more extreme weather. Almost 90 percent of our market is in the northern hemisphere, and the nature of our business is seasonal. This summer has shown us how weather can impact our bottom line. Results were affected by warm and dry weather in Europe, negatively influencing demand for lawn-mowing products, while demand for watering products that help consumers manage and reduce water use, was positively affected.

We are enhancing our ability to react to unexpected swings in demand caused by weather. In

2018, we invested resources in an IT-based system to sharpen our demand forecasting and subsequently our inventory. Cutting lead times and improving our responsiveness heightens our agility and helps get the right products to the market by matching not only the season but current weather conditions, too.

Board and Senior Management engagement

Kai: The Board has been active by approving and monitoring progress on Sustainovate, our way of integrating sustainability into the business, and it is supporting us in setting our direction for Sustainovate's next phase. This year, the Board emphasized the importance of engaging our suppliers to improve responsiveness to our expectations and to analyzing battery life-cycle impacts. The Board's role is crucial for building awareness and momentum.

Glen: Sustainovate is followed up on a quarterly basis by Group Management. Each division drives Sustainovate to address their impacts and opportunities. To align our actions better, sustainability needs to be kept high on every division's business agenda and sustainability performance must become a key metric. As of 2019, Sustainovate's agenda and progress will be part of each division's operational reviews. We are also developing the next chapter of our strategic journey by aligning new Sustainovate targets with our 2025 business strategy.

Where we stand with Sustainovate

Glen: I genuinely think that we are shifting mindset to a sharper focus on the customer and the entire product life cycle. Sustainovate is helping to make that happen. It brings the Husqvarna Group brand to life, together with knowledge that sustainable companies are successful companies. Like any other organization, we risk being stuck in the here and now, so we need to look beyond that, Sustainovate plays a role in helping us with the long term.

Kai: We are on track to achieve the 2020 challenge targets, which is great! The CO₂ intensity reduction of 21 percent indicates we can significantly exceed the 10 percent carbon target for 2020, which is where

» For us, tackling climate change is both a business and a social imperative, it's a responsibility towards future generations and we need to do our fair share.«



» We are on the track to achieve the 2020 targets, which is great. Our CO₂ intensity reductions of 21 percent indicate we can significantly exceed the 10 percent carbon target for 2020.«

we can make the greatest difference in terms of sustainability. We still need to tackle the supplier and transportation aspects of the carbon challenge, though. Progress is also necessary within suppliers, our third challenge. We need to go deeper into the supply chain and align data collection across suppliers better.

This year's highlights

Kai: Our Code of Conduct has been revised, including a better alignment with our commitment to the ten principles of the UN Global Compact.

Glen: We're making tangible progress of shifting operations to renewable energy. The latest facility to install solar panels is our plant in Changzhou in 2019. Today, solar panels cover 30 percent of our energy needs in the Nashville, Arkansas plastics facility. During downtime, we supply electricity into the power grid, too. We have proven that renewables work. Later in 2019, we also plan to install solar panels at our Brazilian plant.

Kai: I'm proud of the progress and consistency with which we're executing Sustainovate. Sustainovate is more than a buzzword. It makes me proud that we are mentioned together with recognized sustainability leaders. This is encouraging on this important journey.

Glen: This year, so many people have been affected by natural disasters such as forest fires and hurricanes. I'm incredibly proud to see our products being relied on by emergency teams. I know that we have a role to play and our products are doing good things.



STRATEGIC MILESTONES

Strategic milestones

Guided by Sustainovate, we have embarked on a journey to integrate sustainability deeper into our business.

Divesting petrol-powered products

The Group is exiting some high-emission petrol-powered product segments in North America in 2019 and 2020. The exit marks a sharper focus on growth areas such as robotic lawn mowers, digitization and technology for battery-powered products and reflects our ambition to decouple growth from CO₂ emissions.

Affected segments include petrol-powered walk-behind mowers, garden tractors and some consumer handheld products such as chain saws.

Wired for new business models

We are embracing digital business models that both generate value for customers and decouple our growth from environmental impacts. Digital services are not only essential for future-proofing our offering, they serve as our entry point into the sharing economy, help improve product durability and manage our impacts on energy and water consumption.

To explore implications of digital content, we partner with Sweden's Royal Institute of Technology (KTH) and Linköping University. Two research projects help us shift from organizing along product lines towards embracing new organizational structures, customer targeting and collaboration.

"The projects aim to experiment and prototype offerings, strategies and approaches," says Anders Johanson, Senior VP Innovation and Technology and

Adjunct Professor at KTH. The projects extend to 2020 and have been awarded SEK 4m by Vinnova, the Swedish Innovation Agency.

Treading lightly

The Husqvarna Carbon Footprint Calculator, available in 2019, will enable professional landscapers to better understand the CO₂ impact of their machine fleet. Via machine sensors and built-in connectivity, the new tool is part of Husqvarna Fleet Services™. It collects data from the machine fleet, tracking equipment performance and identifying ways to improve productivity. A user forum connecting fleet management users in a number of companies allows people to share ideas and feedback within the group on how they can leverage the calculator and help us fine-tune its functionality.



Ten years with AIESEC

Husqvarna Group celebrated the ten-year anniversary of its partnership with AIESEC, the world's largest youth-run student organization. AIESEC provides university graduates with leadership development, cross-cultural internships and volunteer experience.

"Through our partnership, we are tapping into a talent pool that is engaged and energized and brings us diversity and inspiration," says Mi Nyberg Johnsson, VP of Talent Management. "In turn, young talent gets the chance to work in a global company. In 2018, 29 AIESEC interns worked with us. In the last ten years, we have provided 120 job opportunities to its members."



Every drop counts

By 2030, half the world's population will live in water-stressed areas. Our line of water-efficient products aims to address water scarcity and other urgent related issues.

For example, under the banner "Every drop counts" Gardena announced a water partnership with UNICEF in 2018. In its three-year agreement, Gardena is supporting UNICEF in providing access to clean drinking water for more than 100,000 people in over 100 countries. The UNICEF logo will also be carried on Gardena's limited-edition watering set of tap and hose connectors.

Gardena's garden watering products can deliver efficient irrigation systems and contribute to saving water, especially when used with sensors. Gardena aims to increase sales of these watering products by 50 percent by 2020 compared to 2015. In 2018, we reached the target with a 59 percent increase in sales.

London calling

A future-focused leadership culture helps Husqvarna Group carve its place in a fast-changing marketplace. Together with London Business School, we developed the Future Executive Program, as one of six leadership training opportunities ongoing at the Group. The program equips managers with insight needed to develop and implement future business strategies.

Using the program's outside-in perspective, participants develop strategic approaches to improve resilience and pinpoint opportunities and partnerships in a changing society. Group Management joined participants during the program to share learnings.

Acting with integrity

Husqvarna Group is built on a foundation of integrity, trust and respect. Our Code of Conduct plays a key role to ensure that these principles are reflected in the actions of each employee and business partner wherever we operate, and that expectations for working according to them are understood by all.



Our Code of Conduct was significantly revised in 2018. It now incorporates nine new standards including business ethics, human rights, safety, quality and our environmental footprint.

In describing the roll-out, Ken Wittenauer, VP Compliance and Integrity, explains, "The Code is being rolled out across the Group and is translated into 14 languages. About 6,000 employees will be trained in the Code as of 2019."

THE WORLD WE WANT

The UN's Sustainable Development Goals (SDGs) are a 17-goal plan for ending extreme poverty, fighting inequality and injustice and protecting our planet up to 2030. Realizing the SDGs requires significant efforts across all levels of society, not least in business, which has a critical role to play as a change agent.

By reducing the negative impacts of our operations, contributing to positive change along the value chain and engaging in society at large, we can contribute the most to seven of these goals. The SDGs will play an even more important role in developing the Group's Sustainovate strategy beyond 2020, which will be announced in 2019.



Where the Group can reduce negative impacts of its operations

Where the Group can positively impact customers and value chains

Where the Group can positively impact society at large

IMPACTS ALONG THE VALUE CHAIN

Impacts along the value chain

A value chain perspective helps us better understand our impacts and maximize the benefits of our work. The long term view helps us pinpoint the relationships we need to strengthen in order to deliver on Sustainovate’s targets.



PRODUCT & SERVICES DEVELOPMENT

Carbon emissions and product safety targets spur innovation and enable the shift to low-carbon alternatives. This year, SEK 1,581m (1,342 m) was invested in R&D, a large share of this in new product innovation and efficiency.

How we will meet our challenges

- Energy and water efficient products
- Innovate solutions for customer health and safety
- Technology investments
- Materials use and recyclability

The difference we make

Driving low-carbon alternatives and safety innovation helps create a competitive edge while reducing impacts at the customer-use phase. Meeting ambitious regulations in one market provides insight into another's requirements. This approach stimulates industry performance.



SOURCING

The Group sources goods and components from approximately 2,000 companies. With Sustainovate, we are leveraging 172 of our most strategic suppliers, representing some 70 percent of our purchasing spend, to generate change and reduce risks upstream.

How we will meet our challenges

- Supplier-enabled innovation
- Long-term financial performance
- Energy-efficient suppliers, audited for their sustainability practices
- Ethical business practices

The difference we make

A partnership approach helps us achieve climate and supplier targets and deliver cost savings for us and our suppliers. We encourage suppliers to share our sustainability ambitions and help us reduce our impacts and increase transparency deeper into the supply chain.



MANUFACTURING

With 13,000 employees in 40 countries, our economic and social impacts are sizeable. Our direct carbon footprint is relatively small, about two percent, and is mostly from electricity consumption. The decisions we make here set the tone for other priorities along the value chain.

How we will meet our challenges

- Focus on efficient operations
- Manage talent
- Ensure health, safety and well-being

The difference we make

As a trusted brand and a company committed to market leadership, we attract the right competencies. Producing products efficiently and close to market allows significant cost optimization. Employees gain job development opportunities and security. Local communities benefit through jobs and economic stability.

OUR IMPACTS

DEGREE OF OUR INFLUENCE



Achieving the 2020 targets depends on our ability to identify how actions in one phase of our value chain link to the impacts in another phase. Here is how we see our greatest impacts along our value chain to 2020, and how Sustainovate is designed to create value by actively addressing them.



TRANSPORTATION

Approximately one percent of the Group's carbon dioxide emissions is related to transportation, primarily from road, ocean and airfreight. Product packaging and operations footprint can positively influence our carbon impact on the road.

How we will meet our challenges

- Shift to preferred transportation methods
- Optimize logistics
- Optimize packaging

The difference we make

Shifting to more sustainable transport and decreasing use of air cargo are important objectives for society that we support through our purchasing choices. Optimizing logistics can yield significant cost savings.



