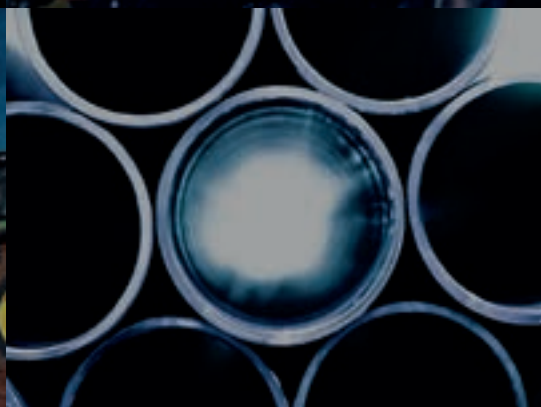
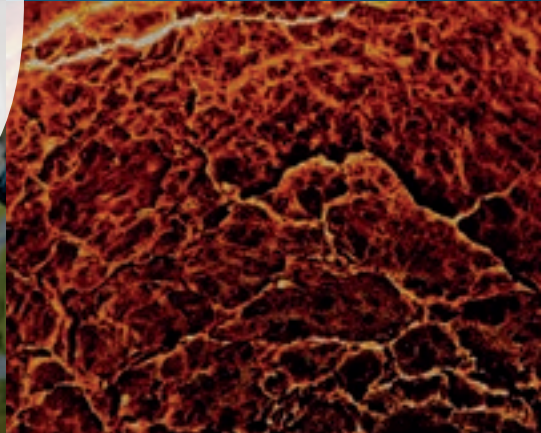
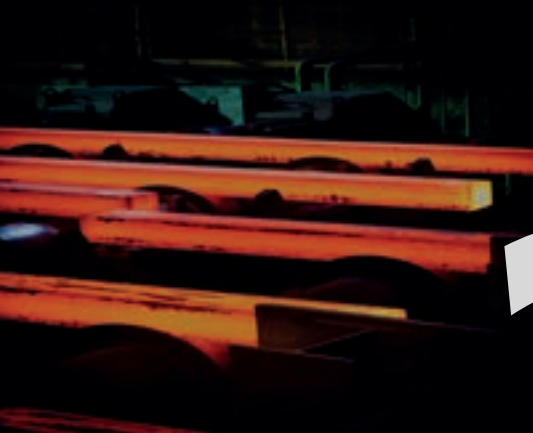




OVAKO

SUSTAINABILITY REPORT



2018

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Ovako is no longer required to prepare a sustainability report for the group since the parent company does not meet the criteria in the Swedish Annual Accounts Act and the group no longer have publicly listed loan notes. Ovako has therefore opted to voluntarily prepare a sustainability report in accordance with the disclosure requirements provided under the Swedish Annual Accounts Act. The report has been prepared as a separate report in accordance with chapter 6, section 11 of the Act. The group's auditor is not able to issue an audit report in accordance with RevR 12 (i.e. the audit report regarding statutory sustainability reports) on Ovako's sustainability report, due to it being a voluntarily prepared report.



INNOVATIVE STEEL SOLUTIONS FOR A SUSTAINABLE FUTURE

Ovako produces and sells engineering steel with characteristics such as high strength and wear resistance. The steel is used for demanding applications such as in bearings, power-trains, hydraulic cylinders and rock drills. Ovako's customers are found mainly among engineering industries and their suppliers. By manufacturing steel with customized characteristics and high quality, Ovako creates value for customers in a number of industries.

The main end-customer industries are

- General engineering
- Automotive
- Mining
- Energy production

A VISION FOR ZERO ACCIDENTS AND ZERO OCCUPATIONAL ILLNESS

Ovako has worked with safety for many years. This means that no work is so important that it should be carried out if safety cannot be ensured. Safety has the highest priority and Ovako's vision is zero accidents and occupational illnesses. To succeed in achieving the vision, Ovako conducts preventative and systematic health and safety work.

Read more on page 16.

80%lower CO₂
than the global average**3.7** LTIFRaccidents with sick leave per
million working hours**93%**of all residual products are
recycled or reused

Ovako is a leading European manufacturer of engineering steel for customers in the bearing, transportation and manufacturing industries. With geographical presence in Europe, North America and Asia and a steel product line that includes niche products and customized solutions, Ovako is helping create value for its customers and their customers.

Ovako's manufacturing process is based on steel scrap and a Nordic fossil-free electricity mix. As a result, the carbon footprint of Ovako's steel products is a full 80 percent lower than the global average. It is also clean and strong because Ovako minimizes impurities in the steel during the production process. That gives the steel high-quality properties that enable customers to create lighter, stronger and more durable end products.

3,000
employees**9**
production sites**30**
countries

A year focused on continuous improvements

KEY EVENTS

Q1

- Nippon Steel Corporation (Nippon Steel) signed an agreement to acquire 100 percent of Ovako
- Ovako launched the new digital tool, Heat Treatment Guide
- Ovako published its first sustainability report

Q2

- Annual safety week with a number of activities focused on safety culture
- Imatra production site received the Ovako Safety Award
- Handover of the steel industry's climate roadmap to the Swedish government

Q3

- Decision to invest in a new vacuum degassing facility at Ovako's production site in Smedjebacken
- Ovako received a Swedish patent that officially protects the new steel family, Hybrid Steel®
- Ovako in Imatra switched to fossil-free electricity
- Launch of leadership training including skills development in sustainability and safety

Q4

- Launch of anti-corruption training
- Employee survey including safety, organizational and social aspects

“We are looking forward to Nippon Steel’s technological expertise and support in delivering even more value to our customers.”

Marcus Hedblom, President and CEO of Ovako

INVESTMENTS IN WORLD-LEADING HIGH-TECHNOLOGY STEEL SOLUTIONS

With the support of its new owners, Nippon Steel Corporation, Ovako continued to invest during 2018 in strengthening its position as a world leader in high-technology steel solutions. One example of this is the ongoing investment of SEK 120 million in Smedjebacken's manufacturing process, with the addition of vacuum degassing to improve the characteristics of the steel and meet increasing market demand for sustainability and flexibility. The investment, which will be operational in 2019, will help to reduce the carbon footprint and energy consumption in production, which aligns with the company's ambition to manufacture the most sustainable, cleanest and strongest steel solutions for its customers.

Since 2018, Ovako has been a part of Nippon Steel Corporation, one of the world's leading steel producers with 93,500 employees worldwide. Nippon Steel manufactures a wide range of specialized steel products in more than 15 countries and at 12 steel mills in Japan.

A business with sustainability in focus

A long-term approach and sustainable development are integrated into Ovako's business model. This applies to the relationships with our customers and partners, with our employees and our business. It is therefore essential to our continued development that we run our operations in a way that takes responsibility for the economic, social and environmental resources we manage.

A new ownership structure, continued investments and a strong focus on employees, health and safety have permeated the fiscal year 2018. Through continued strategic efforts and in close dialogue with our stakeholders, we have continued to take important steps towards our sustainability goals. In 2018, we further strengthened our sustainability efforts by beginning the integration of the global sustainable development goals of Agenda 2030.

A major event in 2018 was that we were acquired by Nippon Steel Corporation (Nippon Steel). Furthermore, it was also announced that Ovako was being acquired by Sanyo Special Steel, which in turn becomes a majority-owned subsidiary of Nippon Steel. The acquisition is a natural step for the integration of Ovako into Nippon Steel, and will strengthen Ovako's commercial offering and technical capabilities. This means that we now have a strong industrial owner, and we see many synergies between the companies. I am convinced that, through this, we will together create additional opportunities for our customers in the global market. Our goal is to together become a world leader in speciality steel.



Safety culture and employee focus

Our employees are our most important asset in order to successfully conduct our business. Safety is the highest priority area in our strategy, and the goal is to completely eliminate accidents. Our employees should not have to worry that someone could be injured or become sick from working at Ovako. During the year, our Safety at Work program has continued with excellent outcomes. For example, our production facility in Imatra has for the second year had no accidents leading to sick leave. Overall, we are now at a leading safety level in the Nordic region. This is the result of a focused effort, under which we have made a great journey of improvement in recent years.

Circular economy and fossil freedom

In April, I had the honor to participate in the handover of the steel industry's joint climate roadmap – an agenda statement describing how the steel industry will contribute to a fossil-free Sweden by 2045. The roadmap is fully in line with Ovako's business model. All of our steel production is already based on scrap, which is processed into high quality steel products. This makes us one of the largest recyclers of steel scrap in the Nordics and an important player in the circular economy.