CUSTOMER INTERACTION

Our products are sold via 25,000 dealers and retailers in 100 countries to consumers and professionals and through online sales. Our aim is to increase sales of products that go beyond local regulation for emissions and safety.

How we will meet our challenges

- Promote sustainable and efficient products and services
- Ensure long-term financial performance
- Promote personal protective equipment

The difference we make

Sales growth improves our long-term financial viability. By promoting battery we're growing the market for a low-carbon product portfolio. Increasing transparency on environmental and social impacts help dealers and retailers meet customer expectations. Targets to increase sales of protective equipment and water efficient products help improve safety and efficiency.



CUSTOMER USE

Close to 85 percent of a petrol-powered product's carbon impact occurs when it is in use. Our ability to influence this phase depends on product development, battery technology and growing opportunities offered through digitization.

How we will meet our challenges

- Develop sustainable products and services
- Deliver solutions for customer health and safety

The difference we make

Energy-efficient products deliver cost savings for customers. Focusing on safe solutions delivers a sense of security to users and bystanders. Spare parts and fleet-management services extend the lifetime of our products.



END OF LIFE

Our long-term vision is to turn our products' end of life into the beginning of a new cycle. This requires a framework that few companies can achieve on their own.

How we will meet our challenges

- Develop sustainable products and services
- Follow regulatory change

The difference we make

Our products are comprised largely of steel and plastics. We participate in recycling schemes for electrical equipment and batteries in markets in North America and Europe. With the circular economy as a growing imperative, we are exploring opportunities to contribute further by increasing use of recycled plastics in products. This brings us a closer to creating a more circular value chain.



CARBON CHALLENGE



Sharp focus on customer use

Through our carbon targets, we aim to decouple our CO₂ emissions from our ambition to grow as a company. The greatest opportunities to reduce our impact lie in how we deliver value to customers. They are threefold: developing energy-efficient products, shifting towards electrical products and developing low-carbon business models.

By addressing touchpoints along our value chain – suppliers, operations, transportation and product use – our approach is to reduce CO₂ in line with our impacts while delivering value to our customers. Our aim is to achieve a CO₂ intensity reduction of 10 percent in 2020, compared to 2015 emissions levels.

OUR SCIENCE-BASED TARGET

The Science-Based Targets Initiative (SBTI) works with companies to set emission reduction targets, consistent with efforts to keep temperature increases below 2°C compared to pre-industrial levels, the goal of the 2015 Paris Agreement on climate change. This initiative of non-government organizations includes the Carbon Disclosure Project (CDP), the UN Global Compact, World Resources Institute (WRI) and World Wildlife Fund (WWF).

Our Science-based target (SBT) incorporates the Sustainovate target of a 10 percent reduction in CO₂ intensity by 2020. This gives us the foundation for reducing CO₂ emissions in the short term. We don't intend to stop there, though. The SBT commitment also extends to cut CO₂ emissions from product use by 33 percent by 2035 compared to 2015, regardless of how much we grow our business. Husqvarna Group was the first Swedish-listed company, and the world's first forest and garden company to have its CO₂ reduction targets approved by the SBTI.

2035 TARGET	2018 RESULTS
<p>-33%</p> <p>Absolute CO₂ emissions reduction from product use by 2035</p>	<p>-8%</p> <p>Absolute CO₂ emissions reduction from product use by 2035</p>
<p>HOW WE ARE GETTING THERE</p> <p>R&D for efficiency and step-change innovation and business models</p>	

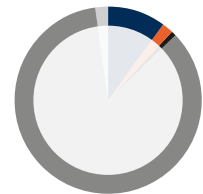
Progress across the value chain

Already in 2017, tangible CO₂ reductions were made in product use and manufacturing. This continued in 2018. Although we aim to find a common way of measuring CO₂ among suppliers, so far marginal progress has been made on this supplier sub-target (p.21). By reducing CO₂ by 6 percent in transportation, we also realized an expected outcome, although airfreight is still on the rise.

Exiting certain petrol-powered products

The majority of our products still rely on petrol. A product life-cycle analysis of petrol product shows that the largest share of our impact by far – approximately 85 percent, depending on the product category – occurs when operating our products. As such, the biggest opportunities in the 2020 carbon challenge are through sales of more sustainable alternatives such as battery-powered products.

CO₂ EMISSIONS IN THE VALUE CHAIN



- Suppliers, 10%
- Manufacturing, 2%
- Transportation, 1%
- Product use, 85%
- Other 2%

According to the Group's carbon footprint, our greatest impact occurs during the use of our products.



The shift to battery-powered products will deliver on our long-term objective to decouple growth from CO₂ emissions.

2020 TARGET	PROGRESS	REDUCTION SUB-TARGETS	HOW WE ARE GETTING THERE	2018 RESULTS
<p>10%</p> <p>CO₂ emissions intensity reduction across the value chain</p>	<p>21%</p> <p>Accumulated reduction (2018 vs 2015 baseline)</p>	<p>10% in product use</p>	Optimize product efficiency and increase share of battery and robotics	<p>20% ●</p>
		<p>10% in transportation</p>	Reduce airfreight and optimize distribution and packaging	<p>6% ●</p>
		<p>30% in manufacturing</p>	Purchase renewable energy and improve energy efficiency	<p>58% ●</p>
		<p>10% from strategic suppliers</p>	Engage suppliers to disclose and reduce their CO ₂ emissions. Drive improvements and share best practice	<p>- ●</p>



The most tangible difference in our CO₂ footprint will occur beyond 2020, as we expand our portfolio of battery-powered products and invest in robotics, and connected technologies for low-carbon alternatives.

Although battery-powered products represent a lower share of turnover, the share of total sales have increased 16 percentage points since 2015 – from 11 percent to 27 percent.

We made a further commitment to decouple CO₂ emissions from business growth with our announcement to exit certain consumer segments and products, such as petrol-powered walk-behind lawn mowers and garden lawn tractors. Although the exit will lessen our carbon footprint, the 2020 target achievement will likely not be impacted. In addition, the 2018 acquisition of Light Compaction & Concrete Equipment business will have marginal impact on the Group’s carbon footprint.

The most tangible difference in CO₂ emissions will occur beyond 2020, as we expand our portfolio of battery-powered products and invest in robotics and connected technologies for low-carbon alternatives and business models. We launched our Science-based target (SBT) in 2017, which places special emphasis on efforts to reduce impacts at the product-use phase.

Our approach to managing CO₂ reductions

Our carbon challenge covers our emissions footprint across our value chain, from suppliers, operations, transportation to product use. Our four related sub-targets are formulated as snapshots of the current year’s performance, not as accumulated targets. Divisions drive targets through their own initiatives, relevant to their business context. Heads of sourcing, manufacturing, transportation and product development own their respective share of the target and initiatives.

Progress is reported as CO₂ emissions intensity, tailored to each aspect of the value chain. When emissions are aggregated on Group level, it is reported as per value added.* For products, we measure CO₂ emissions during the product’s lifetime, normalized to net sales. In manufacturing, energy consumed at factories, warehouses, R&D centers and offices is measured, also normalized to net sales and calculated for each division. In transport, CO₂ emissions are tracked per tons shipped, to report how we reduce our impact, relative to increased sales. We are seeking a relevant way of measuring progress for energy use and carbon emissions among suppliers.

Progress is reported to Group Management on a quarterly basis. Cross-divisional networks for CO₂, technology and suppliers regularly convene with responsible managers from every division to share best practice and identify barriers to realizing the challenge.

*Value added equates to EBITDA, salaries, social and pension costs.

PRODUCT USE

Delivering efficient products and low-carbon alternatives

We aim to provide our customers with more energy-efficient petrol-powered products and promote the use of batteries, robotics and connected solutions. This will help reduce CO₂ emissions and realize our 2035 Science-based target.

Petrol-powered product sales volumes have decreased since 2015. Since many of our products are only used occasionally by our customers, fuel efficiency as a selling point is a secondary priority for petrol-powered products. Price and performance are still the arguments that resonate most with them. Because petrol-powered products represent more than 70 percent of motorized products within the Group, connecting price, performance and efficiency will continue to be an important challenge for us.

Our efforts to improve fuel efficiency continue. For petrol-powered products, fuel consumption has decreased on average by 15-20 percent for comparable products on the market. For some ride-on mowers, for example, we are increasing the use of electronic fuel-injection (EFI) technology, which reduces fuel consumption with approximately 10 percent. These mowers are currently sold in Europe and will be sold in North America as of 2019.

Sales of battery-powered products on the rise

Battery-powered products represent an ever-growing share of our business, a trend that will continue into the foreseeable future. The shift to battery generates value for many reasons. It delivers opportunities to use renewable energy sources, it improves safety and versatility, and creates no direct emissions, less vibration and lower noise levels. Market demand is also increasing due to the influence of new emission regulations.

Interest in battery-powered products, including robotics, continues to rise among commercial customers and consumers. In particular, cities and municipalities are proactively sourcing battery-powered and robotics products and we see an increased interest in these solutions within tree care, urban forestry and parks. Sales of battery and electrical products represent 27 percent of our sales of motorized products.

As a next step, we are piloting a carbon-offsetting project for battery products sold in France in 2019, as a way of promoting sales of carbon-lean alternatives.

Handheld and lawn mowers

Within battery-powered handheld products, 2018 saw the launches and upgrades of products such as battery pole saws, hedge trimmers, trimmers and chain saws and an extended portfolio of lawn mowers. The market for battery-powered lawn-mowers stands out for its growth potential. The new battery lawn mower

LC247VLi won the 'Lawn mower of the Year' award from the test site Trusted Reviews. In 2018 we launched several models built on the Group's battery systems, sold under the Husqvarna brand.

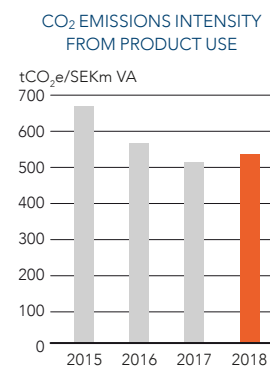
As robotic lawn mowers replace petrol walk-behind mowers and ride-on mowers, our overall emissions footprint will also be reduced. The growth of robotics is also a priority, especially in North America, where we will aim to grow significantly through increased distribution at hundreds of Lowe's retail outlets as well as through dealers.

Sustainability risks in battery sourcing

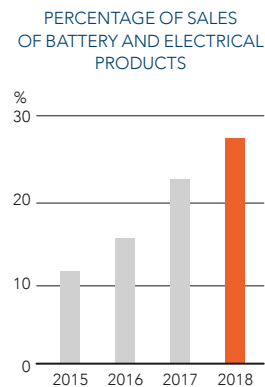
Batteries pose sustainability risks that must be understood and managed. Sourcing minerals such as lithium – a reactive alkali metal that powers batteries – cobalt and nickel pose environmental and human-rights risks among suppliers. It is crucial to be transparent about where these minerals are sourced and to ensure their safe recycling (p.24).

Husqvarna Fleet management systems

One of our greatest challenges is finding ways to influence how users operate their products at optimal efficiency. By collecting data from devices and providing the tools to analyse that data, digitization helps customers optimize their use of our products. It also gives us insights into how we can create even better customer solutions and fine-tune our products to each task.



CO₂ emissions intensity from product use were reduced by 20% between 2015 and 2018.



Approximately 27% of total sales of motorized products are battery-powered and electrical, compared to 11% in 2015.

Hedge trimmers are among the product categories leading the shift to battery.



Products paving the way

Across our divisions, our products help tackle key climate-change challenges and support initiatives that underline the value of zero-emission equipment.

Putting out fires

Many regions of the world are getting hotter and drier than they used to be, and that's driving a trend toward larger fires. The Group's products have a role to play in managing forests for prevention and fighting them when the going gets tough.

In California, the 2018 wildfire season was the deadliest and most destructive one on record. Built on longstanding relationships with firefighters in California, Husqvarna Division was active in getting teams the chainsaws and brush-cutters they needed quickly. Together with our dealer in Southern California, a mobile parts trailer was also on hand during fire season and we dropped parts close to the fires to eliminate logistics delays.

At the Camp Fires in Paradise, CA, the Group supplied a significant number of saws, personal protective gear, and other supplies through Bliss Power

Equipment a Husqvarna dealer in Sacramento, California who were among the many companies tasked with the clean-up of the town.

Cutting to the chase

Perfect for carpenters and contractors, Husqvarna Construction's K 535i Power cutter features ergonomics, high performance and high chain speed and now, the freedom of being battery-powered.

Based on Husqvarna's established battery-motor platform, this lightweight 36 V, 9 power cutter provides professional users with reliable quick starts and delivers the flexibility of being free from the power grid.

The power cutter is easy to maneuver and control, thanks to the placement of the blade closer to the center of the machine. As an added bonus, users can cut away without worrying about emissions.



Carbon cutting in California

With its aim of becoming a carbon-neutral state economy by 2045, California has an all-in approach to tackling climate change. One of their targets calls for a 50 percent reduction in the use of petrol by 2030.

This target is relevant to how the state manages its buildings and land assets. The California Air Resources Board (CARB) works with agencies to translate these ambitions into actions, including helping landscapers of state and public college campuses, state parks and other green spaces shift to battery-powered products. To achieve this, CARB is demonstrating products from Husqvarna and other professional brands.

"We help groundskeepers see the benefits of battery. We make sure they experience the



new generation of batteries before deciding to purchase," explains Dorothy Fibiger, Air Resources Engineer. "It can take some convincing to get them to try the products, but they're surprised when they see their upsides in terms of performance, low emissions levels, reduced noise pollution and vibration. Downtown areas love the equipment – workers can work longer hours with fewer complaints about disturbing noise."

Christopher Dilbeck, Air Pollution Specialist at CARB, adds, "At Sacramento's Capital Park, when groundskeepers started to use battery products it became their equipment of choice. String and hedge trimmers and electric chain saws are popular."

Fibiger concluded that up-front costs can be an obstacle for some products, but there is a business case when considering the total life-cycle cost of electric. Her recommendation for the next step for Husqvarna Group? "Blowers drain batteries quickly; they're the most energy intensive. Develop even more powerful batteries."

MANUFACTURING



Towards renewables in our operations

In factories, warehouses, R&D centers and offices across the Group, initiatives are in place to reduce energy and introduce renewable-energy alternatives. In 2018, over half of our electricity needs were met by renewables.

Although emissions from manufacturing only represent about two percent of our total CO₂ footprint, we recognize that efficiencies and the shift to renewables have benefitted us through lower costs and a more engaged organization.

Exceeded the target

Our manufacturing operations are located in 15 countries, including fossil-fuel intensive regions such as Asia and Eastern Europe. We aim to limit CO₂ impacts through energy optimization, investments in energy-efficient production equipment, as well as the production and sourcing of renewable electricity. These initiatives have so far contributed to a 58 percent reduction in CO₂ intensity since 2015, well beyond our initial target of 30 percent. Total energy consumption has been reduced by 5 percent since 2015 and while value added increased with 15 percent compared to 2015.

Going renewable

Our shift to renewables is delivering a large share of our results. We continue to increase the share of renewable electricity for our factories. Today, 59 percent of our energy is generated by renewable electricity. Fifteen sites in Europe and one in North America only purchase renewable electricity. Seven sites in Europe and twelve globally have not yet secured agreements to purchase renewable energy.

Solar-power capabilities were installed in Nashville, Arkansas, in the US and Huskvarna Sweden, in 2017, substantially reducing CO₂ emissions. In Nashville solar power supplies 30 percent of the electricity consumption, corresponding to electricity use in 90 U.S. households annually.

In early 2019, we will finalize installation of solar-power capability in Changzhou, China. Fully functional, the Chinese operation panels will also cover 30 percent (1.4 MW) of the site's total consumption of electricity. We are also evaluating an installation in Sao Carlos, Brazil.

Investing in energy-efficient equipment

Investing in energy-efficient equipment or equipment that does not use energy-intensive compressed air is also a priority area.

In our plant for robotic lawnmowers in Aycliffe, UK, eight newly installed twinshot-moulding machines are generating a saving of 120,850 kWh per year with the same number of parts produced per cycle. Only about five percent of energy supplied to systems using compressed air becomes useful, the remaining 95 percent is heat loss. Our aim is to reduce the heat loss and improve oversight. At Huskvarna, Sweden, we invested in a control system for compressed air that is delivering an energy savings of 300,000 kWh/year. In Changzhou, we replaced an inverter compressor, resulting in a 10 percent savings in energy use, compared with the previous solution.

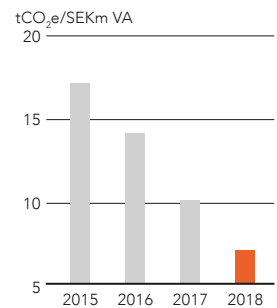
Hunting for energy treasures

Energy audits – we call them energy treasure hunts – are an important way to identify and eliminate energy-intensive practices in operations. In this way, we are better able to influence behavior. It is generating results; in our three North American operations (Nashville, Orangeburg and McRae), repairing compressed air leaks and other easily remedied problems has led to a cost savings in excess of SEK 6m (USD 700,000).

Chilling out

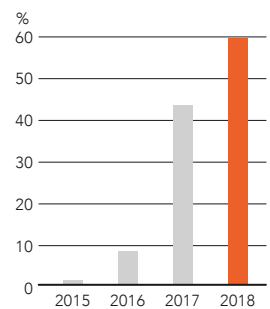
In Heuchlingen, Germany, the Gardena plant produces 1.5 million plastic parts every day. The process requires cooling mechanisms that are highly energy intensive. In 2018, we piloted use of "eChiller" to replace the refrigerant R134a, a substance with high global warming impact, with cool water. The e-Chiller solution will reduce energy consumption by 50 percent and provide a payback within a year. It is also enabling the phase out of a R134a, which must be eliminated from manufacturing in Europe by 2022.

CO₂ EMISSIONS INTENSITY FROM MANUFACTURING



CO₂ emissions intensity from manufacturing were reduced by 58% between 2015 and 2018.

SHARE OF RENEWABLE ELECTRICITY



Share of renewable electricity increased to 59%.

Actions on the ground

From smart packaging to solar panels, Husqvarna Group is making efficiency gains and cutting CO₂ in the process.

Thinking out-of-the box

With our Group-wide initiative Husqvarna Improved Print Packaging Opportunity (HiPPO), Husqvarna Group is rethinking its print and packaging solutions and product design to improve transport volume efficiency. Through this initiative, we are able to achieve sizeable cost savings and a CO₂ reduction of 20–30 percent.

Our team in Changzhou, China has redesigned packaging cartons for our 578BTF Blower. “We started with an analysis of the product’s impacts, from the material of the box to the layout of the product and how we present the product,” says Eve Zhang, Project Office Changzhou, “By reducing the width of the carton from 540 mm to 360 mm, we can load 12 cartons on a pallet instead of eight. This also increases our container fill-rate by 80 percent, reducing CO₂ emissions by 35 percent, and generating a cost savings of 35 percent.”

The carton will be launched in early 2019.



Redesigning packaging cartons increases transportation efficiency, resulting in lower CO₂ emissions and reduced costs.

Returnable packaging for ZTR mowers

Through a pilot program in 2019, we are testing a returnable steel crate for our zero-turn radius (ZTR) ride-on lawn mowers. Two ZTR models available to American and Canadian dealerships will be involved in the pilot.

Products will be shipped to the dealers in collapsible crates. They are returned to a refurbishment center where they are repaired and made available for new shipments from our factory in Orangeburg, S.C, USA.

The time and effort taken to unload the product is significantly less and the dealer no longer has to dispose of the wood or corrugated packaging. In addition, the solution delivers tangible safety, productivity and shop-floor cleanliness gains.



Recycleable packaging solutions for large ZTR mowers are being tested in the US.

MANUFACTURING



Matt Irving, VP of Operations, Today's Power (left) and Todd Anderson, Program Manager, Husqvarna Group (right) make the switch to solar in November 2017.

The big switch

It is a year since we installed solar-power capabilities at our factory in Nashville, AR, USA. Today, well over a quarter of the energy needs for the plastic molding operations is now delivered by renewables. Todd Anderson, Program Manager at Husqvarna Group, explains the benefits and take-aways of going solar.

Why is solar ideal for the plastics facility?

Due to significant electrical requirements and the cost to operate the plastic injection molding machines, we knew that this operation would financially benefit from a solar installation.

The solar-generated electrical energy now represent 30 percent of the total annual electricity consumption of the plastics operations. The utility cost savings from the solar-array installation over the same 12-month period was SEK 1.3m (USD 138,000) with minimal cost to operate.

What are the benefits of solar compared to relying on the power grid?

We are still very dependent on the power grid to provide all of the electrical capacity needed to operate our plastics moulding facility. We do not have any battery electric storage

capability, so any excess electrical power that we generate from the solar array on weekends and holidays feeds back to the power grid.

What are your top three recommendations for other sites?