We already have one of the world's most carbon-efficient production processes, with 80 percent lower carbon dioxide emissions compared to the global average, but that does not mean we have reached our goal. During the year, we continued to invest in our facilities to further strengthen our competitiveness and reduce the climate impact of our production, including energy efficiency improvements. Steel production produces significant amounts of residual products. We are conducting extensive development work to put these to use where they have the greatest possible benefit. A successful example of this is the CE marked asphalt aggregate. Through our production of highly clean steel, smart solutions and cutting-edge expertise, we contribute to developing our customers' offerings so that they in turn can offer smarter, more resource-efficient and more climate-smart products to their customers.

Marcus Hedblom, President and CEO

Global trends are creating growth opportunities

Several general driving forces are affecting the steel industry and Ovako's business. Ovako continuously analyzes global trends in order to adjust operations and manage all opportunities that arise in the best way possible. Customer demand has been in a state of continuous change in recent years, with increasingly rigorous standards for quality and technical development. Sustainability has also increasingly gained importance to Ovako's business and customers.

HIGHER DEMANDS FOR QUALITY AND TECHNOLOGY

Customers are increasingly demanding premium or processed products rather than standard variants. Demands for technical performance are also rising. This means it is increasingly important for the steel industry to be able to deliver advanced, customized solutions that have a positive impact on the customer's business.

Ovako produces and offers superior products with high strength and functionality tailored to customer needs. The company works continuously with product development to meet customer demand.



DEVELOPMENT OF DIGITAL TOOLS AND SOLUTIONS

Digitalization is having a major impact on all industrial sectors and is creating opportunities for efficiency and better customer service. The digitalization of society is a multifaceted phenomenon that also offers many new opportunities to expand collaboration.

Ovako is working with digitalization initiatives on an ongoing basis to streamline the business and offer services that generate value for its customers. One example of a digital solution that creates value for customers is The Steel Navigator, a tool that helps customers search Ovako's extensive product line to find the steel that best meets their needs. The Steel Navigator also works as a platform for a growing selection of digital expert tools in areas including machining and heat treatment.



FOCUS ON SUSTAINABILITY AND THE CIRCULAR ECONOMY

Demand for sustainable products is rising alongside increased customer awareness. The trend is moving toward a more circular economy, with used materials reused in a cycle. Steel is highly suitable for recycling because its properties remain equally good no matter how many times it is reused.

Ovako is one of the largest recyclers of steel scrap in the Nordics and is engaged in responsible business across the entire supply chain. The company is a steel industry leader in sustainability and in minimization of carbon emissions per metric ton of finished steel product, taking the entire supply chain into account. Ovako is far below the global average for the carbon footprint of steel products.

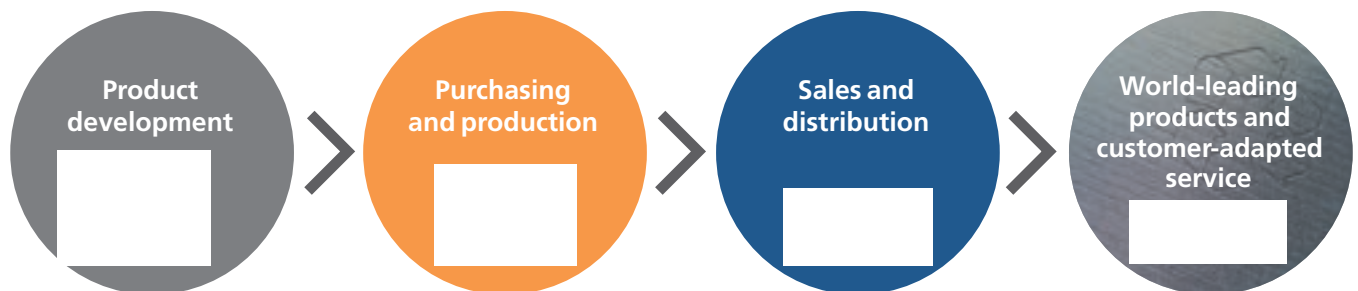


A sustainable value chain

Ovako continuously work to ensure that sustainability aspects are, as far as possible, included in all parts of the value chain – from design to material purchases. However, the opportunity to influence differs in the different parts of the value chain.