1. Understand what external funding may be available from government agencies or electric-service providers. Without additional financial support, solar installations are difficult to justify from a cost-savings perspective only, you must also take the sustainability perspective into account.
2. Involve your electric-service provider immediately in the project and gain their commitment to the solar installation.
3. Find and select a solar-array contractor that will provide a turnkey solution and a high-quality installation. The lowest cost contractor may not provide the long-term reliability and support needed for a 25-year life installation.

What is your next step?

We have begun an early investigation into a renewable source of electric power for our Orangeburg, S.C. operations in the USA.



Taking action and raising awareness among suppliers

Reducing energy beyond our direct control requires influence, partnerships and relevant ways to measure progress.

Our goal is to cut CO₂ emissions among strategic suppliers by 10 percent. We're doing this by leveraging our influence through a partnership approach and defining comparable and relevant ways of measuring progress. This area poses a challenge that we have yet to master.

During 2018, our focus was on scoping the energy consumption and CO₂ emissions of 50 strategic suppliers to better understand our indirect, upstream CO₂ impacts. We have targeted 15 suppliers from this group of 50, based on turnover, climate risks and engagement to further understand their impacts and develop ways of measuring impacts and progress. Through EXCITE, our strategic supplier program,

some suppliers have also defined ambition levels to share best practices and challenge each other on how to improve.

One on one, and at a yearly supplier conferences, we outline our target objectives, how we aim to achieve them and share best practices. After a first wave of collecting CO₂ emission data from strategic suppliers, we decided to directly engage with a few of them to drive concrete energy reduction initiatives. See also p.24.



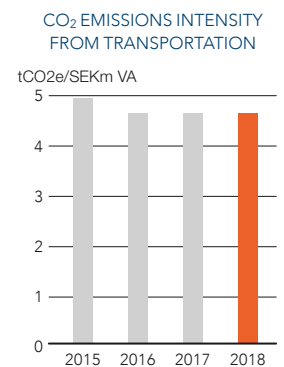
Improving logistics planning and reducing airfreight

We are working with our global network of suppliers across air, ocean, road and rail.

In transportation, our CO₂ intensity was reduced by 6 percent compared to 2015. The best way to limit our transportation-related CO₂ impacts is through improved logistics planning and reduced dependency on airfreight.

Continued use of airfreight is the limiting factor for us to continue to reduce CO₂ intensity, often due to last-minute deliveries. Last year, the Group reported that it would limit just-in-time use of airfreight for some customers and instead integrate rail as a transport option from Asia to Europe. This shift is several times cheaper and also leads to 25 times less CO₂ emissions. During 2019 we will continue to focus on the shift from airfreight to ground transportation, logistics and planning to optimize truckloads and reduce inter-company transport.

As a next step in engaging our organization in reducing CO₂, we will install internal pricing mechanisms for air freight in 2019. Funds will be reinvested in initiatives that support our Sustainovate target.



CO₂ emissions intensity from transportation were reduced by 6% between 2015 and 2018.

TEAM CHALLENGE



Team challenge

Leadership and empowerment are key to value creation

By creating an attractive workplace, providing opportunities and helping teams maintain sharp focus on key priorities, we can better deliver value to our employees. Our team challenge target measures how we are living up to their expectations.

Our teams, with their competencies, energy and commitment, are key to realizing the Group's long-term strategic objectives. That's why delivering lasting value to them plays a central role in Sustainovate and how our teams are managed throughout our organization. Since we are accountable to our employees, progress against the Team Challenge is measured based on feedback of every team member.

The target tells a story

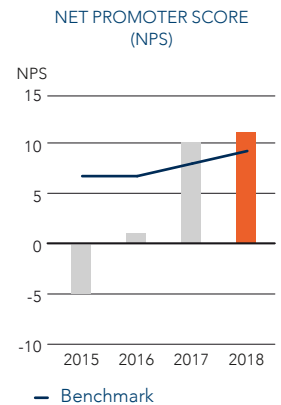
This challenge helps create the best place to work, and our target aims to exceed the industry benchmark in these regards. The Net Promoter Score (NPS) is our litmus test. We measure our NPS through a yearly team survey, which asks employees how likely it is that they would recommend Husqvarna Group as a place to work. We monitor how well we rate across three areas: employee satisfaction, engagement and communicative leadership. Positive feedback within these areas indicates that underlying factors are in place for value creation, for an attractive workplace and for well-functioning teams.

From strength to strength

More than 93 percent or almost 12,000 of our employees responded to the 2018 NPS survey – with input from both office and factory workers. Overall, we achieved an NPS score of +11, compared to +10 in 2017 and -5 in 2015. +9 is the 2018 industry benchmark, based on 500,000 responses from 200 companies and an 82 percent response rate.

Our results indicate that Husqvarna Group has a high proportion of engaged employees, our working climate continues to improve and leadership quality is on the rise. In addition, more employees this year compared to 2017 believe the Group's key goals have been well communicated. Awareness of Sustainovate challenges and Core Purpose and Vision is increasing.

The team survey feedback led to improvement initiatives in 2018 on Group, divisional and local levels in areas such as performance and development dialogue, team efficiency, leadership, working environment and actions for strengthening our employer brand.



For the third consecutive year since 2015, Husqvarna Group's NPS is on the rise.



Strengthening engagement among employees at manufacturing facilities is a focus area for 2019.

2020 TARGET	PROGRESS	HOW WE ARE GETTING THERE	2018 RESULTS
<p>+9</p> <p>Achieve a Team Survey Net Promoter Score (NPS) equal or better than our peer group</p>	<p>+11</p> <p>NPS</p>	<ul style="list-style-type: none"> • Improve working climate and engagement within manufacturing • Develop leadership capabilities • Strengthen performance dialogue • Build our employer brand • Strengthen teamwork and team efficiency 	<p>93% Employee satisfaction ●</p> <p>75% Engagement index ●</p> <p>75% Communicative leadership index ●</p>

We launched the “Future Executive Program”, one of six leadership training programs for both new and experienced managers. Since 2015 some 800 managers have taken part in leadership training, 158 in 2018.

To remain an attractive workplace, we aim to build and communicate a strong and dynamic company culture. For this purpose, we finalized the first phase of our Employer Value Proposition (EVP) project, to be rolled out across our divisions and regions in 2019.

A diverse organization

A global organization requires the insights of a diverse workforce. In terms of gender, the share of females across our company remains stable at 34 percent of the workforce compared with 2017, with 21 (24) percent on senior levels (Tiers one to three). An updated and sharpened diversity strategy, to be launched in 2019, will lay the groundwork for improving diversity further in terms of gender and culture.

Value driven

To reinforce our customer-focused company culture and promote our key behaviors (p.4), we introduced the Culture Award at the Husqvarna Division this year. Employees nominated a co-worker, team or project leader who reflects our key behaviors.

An evolving organization

In order to secure future competitive advantage, the Group has taken steps in 2018 to reshape its organizational structure, including senior leadership rotations and redistributing capabilities across the organization, affecting both Group and divisional levels. Strategic actions such as acquisitions, strategic partnerships and targeted recruitments were also a focus. Approximately 150 new positions were added in strategic areas such as robotics and battery, marketing, sourcing and supply chain management. Plans to add resources were moderated by a challenging business situation and the need for cost controls.

As of 2019, Husqvarna Group is organized in three divisions instead of four (p.3). From an employee perspective, this means additional staff in some regions and reduction of staff in others. For example, during 2018 the integration of the former Consumer Brands Division into Husqvarna and Gardena divisions resulted in staff reductions and a streamlining Group functions that impacted approximately 130 employees. The Group also announced the closure of its manufacturing site in McRae, GA, US, impacting approximately 1,000 employees during 2019.

Our approach to managing our teams

Our teams comprise some 13,000 people across 40 countries, three divisions and a range of functions.

Divisional-level initiatives will deliver the Team Challenge and our approach is guided by strategic and financial priorities and key behaviors. Finding the balance between global and local alignment for collective action and individual responsibility is crucial.

2018 objectives included establishing a performance culture, where customer focus, collaboration, simplicity and personal accountability define who we are and how we run our business. Alignment across divisions, technology enablement and engagement will achieve this.

On Group level, shared services improve consistency across the organization through a common approach to communication, ethics and how we evaluate performance. The People & Organization management team has quarterly meetings on Team challenge initiatives on Group and local levels. In 2019, Team challenge priorities will be:

- Strengthen engagement and change management in manufacturing
- Increase leadership capabilities through training opportunities and a revised leadership model
- Strengthen performance and development dialogue
- Develop a Group diversity strategy and execute actions on all levels

SUPPLIER CHALLENGE



Engaging strategic suppliers

We are enhancing our ability to understand and reduce our sustainability risks, as well as spur innovation towards more sustainable solutions through focus on collaboration with our strategic suppliers.

Husqvarna Group has concentrated on supply chain management of some 170 suppliers, out of a supplier base of almost 2,000 suppliers, that comprise 70 percent of our purchasing spend. We find that leveraging partnerships with them – built on risk assessments, audits, encouragement and defining shared goals – yields greater opportunities for lasting change and secures competitive advantages.

Our target enables our commitment to work together on environmental, human rights and anti-corruption priorities by establishing transparency on performance and risk. All strategic suppliers should be audited at least once by 2020. Since 2015, 55 percent of the strategic suppliers have been audited – 51 of 172 in 2018, compared to 27 in 2017. Six suppliers did not pass initial audits in 2018 and are subject to corrective actions.

Currently some 50 strategic suppliers have operations located in China, Taiwan, Vietnam, Brazil and

India, countries that pose higher risks for non-compliance of our expectations for sustainability performance.

The target is driven by our sourcing function. Although we are on target to meet the goal, with greater autonomy of purchasing functions on divisional level, it is important to ensure that the right competence is in place to build on our performance. Sustainability priorities can then be better integrated into areas such as quality, delivery, risk and cost. Group management has underlined that this is an area for improvement to 2020.

Strategic suppliers convene every year during our EXCITE supplier days to align priorities and share best practice.

TRANSPARENCY ON HUMAN RIGHTS AND ENVIRONMENTAL RISKS BEYOND TIER-ONE SUPPLIERS

Our suppliers for our electric and battery-powered products and the suppliers delivering efficient engines for our petrol-powered products are crucial to us achieving our market-leadership ambition. At the same time, their sourcing poses particular human rights and environmental challenges. It is essential that we understand and act transparently about how they are managed. These suppliers are audited against how they monitor and control their respective suppliers as per our Supplier Code of Business Ethics.

Pinpointing risks and tracing our supply chain beyond our direct suppliers for lithium batteries and electronic components has been in focus for quite some time. The Group sources cobalt and other minerals that are potentially classified as conflict minerals and are included on our Restricted Materials List. We will accelerate our focus on these types of risks in 2019 at Group level.



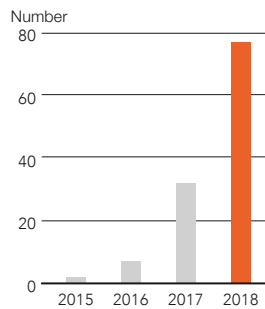
2020 TARGET	PROGRESS	HOW WE ARE GETTING THERE	2018 RESULTS
<p>70%</p> <p>of our purchasing spend will derive from suppliers audited and approved based on their sustainability performance</p>	<p>26%</p> <p>Share of spend from approved suppliers</p>	<ul style="list-style-type: none"> Secure contractual agreements Conduct sustainability risk assessments and audits Know-how transfer and capacity building Supplier development and business integration 	<p>45% share of approved strategic suppliers ●</p> <p>55% share of strategic suppliers audited ●</p>

Shared priorities

EXCITE, our Group-wide supplier program, is a network-oriented, collaborative approach to working with these suppliers. Through the program and our auditing process, we help suppliers build capacity and sharpen sustainability practices. We also gain valuable insight into our upstream impacts. The program also invites opportunities for us to learn how we can further improve our performance.

In addition to audits and training, our expectations on performance are a core aspect of quarterly business review meetings with the suppliers.

TOTAL AUDITED AND CERTIFIED SUPPLIERS



Since 2015, 77 suppliers have been audited and certified meeting our sustainability criteria.



Our approach to managing suppliers

With sourcing expertise in Europe, the US and China, our responsible-sourcing program reduces risks, ensures transparency and encourages positive change among suppliers. Local sourcing staff at each production facility are trained on the Supplier Code of Business Ethics and how to monitor, align and communicate how suppliers are meeting our expectations. Third-party expertise on sustainability audits complement our internal capacity.

The Supplier Code of Business Ethics covers legal compliance, fairness in business relations, respect for the individual, fair employment conditions, child labor, the environment, health and safety and fire prevention. All suppliers of direct materials and services must confirm that they fully comply with our code. If non-compliances are detected, suppliers are required to submit corrective actions within two weeks. We consider child and forced labor as zero-tolerance issues. If they are uncovered, we work with the supplier to remediate them. Cases of serious non-compliance must be resolved within three months, with monthly progress follow-ups. Leaving the supplier is only the last option.

New members of the purchasing team will undergo training on-site on the Code and through audits in 2019. We will continue to assess our supplier base and explore artificial intelligence solutions to improve risk assessments. The Supplier Code of Business Ethics will be reviewed in 2019.

SAFETY CHALLENGE



Strengthened processes lead to greater safety

Strengthened processes on the ground have led to improvements in workplace safety across our organization. At the same time, improved tracking on product safety records have reduced incidents.

The two targets in our Safety challenge – workplace and product safety – reflect our commitment to protecting employees, partners and customers.

Workplace safety

Our 2020 target for workplace safety aims to reduce our injury rate by 40 percent in operations, compared to 2015 performance. We see reductions in the number of work related safety incidents and we are on track to achieve the 40 percent reduction target for 2020. With a Total Recordable Incident Rate (TRIR)* of 5.2 per million hours worked and a reduction compared to the baseline of 38 percent during 2018. Our performance in most of our operations reflects – and at some sites exceeds – the industry benchmark for the manufacturing sector.

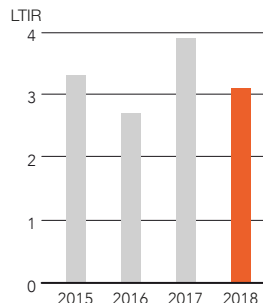
Product safety

Our target for product safety is to reduce new product incidents by 35 percent compared to 2016. Our product safety metric accounts for the number of injuries or property damage cases involving new products since 2016. The target is currently measured on incident reports from the North American market only. Other markets will be included when reliable market data has become available.

In 2018, 11 incidents involving products released since 2017 were reported. This brings our product safety result down from 94 cases to 49 cases, a 48 percent improvement. We achieved this by continuous improvements in product innovation and design, raising awareness and improved data collection.

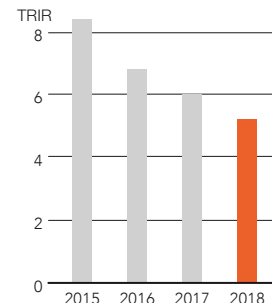


LOST TIME INCIDENT RATE PER MILLION HOURS WORKED (LTIR)



The 2017 increase of LTIR is due to inclusion of Restricted Work Cases. This includes seasonal workers.

TOTAL RECORDABLE INCIDENT RATE PER MILLION HOURS WORKED (TRIR)*



We have reduced the TRIR* by 38% between 2015 and 2018. This includes seasonal workers.

* In 2018, we revised our terminology to reflect TRIR (Total Recordable Incident Rate) instead of TCIR and LTIR (Lost Time Incident Rate), replacing LCIR. The indicator is calculated in the same way as with TCIR and LCIR.

2020 TARGET	PROGRESS	HOW WE ARE GETTING THERE	2018 RESULTS
<p>35%</p> <p>Reduction of new product incidents</p>	<p>48%</p> <p>Product incident reduction</p>	<ul style="list-style-type: none"> Product innovation and design improvement Improve incident information and root cause analysis 	●
<p>40%</p> <p>Reduction of injury rate in operations</p>	<p>38%</p> <p>Injury rate reduction</p>	<ul style="list-style-type: none"> Advance and mature our safety culture Lead via management commitment and action Involve and engage all employees and partners Proactively anticipate and prevent incidents 	●

Safety starts at the local level

Our main focus on Occupational Health and Safety (OHS) covers people working at our factories, warehouses and service centers, where line production, manual handling of materials, operation of tools and equipment and using forklifts pose particular risks. Safety professionals are onsite and ownership of corrective actions and preventive measures lies with every site. The approach towards each site's safety challenges can vary depending on size of operations, language barriers and awareness levels. Some sites rely on seasonal workers during peak production seasons and have to focus a lot on training new employees. This high employee turnover rate can also pose challenges in regards to our safety culture, accountability levels and implementation of safety rules and procedures. By managing safety at local levels, we can better address these aspects.

In 2018, our work focused on the following areas:

- Creating an ISO 45001-based OHS management system.
- Implementing a reporting system for incidents.
- Implementing systems to mitigate risks through Group and local audits.
- Improving networking within divisions and regions.

Towards a zero-accident mindset

Unfortunately, some accidents incurring lost time occurred in 2018, 150 (166) injuries required medical treatment, 91 (105) of which required days away from work or restricted duties. There were no fatalities. Forty-six (51) incidents occurred 2018 in our logistics operations, an area that has previously been of particular concern. We are working to further reduce these incidents by focusing on measures that require more time and effort, but promise long-standing behavior changes.

Importantly, we will more proactively identify and mitigate risks through increased reporting of leading indicators such as risk observations, through a zero-accident mindset.

Our approach to managing workplace safety

Workplace safety is managed at divisional level with support from Group functions and covers all manufacturing, office, warehouse and service sites. Each division contributes with its share of the Group's 40 percent reduction. Local managing directors and line management have responsibility for defining priorities, setting targets, implementation and evaluating progress against Group targets and KPIs. In addition, at least one safety professional is on site at every location. Incidents and progress are reviewed at weekly and monthly management meetings.

The OHS Network collectively identifies and mitigates potential risks and shares ideas to reduce impacts. The OHS network meets on a monthly basis to exchange best practices and coordinate initiatives.

Our OHS management system that is aligned with ISO 45001, is an integrated part of the Husqvarna Operating System (HOS), our standardized, hands-on approach for all manufacturing operations. Under HOS, management teams regularly walk through the factory to talk with workers, inspect operations and review corrective measures. This system helps spur improvements in an integrated, cross-functional way.

Performance is reported monthly to divisional management and Group functions. Most sites apply ten common standards that address areas that pose specific risks – such as equipment use, warehouse safety, chemicals handling and use of personal protective equipment.

When serious incidents occur, they are escalated to Group level within eight hours and a recommended action plan is then rolled out to all sites.

Safety management systems and ISO 45001 certification are acquired at site, country or regional levels. Group OHS inspections, external and internal audits and self-assessments help us remain proactive, prevent accidents, raise awareness and engage management.

We conducted 10 Group OHS Inspections during 2018 and all sites will be audited over three years. Health and safety training and coaching is ongoing throughout the Group, including first-aid training and stress management. In the U.S., managers in Nashville factory took part in the well-respected STOP (Safety Training Observation Program).

SAFETY CHALLENGE

Product safety for customers

Ensuring that our products are used safely is business critical. This means monitoring risks over the products' lifecycle, sharing knowledge as well as addressing issues as they arise.

Our target aims to establish a Group-wide structure for sharing information, tracking progress and actively reducing incidents involving our products during use.

This challenge is anchored in our Product Safety Policy that sets our internal rules and guides us to better understand root causes of incidents. With an outcome of 48 percent less incidents, we are on track to deliver on the target, after having been an area of concern in 2017.

Proactively managing risks

Safety is a priority for us. Handled improperly, our products may pose risks to both users and bystanders. New technologies may pose new risks, too. We also see that safety features are factors in purchasing decisions, particularly among professional customers. Product development, instruction manuals and information sharing all boost safety, enhance the user experience and reduce risks.

The highest standards and most rigorous testing do not always guarantee risk-free use of a product. If an issue is uncovered, we immediately take the appropriate safety measures. This occurred in 2018, following indications that an electronic component in Husqvarna and Gardena branded-lawn mowers might pose a fire risk. As a result, we issued a recall of affected mowers sold in, for example, Canada, Europe, Australia and New Zealand, affecting approximately 11,000 units.

Sharing knowledge through standardization work

In many ways, regulatory compliance and standardization guide our work. Providing insights also helps ensure that the same standards for safety apply across the industry. In 2018, the Group was consulted in standardization processes through ISO, IEC, ETSI and ANSI committees.

Designing and promoting development of safety features, ranging from smart tweaks to product innovation, are important indicators of market leadership. As an example of our approach, in 2018 we introduced smart blades for our professional handheld-power cutters when it was revealed that the power cutter could kick-back if the wrong fit-for-purpose blades were used.

Among our priorities in 2019, we will focus on key product categories to improve processes to manage safety, a shift away from tracking incidents as stated in our target.

Our approach to product safety

Our approach to product safety is threefold.

- On an ongoing basis, we introduce product features and corrective actions that prevent accidents or reduce their severity in all products
- We raise awareness of the importance of safety to users and bystanders through product information at point of sale and online
- We help improve industry performance by actively taking part in the development of safety standards across our sector.