Ovako manufactures steel of many different types and performance levels. Ovako's premium steel is one of the cleanest on the market. Clean steel, meaning steel with minimal levels of impurities, has a higher fatigue strength than conventional engineering steel. This makes it possible to produce lighter and smaller designs with maintained strength. Ovako strives for a sustainable value chain and a

business that generates value at all stages, from product development to end products. A sustainable value chain is about ensuring that sustainability permeates the entire chain, from materials and design all the way to production, in order to ensure the organization's sustainability aspects. Ovako's value chain can be divided into the following steps:



Product development in close partnership with the customer

Steel is a key component in society, and Ovako works constantly to develop new products and materials to meet customer needs. This is part of the company's strategy and an important prerequisite for continued growth and development.

The development projects carried out together with customers also provide an opportunity to identify the future needs of the market, in order to develop products that meet those needs.

Both new technology and sustainability are of key importance in Ovako's product development.

Purchasing and production

Ovako's production is based on steel scrap, and the company is one of the largest recyclers of steel scrap in the Nordics. Scrap is recycled in more or less all parts of the world, and there is a good and functioning market for the recycling of scrap products. In some cases, Ovako can take material back directly from customers, but scrap is usually purchased through reputable recycling systems.

Production consists mainly of steel manufacturing, machining and further processing, and mainly comprises low-alloy steel in the form of bar, tube, rings and pre-components.

Sales and distribution

By manufacturing steel products with customized characteristics and high quality, Ovako creates value for customers in a number of industries. Thanks to its unique expertise, Ovako is an appreciated business partner to numerous companies. Ovako's steel solutions are mainly sold directly to our customers. The company has a loyal and diverse base of more than 2,000 customers, often premium manufacturers in their fields, and Ovako has been working with many of them for a very long time. A key component of Ovako's updated strategy is to take advantage of digitalization to provide new services for customers, and to improve production and internal processes.

High-performance steel for innovative applications

Ovako's steel gives customers unique design opportunities that provide better performance, lower production costs and the opportunity to improve their climate profile.