As outlined in our Product Safety Policy, every product category manager must inform the Group Committee on Product Safety (COPS) upon concern for a product manufactured or supplied by us. COPS collates data and measures progress on safety performance on Group level. It informs Group Management and the Board of Directors on an as-needed basis of relevant product safety matters, depending on the matter's significance and financial and reputational impact.

COPS met on 12 occasions in 2018. It covers the following concerns:

- Actual or potential incidents involving personal injury
- Actual or potential incidents involving major property damage
- A market intervention procedure such as service bulletins, rework or recalls

Each product category manager carries the responsibility for implementing improvements in design, manufacturing process and product information and ensuring that we meet local regulatory requirements.

Safe and effective

Particularly among professional customers, we see that safety features are providing us with a competitive edge.



Silica safe

Husqvarna Construction is leveraging its know-how to help tackle worker health in working construction and industrial environments. We supply some of the most advanced and versatile portable air cleaners available, to be used in work situations where good air quality is not always a given.

Silica is a mineral found in sand, concrete, rock and landscaping materials. For tasks such as cutting, grinding and drilling it is important to protect workers from potentially inhaling these materials and impacting their health.

With our acquisition of Pullman Ermator in 2017, our demolition robots – the DXR – include dust suppression accessory, used to improve the filter particle capabilities. Supplying water to the tool binds airborne dust, reducing the risk that operators breathe harmful dust particles. The accessory also increases productivity by improving visibility and other worker conditions.



Smart blade

Our new and improved S series diamond blades helps keep users safe at their workplace and delivers a competitive edge for Husqvarna Construction.

“When working with handheld power cutters, safety and performance go hand in hand with productivity,” says Joakim Ed, VP Concrete Sawing & Drilling Equipment and Light Construction. “It is important that users know that they are using the right blades for the job.”

This is why Husqvarna Elite-Cut, Vari-Cut and Tacti-Cut Diamond Blades now feature recognizable indicators. “Whether the job involves asphalt or concrete, application markers help ensure that users are applying the right blade for the job,” Ed explains. “Wear indicators and visual aids provide information on the blade’s wear and side clearance; reducing risks for pinching or kick-back. For rental businesses, the measuring holes will help them keep track of the total wear between use.” These features provide a better, safer and more user-friendly blade.



Building the market for protective equipment

According to the International Labor Organisation, ILO, around 340 million occupational accidents occur every year, with a disproportionate number of accidents in emerging markets.

Protecting workers by equipping them with the right clothing and accessories such as gloves, eye wear, and helmets has a big role to play in saving lives. Husqvarna Division is actively promoting its line of protective equipment. Its goal is to increase the share of sales deriving from product safety technology and protective equipment to 2 percent of total global net sales to the end of 2020, from 0.2 in 2015.

The total share of sales currently lies at 1.5 percent. We have seen slightly rising sales in emerging markets, largely due to offering a more local needs-based assortment and through tailored marketing campaigns.

COMMUNITY CHALLENGE



Community challenge

Making a difference on the ground

By connecting people with nature and helping those in crisis situations, our divisions are employing their strengths, people, products and financial contributions, to build lasting relationships in local communities.

Through our product offering and engaged employees, we can make a difference in the communities where our consumers live and where we have a presence. The aim of the Community Challenge is twofold: to explore ways the Group's products and organizations can support local communities and to create a platform to share learning across the Group.

The Challenge target is being reformulated to reflect these objectives. Work to establish a framework that each local organization can apply will continue in 2019. This includes a common way of measuring the positive impact of our contribution through our community involvement.

Three themes that make a difference

This challenge supports local operations in building partnerships to invest in community efforts in relevant ways, aligned to three common themes.

- Improving biodiversity
- Promoting healthier lifestyles; and
- Supporting communities to be stronger and more resilient, especially during and after natural disasters.

The first two themes are grounded on Sustainovate's purpose – using our technology and know-how to connect people with nature. We are a significant employer in communities where our factories are located and we are inspired by our relationships with consumers, who live for the outdoors. Together with conservation organizations and local communities, we support efforts to preserve biodiversity in fields, forests and urban environments.

The third theme, to be strengthened in 2019, reflects our ambition to build capabilities within our organization that support communities and organizations in times of natural disaster. This includes deploying our expertise, products and resources.

We love parks

The Husqvarna Loves Parks initiative engages employees in actions that benefit local communities. Initiatives in four countries were done in partnership with local conservation and community organizations. Benefits include protecting local biospheres, providing training for local conservationists on using our products and engaging with the public in their parks. Activities were ongoing in Germany, the UK and two events took place in Poland.

As an ongoing forum for dialogue across our markets since 2015, Silent City has convened industry thought leaders, academics and landscaping companies and journalists to explore the role of parks for improving the lives of urban populations. This year, the international Silent City was held in Germany and several local events were held in the Poland, Lithuania, Australia, Denmark and France.

Emergency response

Whether it is an earthquake, hurricane or blizzard, professional products and Group competence can play an important function in times of emergency. Infrastructure such as roads, airports and waterways need clearing and people caught in a crisis need to be secured. Supporting local efforts when disaster strikes – which occurred this year in Estonia for example – are important ways of demonstrating our commitment to the regions where we have a presence.

NEXT STEPS

- Establish a Group-wide framework to align objectives and measure positive impact of emergency response and community work
 - Determine Group-wide capacity for emergency relief program
-

Estonian offices aid in forest fire

Northern Europe, with its summer of extreme heat waves, has seen an unusually high number of forest fires in 2018. Estonia was one hard-hit country. A large forest fire spanning 200 hectares struck the outskirts of Tallinn in June, threatening the capital city. Seven Husqvarna colleagues in Estonia aided the local fire brigade in extinguishing the fire.

Silent City 2018

For the fourth consecutive year, Husqvarna hosted Silent City, an international conference addressing blueprints for city gardens, and the role that developing parks has for improving urban challenges such as air quality and quality of life.

Held in Hamburg, Germany and convening city planners, NGOs and Husqvarna Division representatives, this year's themes focused on exploring solutions for reducing noise and how to enhance the value of trees.

More than 170 guests from 23 countries took part in the event that highlighted speakers from WWF, Treeconomics and Quiet Communities.



With 170 participants, this year's Silent City event took place in Hamburg, Germany.

A FOUNDATION OF INTEGRITY

A foundation of integrity

Husqvarna Group's commitment to the highest standards of integrity is reflected in our Code of Conduct and Group Policies. Compliance to the Code is expected of every employee and business partner and in every country where we do business.

Confirming our commitment to upholding the principles of the UN Global Compact and the OECD Guidelines for Multinational Enterprises, we have zero tolerance for non-compliance with our Code of Conduct. Our approach to managing anti-corruption and integrity issues encompasses three principles: prevention, detection and remediation.

The President and CEO, our Group Management and our Divisional Presidents are responsible to ensure that our business is conducted with integrity and in compliance with the Code of Conduct. Our Group Compliance Program is overseen by the Compliance Forum which is comprised of the Group General Counsel, VP Compliance and Integrity, Regional Compliance Officers and the Heads of People & Organization and Internal Audit. The Compliance Forum also ensures that the Board's Audit Committee receives quarterly compliance reports and updates.

Identifying and addressing concerns:

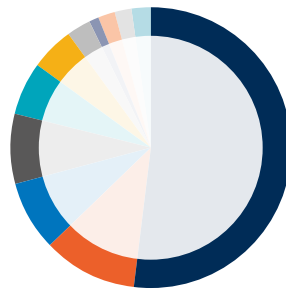
If our employees experience or witness questionable behavior then they are required to Speak Up and ask questions of their manager or local People & Organization. If an employee is not comfortable speaking locally then they can report concerns in a variety of channels.

In addition to employee reporting, in regions where there is a perceived higher risk of corruption, internal control and audit activities, as well as third-party due diligence also help identify risks of non-compliance.

Compliance concerns are primarily reported through:

- **AlertLine:** We maintain a toll-free telephone AlertLine system whereby employees can report concerns either on-line or by calling. Such calls can be made in native language, are fielded by a service provider and logged into our AlertLine global database
- **Compliance e-mail system:** We maintain an email address: compliance@husqvarnagroup.com where employees and stakeholders can submit concerns. The General Counsel and VP Compliance & Integrity receive the emails and input them into AlertLine

SUMMARY OF ALERTLINE REPORTS IN 2018



- Discrimination or Harassment, 52%
- Violation of Policy, 11%
- Other, 8%
- Violence or Threat, 8%
- Theft, 4%
- Unsafe Working Conditions, 5%
- Misconduct or Inappropriate Behavior, 2%
- Conflict of Interest, 2%
- Sabotage or Vandalism, 1%
- Substance Abuse, 1%
- Time Abuse, 1%

The total number of AlertLine reports broken down per category, primarily based on US calls. A total of 58 reports were recorded, the majority of which related to Code of Conduct non-compliances. Eleven cases were substantiated and seven partially substantiated.

Managing anti-corruption

We have zero tolerance for corruption and bribery and expect all Group companies to implement and monitor procedures to prevent them from occurring. Actions taken under the direction of the VP Compliance and Integrity during 2018 include:

- A revised Code of Conduct was published, incorporating nine new standards and including examples of standards and links to supporting policies. A smart phone tool provides access to the Code of Conduct and other Group policies through smart phone or tablets
- Improvements to Alertline reporting to facilitate on-line and call-in reporting of concerns. The software is GDPR compliant
- Expanded eLearning and live training for employee on the Code of Conduct as well as select anti-corruption topics, to be rolled out in 2019
- Publication of Investigative Guidelines for compliance investigations. It provides standards and guidance to local HR and supervisors



In the 2018 Top Management Meeting, Husqvarna Group's leadership teams stand behind the Code of Conduct.

- **Discovered matters:** In some cases, concerns are reported directly to line managers or local People & Organization, are discovered by a manager during business activities, or identified by audits. It is the responsibility of these individuals to enter such matters into AlertLine according to our policy for compliance investigation, reporting and action.

If we find that an alleged violation has been committed, appropriate actions are taken, which may include dismissal from employment and other legal measures. Investigated compliance matters are reported quarterly to the Board's Audit Committee and annually to the Board. In severe cases, or if senior managers are involved, the Board's Audit Committee and the Board is informed on short notice.

In 2018, a total of 58 misconduct reports (75) were recorded worldwide into AlertLine. Of those cases, 11 were substantiated and 7 partially substantiated leading to disciplinary action or modifications to existing HR policies and procedures. See chart which summarizes the AlertLine reports in 2018.