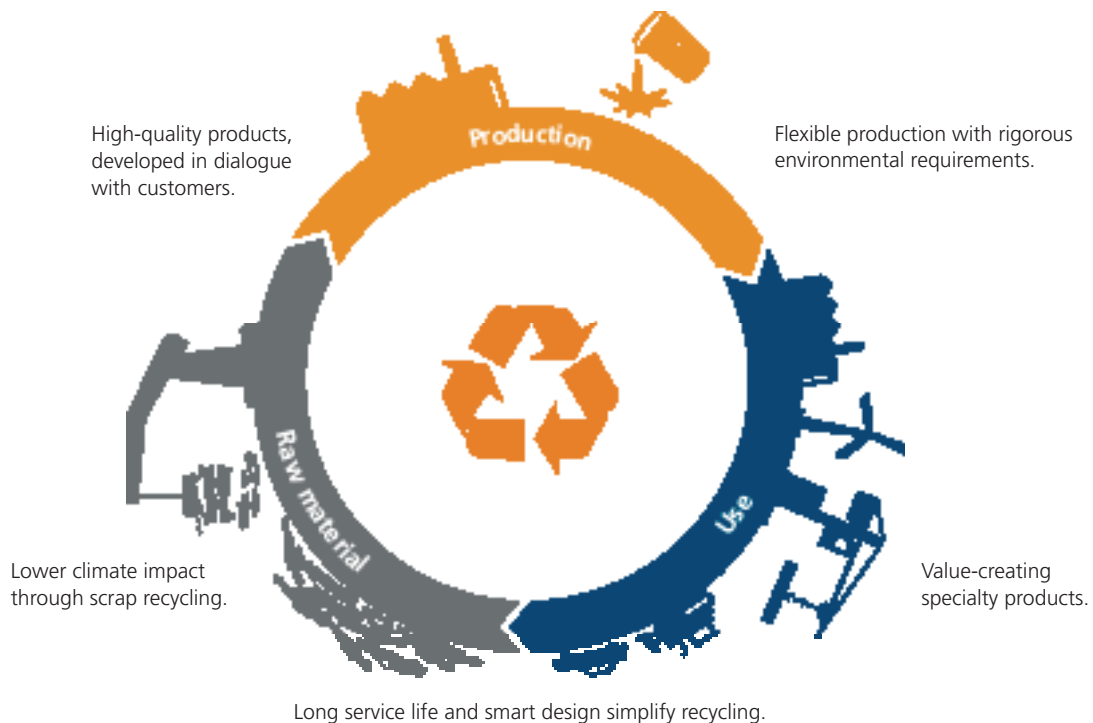
PRODUCT LIFE CYCLE

To create a positive impact on the life cycle of our products, continuous improvements are crucial. Steel is the world's most recycled material and can be recycled over and over again without losing its properties. Life cycle analysis helps Ovako gain control of the environmental impact of the products, right from raw materials until they leave the company's production sites. The analysis makes it possible to focus on the necessary improvements to reduce a product's total environmental impact throughout its life cycle.

Ovako's customers are important in setting requirements. At the same time, steel buyers have not had access to sufficient data to make well-informed decisions about variations in the carbon footprint of different products and producers.

Ovako's climate declarations are drawn up on the basis of the company's products' life cycle analysis and provide knowledge of Ovako's carbon footprint per kilogram of finished steel product. This helps customers to compare steel from different suppliers and make purchasing decisions based on differences in carbon footprints and, in turn, produce climate declarations for their own products.

Ovako strives for a sustainable value chain and a business that generates value at all stages, from product development to end product. The life cycle of our products can be divided as below.



UN SUSTAINABLE DEVELOPMENT GOALS

At the UN Summit on September 25, 2015, the world's heads of state and government adopted 17 global goals and the Agenda 2030 resolution on sustainable development. The countries globally are committed to leading the world toward a sustainable and fair future from January 1, 2016 to 2030.

These goals are closely linked to Ovako's own values. Ovako strives to create steel products with the lowest possible environmental and climate impact and support the development of socially sustainable infrastructure. The company has analyzed the UN's global Sustainable Development Goals in order to identify the areas in which Ovako can contribute to their achievement. Below is a selection of the company's activities that in various ways contribute to meeting the goals.



| | | | |
|--|---|--|--|
| | <ul style="list-style-type: none"> Development of sustainable products manufactured from recycled steel scrap. Promotion of employee health and safety, especially through the group-wide Safety at Work program. | | <ul style="list-style-type: none"> Ongoing professional development of our employees. Efforts to promote and collaborate with local educational providers in the locations where the company operates. |
| | <ul style="list-style-type: none"> Continuous efforts to increase the share of women in the operations. | | <ul style="list-style-type: none"> Recycling of process water used in production. The process water discharged is treated in internal treatment plants. |
| | <ul style="list-style-type: none"> Production is based on a fossil-free electricity mix. Excess heat is sold to district heating plants. Continuous work on energy efficiency in production. Ovako's steel products enable the manufacturing of smaller steel components, which results in more energy efficient end products. | | <ul style="list-style-type: none"> Ovako follows current collective agreements and promotes human rights and a good working environment. A special Code of Conduct for suppliers is included in all new agreements, where requirements are set for e.g. business ethics, anti-corruption, working conditions and human rights. |
| | <ul style="list-style-type: none"> Through efforts in research and development, Ovako contributes to new, more sustainable products. | | <ul style="list-style-type: none"> Ovako's production is based on recycled steel scrap. In this way, Ovako contributes to its customers becoming part of the circular economy. Through continuous improvements in the production process, Ovako's emissions to air and water are continuously reduced. Ovako's manufacturing process provides steel products that create a reduced climate footprint throughout their life cycle. |
| | <ul style="list-style-type: none"> Production with significantly lower climate impact than the global average. Ovako's products have few impurities, which makes it possible for customers to manufacture lighter and smaller components, resulting in lower carbon dioxide emissions when the product is used. | | |

Prioritized sustainability areas

Ovako has taken major steps in recent years to further develop its sustainability work, by establishing priorities, governance and monitoring.



A materiality analysis was conducted in 2017 to identify the areas with the greatest importance for Ovako and the company's stakeholders. A number of in-depth dialogues were conducted with key stakeholders such as employees, customers and business partners, owners and special interest groups. The key sustainability areas that were identified cover Ovako's entire business and product offering.

Ovako's material sustainability areas have subsequently been divided

into three categories – business-critical, focus and fundamental.