Next Steps

Next year, we will build on these actions by conducting a Group risk assessment and create mitigation plans to address risks. We will further enhance our third-party due diligence program to incorporate assessment protocols which can be used to confirm, enforce and measure third-party compliance to our Code of Conduct and Supplier Code of Business Ethics. We will also assess our compliance program through a third-party industry benchmark.

Managing sustainability risks

The Group applies the precautionary principle to prevent and reduce risks of harming people and the environment due to the impacts of our operations and products. Responsibility for addressing long-term material risks follows the Group's delegation procedure and is cascaded from the Board to the CEO and President, and from the CEO to divisional presidents.

Our business is exposed to a number of non-financial risks within product development, production and the supply chain, as well as regulatory and brand management risks. They include issues such as chemicals, climate change, health and safety, transparency, human rights, security and potential environmental liabilities upstream in our supply chain and in connection with the acquisition or divestment of land or production facilities. They also include how turnover is impacted by issues such as unseasonal weather patterns. In 2019, we will focus on understanding climate-related risks in a more systematic way by quantifying their implications based on the Taskforce on Climate-related Financial Disclosures (TCFD).

Through our updated materiality analysis, we are also currently mapping short-term and long-term impacts of our business along the value chain.

An outline of how the Group manages risks is included in the Husqvarna Group's 2018 Annual Report. The Internal Audit function continually evaluates and improves the effectiveness of our governance processes, risk management and internal control.

In addition to the company's auditors, operations are subject to external reviews and monitoring by the Swedish Financial Supervisory Authority and Nasdaq Stockholm.

CREATING SUSTAINABLE VALUE

Creating sustainable value

Built on a strategy for market leadership, the Group's business model is designed for profitable growth, bringing the best forestry, lawn and garden and construction solutions to the market by maximizing assets and minimizing waste and CO₂ from operations.

ASSETS

- Around 13,000 employees
- R&D of SEK 1.6bn
- Equity of SEK 16.0bn
- Premium brands Husqvarna and Gardena
- Presence in 140 countries
- 35 factories and 26 warehouses
- 170 strategic suppliers
- More than 2,000 patents
- 25,000 dealers and retailers

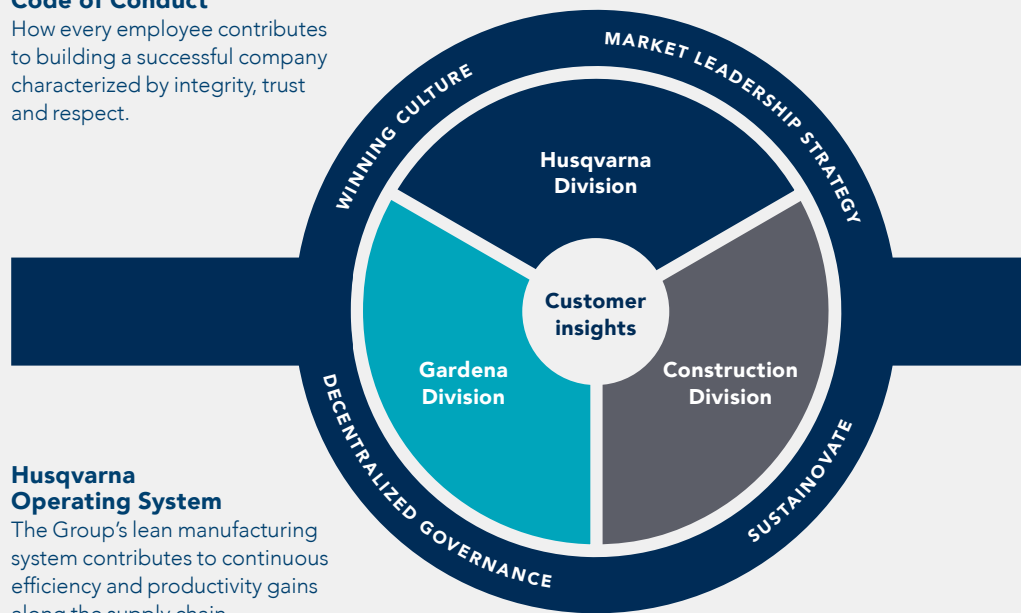
BUSINESS ACTIVITIES

Code of Conduct

How every employee contributes to building a successful company characterized by integrity, trust and respect.

Husqvarna Operating System

The Group's lean manufacturing system contributes to continuous efficiency and productivity gains along the supply chain.



Assets: the building blocks for global operations

The strengths of the Group's brands and its 13,000 colleagues are its most important assets. Long-term shareholders provide the Group with the flexibility to focus on sustainable profitable growth and to invest in innovation and acquisitions. As an integrated part of achieving operational efficiency, the Group optimizes the use of raw materials and components in production, which primarily comprises plastics, steel, aluminum and energy. This allows effective management of fluctuations in the price of and access to raw materials and components. Strong relationships play an important role in the Group's business model. Approximately 170 of some 2,000 suppliers are considered strategic to the business. More than 25,000 dealers and retailers represent Husqvarna and Gardena brands across 140 countries, delivering added value to professionals and consumers alike.

Business activities: what sets the Group apart

Profitable growth is the Group's way to generate stakeholder value. It is founded on innovation, leveraging the Group's strong brands, global distribution and efficiencies of scale to create differentiated product and solutions tailored to end-customer segments. This is achieved through investments in strategic growth areas such as robotic lawn mowers, battery-powered products, smart garden solutions and piloting new business models. The Group also maintains competitiveness through flexible, cost-efficient product manufacturing that easily adjusts to fluctuating seasonal demand while always meeting the customer expectations for quality and safety. Husqvarna Group's business model includes these main priorities:

- The Group strategy aligns the objectives for expansion and profitable growth.
- Customer insights: a deep understanding of the needs of different customer segments.

- Decentralized governance keeps the Group agile, flexible and responsive. Each of the three divisions is organized in a decentralized way to bring decision-making closer to customer. The Husqvarna Operating System (Husqvarna Group's Lean Manufacturing model), improves efficiency and productivity in the supply chain as well as in other areas.
- A winning culture engages the team. A foundation of a shared vision and core purpose, key behaviors and important policies such as the Code of Conduct underscore how every employee can contribute to building a results-oriented and trusted company.
- Sustainovate provides the outside-in perspective and is the way the Group integrates sustainability across its business. It allows the Group to better address market dynamics and societal challenges and understand stakeholders better.

Strategic focus areas

Investments made in battery, robotics and digital commerce leverage growth opportunities in the market.



Flexibility

Maximizing operational efficiency while servicing a market with fluctuating seasonal demands.

OUTCOME

- 13 product categories for end-customer segments ranging from professionals to consumers
- 200,000 connected products sold
- SEK 41.1bn in product sales
- SEK 5.7bn in employee salaries
- 54,000 tonnes of waste, 19 percent less than 2015
- 6 million tonnes CO₂ emissions, 9 percent less than 2015
- 48 percent reduction in product safety incidents since 2016

Outcome: sustainable profitable growth

Through innovation, energy-efficient operations and engaged and dedicated teams, the Group is growing its business while reducing CO₂ emissions and waste across the value chain. Products in a wide range of categories are tailored to customers' demands for efficiency, quality, durability and safety across markets, resulting in great customer experiences.

VALUE CREATED

Customers, retailers and dealers

- Safe, efficient, durable and reliable products and services
- Knowledge building
- Channel of choice
- Lasting partnerships

Investors

- Long-term financial performance
- Dividend payment

Employees

- Fair wages
- Good working conditions
- Employment security
- Attractive positions with development opportunities

Society

- Taxes paid
- Jobs
- Community involvement
- Contributions to a low-carbon economy

Value created: for key stakeholder groups

The focus on profitable growth delivers opportunities for efficient and innovative products and services that generate economic, environmental and societal value. Key stakeholder groups such as customers, investors, employees and society stand to benefit from this approach. It also generates income that is reinvested in the company through research and development of new innovative products and services as well as other market leadership activities.

SUSTAINOVATE GOVERNANCE

Sustainovate governance

Core to our business model, Sustainovate is the Group's approach to integrating sustainability throughout its business.

We set our sustainability priorities at Group level. In 2018, the Group had four divisions. They each responded to these priorities through targets and initiatives relevant to their own business. As of year-end 2018, Husqvarna Group is organized under three divisions. Networks of experts representing Group functions support divisions in realizing their initiatives. The Sustainability Forum evaluates progress and reports to Group Management on a quarterly basis and externally on an annual basis.

Cross-functional accountability

Group policies are the foundation for our decision-making and informs our conduct and practices. These include the Code of Conduct, and Occupational Health and Safety policy and an Environmental Policy, updated in 2018. On Group level, the Vice President Business Assurance, reports to the Senior Vice President Group Operations Development and is responsible for shaping our sustainability agenda,

An integrated approach



Sustainovate is the Group's approach to integrating sustainability throughout its business. Priorities are set at Group level and each division responds in the form of targets and initiatives for contributing to achieving the targets. Divisions are supported by networks of experts representing Group functions. The Sustainability Forum evaluates progress and reports to Group Management on a quarterly basis and externally on an annual basis.

developing procedures and standards, coaching and challenging divisional activities.

The Group's control systems identify critical processes and management responsibilities across our organization. At production facilities, plant managers have overall responsibility for operational environmental and health issues, collecting and reporting EHS data into Group reporting systems on a quarterly basis.

People and Organization is similarly organized. The Group function, People and Organization, define the agenda, set overarching priority

areas, share best practice and align practices and processes. Human resource management, divisional targets and actions are set at local and divisional levels.

In operations, the Group has developed its own management system – the Husqvarna Operating System (HOS). Site-specific ISO management certifications for Health and Safety (OHSAS 18001 and ISO 45001) are in place at six facilities, and ISO 14001 for environmental management are in place in 80 percent of our factories. Certification for energy management (ISO 50001) is in place in seven sites, with more to come in 2019.



Materiality – A focus on value creation

A materiality assessment helps us prioritize how different topics impact our ability to create value for stakeholders and for our business.

For the Husqvarna Group, sustainability is all about building a strong and profitable company for the future and delivering lasting financial, social and environmental value for our stakeholders. By analyzing our impacts through this lens, we were able to determine areas where we can make the greatest difference.

The foundation of our approach

As part of our materiality process, the Group hosted a series of internal leadership workshops and conducted interviews with key stakeholder groups, starting in 2015. Discussions centered on a long list of issues clustered into 26 sustainability topics that were potentially relevant to our business, related to our negative impacts and value to stakeholders.

Based on internal stakeholder insights, we mapped these topics according to the degree they influence stakeholders' perceptions of the Group's ability to create value and the degree of their impact on the business. We thereafter prioritized and analyzed the role of the topic in our sustainability work (see illustration).

The resulting prioritized topics were plotted along the value chain. The value chain helped us define our role in addressing relevant topics and the boundaries of responsibility for tackling them.

The prioritized topics were incorporated into the sustainability strategy in various ways. For example, efficient products are central to the Carbon Challenge and diversity is incorporated into the Team Challenge.

Our analysis

Of the 14 prioritized sustainability topics, three – the Differentiators – provide a competitive advantage. These topics demonstrate how we can make the greatest difference to stakeholders and are directly relevant to our business. Two topics are product related and the third concerns financial stability.

Six topics are deemed Enablers and support the business strategy. They are important processes for integrating sustainability priorities into our business.

Five topics are Trust Builders among stakeholders – although expectations are high on performance in these areas, they are not necessarily among the priority areas for value creation.

The sustainability agenda is a moving target. We have therefore also identified an additional four topics as Emerging Issues. These topics, including our role in the circular economy and delivering positive impacts on biodiversity, have been closely monitored to chart how expectations evolve over the strategy period.

Linking our priority topics to an analysis of society's megatrends revealed five challenges – carbon, team, safety, supplier and community. Sustainovate includes ambitious goals and leading performance indicators in order to track our progress. Our 14 prioritized topics lay the foundation for sustainability content in the Group's 2018 annual and sustainability reports.

Our most relevant topics

Of the 26 topics on the Group’s radar screen, 14 are deemed as most material to our business and are integral to realizing Sustainovate. An additional four topics are important to monitor.

- **Differentiators**
Topics that drive competitive advantage
- **Business enablers**
Topics that support achieving the business strategy
- **Trust builders**
Topics to meet baseline expectations defined by universal business conduct
- **Emerging issues**
Topics with changing agendas, important to monitor



Our materiality process

Our topics cut across economic, social and environmental spheres, and our process includes the following components:

- Forward-looking view: We mapped the impacts of megatrends on the business strategy to 2020, including an analysis of competition, stakeholders and markets, to identify potentially relevant topics (p.5)
- Value creation: Customers, investors, employees, retailers and dealers are among our key stakeholder groups. To distinguish their priorities, we analyzed each topic based on how we create value for them
- Alignment of business priorities: On the same matrix, we mapped topics against our business strategy, their importance to our corporate culture and the degree of impact as per the product life cycle and interactions with society
- Topic analysis: Based on the matrix, we pinpointed the issues that deliver competitive advantage, enable the business strategy and build trust
- Degree of impact of our business on society: We charted prioritized topics along the value chain

About this report

This 2018 Sustainovate Progress Report presents the Husqvarna Group's approach to integrating sustainability into the business. The report is framed around five challenges that are most relevant to the Group's ability to create economic, social and environmental value for our stakeholders.

We have applied the Global Reporting Initiative (GRI) sustainability reporting guidelines as a guide. The GRI Index leads readers to information on relevant indicators as defined by the GRI standards.

Based on our materiality analysis, Sustainovate encompasses the sustainability issues most relevant to the Group and our value chain. In the report, we outline why sustainability is relevant to our business, our priorities and response, ways we are measuring progress and our approach to managing each of them.

Where relevant, this report also highlights how the Group's priorities reflect our commitment to the UN Global Compact's ten principles. The report therefore also serves as our Communication on Progress.

Boundary of the report

Unless otherwise indicated, standard disclosures include all operations that can potentially affect Group performance. Data has been collected over the 2018 calendar year. This report covers some 13,000 employees at year-end, including both office and factory workers and seasonal employees. Data encompasses 35 factories, 14 warehouses and 2 R&D centers, in 19 countries. Historical data have also been adjusted when it has been found to be incorrect, to improve quality of indicators. Wherever possible, the Group reports on its performance indicators covering the last five years. 2015 was defined as the baseline for Challenge targets with the exception of product safety, which uses 2016

data as a baseline. Health and safety statistics are based on local definitions in terms of what constitutes a workplace injury and a lost day due to injury. The company's previous sustainability report was published in April 2018.

In accordance with the Swedish Annual Accounts Act chapter 6,§11, Husqvarna Group has chosen to establish the statutory sustainability report as a report separated from the Annual Report. The required information in accordance with the Annual Accounts Act constitutes part of the Board of Director's report and is incorporated in this document.

This report has been submitted to the auditor at the same time as the Husqvarna Group's Annual Report. For further information, see p.112 in the Annual Report. Information about our business and financial performance is provided in our annual report, available here.

External assurance

The sustainability report has been reviewed by an assurance provider to ensure that we meet information requirements of Sweden's legislation on sustainability reporting.

For more information contact:

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GRI Index

AR = Husqvarna Group Annual Report 2018

GRI 102: General disclosures		Reference (page)			
Organizational profile					
102-1	Name of the organization.	1	102-12	External initiatives	9, 11, 14
102-2	Activities, brands, products, and services	AR 26, 28, 30	102-13	Membership of associations	Not collated on Group level
102-3	Location of headquarters	46	Strategy		
102-4	Location of operations	40	102-14	Statement from senior decision-maker	8-9
102-5	Ownership and legal form	AR 55	Ethics and Integrity		
102-6	Markets served	AR 12-13, 26, 28, 30	102-16	Values, principles, standards, and norms of behavior	32-33
102-7	Scale of the organization	16-17, 34-35, 41, AR 2	Stakeholder Engagement		
102-8	Information on employees and other workers	22-23, AR 48, 78	102-40	List of stakeholder groups	35, AR 17
102-9	Supply chain	12-13, 24-25	102-41	Collective bargaining agreements	Not collated on Group level
102-10	Significant changes to the organization and its supply chain	AR 41	102-42	Identifying and selecting stakeholders	38-39
102-11	Precautionary Principle or approach	32-33	102-43	Approach to stakeholder engagement	38-39
			102-44	Key topics and concerns raised	38-39

GRI Index

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ADDITIONAL INDICATORS

GRI Disclosures

Economical indicators

Indicator	Unit	2018	2017	2016	2015	
201-1	Generated direct economic value					
	Group Net sales	SEKm	41,085	39,394	35,980	36,170
	Distributed direct economic value					
	Operating costs (materials and services)	SEKm	29,416	28,186	26,277	27,009
	Employee salaries	SEKm	5,712	5,121	4,680	4,508
	Social security costs and pensions plans	SEKm	1,336	1,187	1,059	1,021
	Payments to states and municipalities (taxes)	SEKm	970	431	280	252
	Credit institutions (interest)	SEKm	509	500	422	344
	Shareholders (dividends)	SEKm	1,286	1,114	946	945
	Economic value retained	SEKm	1,856	2,855	2,318	2,091

Social indicators

Indicator	Unit	2018	2017	2016	2015	
401-1	Employee turnover voluntary	%	9.1	9.1	7.8	10.5
403-2	Lost time incident rate per million hours worked	LTIR	3,1	3,9	2,7	3,3
403-2	Total recordable incident rate per million hours worked	TRIR	5,2	6,0	6,8	8,4
403-2	Fatal workplace accidents involving employees	No	0	0	0	0
404-3	Performance reviews	%	72	73	71	69
	of white collar	%	84	87	86	86
	of blue collar	%	61	60	57	55
405-1	Proportion of female employees					
	in total workforce	%	34	34	33	35
	in senior management positions	%	22	24	22	24
	in the Executive Board	%	38	38	38	38
	Net Promotor Score (NPS)	NPS	11	10	1	-5

Environmental indicators

Indicator	Unit	2018	2017	2016	2015	
308-2; 414-2	Full supplier sustainability audits	No	51	27	15	2

Indicator	Unit	2018	2017	2016	2015	
302-1	Renewable electricity as a percentage of total electricity	%	58.9	43.0	7.5	0.6
302-1	Renewable energy as a percentage of total energy	%	35.7	26.3	4.6	0
305-1	Direct CO ₂ emissions (Scope 1)	tCO ₂ e	28,498	33,494	34,890	42,875
305-2	Indirect CO ₂ emissions (Scope 2)	tCO ₂ e	51,009	79,922	108,413	122,205
305-3	CO ₂ emissions from transportation (airfreight & ocean)	tCO ₂ e	28,860	31,473	26,979	27,405
305-3	CO ₂ emissions from business travel	tCO ₂ e	12,350	13,250 ¹	9,009	8,168
305-4	CO ₂ emissions intensity (Scope 1 and Scope 2)	tCO ₂ e/SEKm VA	7.2	9.9	14.2	17.4

Previously published data has been reviewed and some minor corrections (<10%) were made. Calculation of CO₂ emissions have been done in accordance to the Greenhouse Gas Protocol (GHG Protocol).

¹ Improved data collection was introduced in 2017, 2015 and 2016 are not comparable to 2017 data and onwards.

301-1 – Materials used by weight or volume	Unit	2018	2017	2016	2015
Steel	Tonnes	67,493	70,873	79,473	81,237
Plastic	Tonnes	23,384	22,774	21,342	18,441
Aluminium	Tonnes	918	877	692	764
Magnesium	Tonnes	997	999	946	1,121

302-1 – Energy consumption within the organization	Unit	2018	2017	2016	2015
Total energy used	MWh	367,533	383,664	383,361	388,361
Direct energy	MWh	116,126	119,792	119,423	126,096
Indirect energy	MWh	251,407	263,871	263,938	262,264

303-1 – Water consumed	Unit	2018	2017	2016	2015
Total water consumed	m ³	875,888	1,252,521	1,228,750	1,291,638
Ground water	m ³	222,443	204,934	188,063	183,584
Surface water	m ³	194,733	553,095	554,510	623,736
Collected rainwater	m ³	130	180	180	170
Purchased water	m ³	458,582	494,312	485,997	481,148

306-2 – Waste	Unit	2018	2017	2016	2015
Total waste	Tonnes	54,424	55,592	56,264	67,478
Non-hazardous recycled waste	Tonnes	43,963	45,182	46,228	57,305
Non-hazardous non-recycled waste	Tonnes	7,807	7,613	7,164	7,366
Hazardous recycled waste	Tonnes	345	467	437	540
Hazardous non-recycled waste	Tonnes	2,309	2,329	2,435	2,267

Previously published data has been reviewed and some minor corrections (<10%) were made.

Auditor's report on the statutory sustainability report

To the general meeting of the shareholders of Husqvarna AB (publ),
corporate, identity number 556000-5331

Engagement and responsibility

It is the Board of Directors who is responsible for the statutory sustainability report for the year 2018 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination of the statutory sustainability report has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's report on the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinion

A statutory sustainability report has been prepared.

Stockholm March 5, 2019
Ernst & Young AB

Hamish Mabon
Authorized Public Accountant

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