The areas categorized as business-critical and focus have associated concrete targets and key figures. Sustainability areas are categorized as fundamental when Ovako believes that its efforts are well advanced, with systematic improvement work to ensure continued positive development.



| PRIORITY AREAS | TARGETS | STATUS | COMMENT |
|---|--|-----------|---|
|  BUSINESS CRITICAL AREAS | | | |
| Environment Reduced energy use, reduced emissions, efficient utilization of resources | Reduce the carbon footprint "cradle-to-gate" by 30 percent per metric ton of finished hot rolled steel products by the end of 2020, with 2015 as the base year. | Ongoing | Investments and improvements are continually ongoing to reduce carbon dioxide emissions. |
| | Continue to lead the circular economy work by reusing or recycling at least 90 percent of residual products from production. | Completed | 93 percent of residual products are recycled or reused. Ovako works actively to identify further applications for the company's residual products. |
| Products and services Continuous development of sustainable products | Increase number of new case examples where improved carbon footprint in customer applications has been calculated. | Ongoing | Continuous work and development with customers to reduce the environmental impact of their products. |
|  FOCUS AREAS | | | |
| Suppliers Ensure a sustainable supply chain | All suppliers categorized as medium or high risk with regard to sustainability must be evaluated and approved according to Ovako's sustainability criteria before year-end 2020. | Ongoing | Support system for supplier monitoring is under evaluation. |
| | Ovako's Code of Conduct included in all procurement agreements before year-end 2020. | Ongoing | Continuous work in connection with new agreements and revisions of agreements. Ovako's Code of Conduct is currently included in 60 percent of all agreements. |
| Anti-corruption Prevent corruption across the entire value chain | Relevant employees must be trained and have in-depth knowledge concerning anti-corruption and bribery before year-end 2018, in accordance with the training provided with group management and executive management for sales and marketing. | Ongoing | An e-learning module has been implemented and relevant employees have been trained. |
| | Zero confirmed incidents of corruption and bribery from external and internal sources. | Ongoing | No known incidents in 2018. |
| Employees, health and safety Health and safety, values and culture, diversity and gender equality, skills development | Reduce the Lost Time Injury Frequency Rate (LTIFR) by more than 50 percent before year-end 2019, with 2016 as the base year. This is a step towards the company's long-term objective of eliminating accidents entirely and being the safest steel company in the Nordics. | Completed | The accident frequency has decreased by 64 percent since 2016 and Ovako is continuing its efforts to achieve the long-term goal through the group-wide Safety at Work program. |
| | Continuous improvement of the Employee Satisfaction Index up to year-end 2020. | Ongoing | This year's employee survey shows that Ovako's employees are satisfied, largely on a par with other comparable companies. Awareness of Ovako's goals, employee engagement and willingness to recommend Ovako as an employer have increased since last year. This year's employee survey also shows that our systematic efforts for the psychosocial working environment are showing results. The company is at the same level as comparable companies in our new index on the psychosocial working environment. |
| | Improve gender equality in the organization with the objective of having at least 25 percent women in managerial positions and at least 20 percent women in the entire organization by year-end 2020. | Ongoing | As an example, 25 percent of all participants in the company's ongoing Leadership Development program for first-line managers are women. |



ENVIRONMENT

Positive contribution to the circular economy

Ovako differentiates itself in the market by using only steel scrap as input material instead of iron ore. Since steel can be recycled an infinite number of times without its properties deteriorating, Ovako can manufacture steel with a lower climate impact without compromising the quality of the steel. To further optimize resource usage, the scrap that we use in Ovako’s operations is sorted into various quality categories depending on alloy content, size and shape. This optimizes usage of the steel’s alloying elements, thus requiring fewer new virgin alloys to be added during production. Thanks to the strength and cleanliness of the steel that Ovako manufactures, customers can in turn produce smaller and lighter components with retained properties, which also contributes to less environmental impact from the finished products. Ovako’s products already have an 80 percent lower carbon footprint “cradle-to-gate” compared to the global average in the market. Since 2015, Ovako has reduced its carbon footprint by 26 percent per metric ton of finished hot-rolled steel product.

Systematic improvements

Ovako is steadily reducing its environmental impact through ongoing improvements to its production processes. The company constantly strives to reduce emissions from its product manufacturing, and its main climate emissions to air are carbon dioxides and nitrogen oxides from combustion, as well as particles from steel mills and mechanical processing. All non-diffuse sources of emissions

are fitted with filters, and emissions are regularly checked according to a self-inspection program.

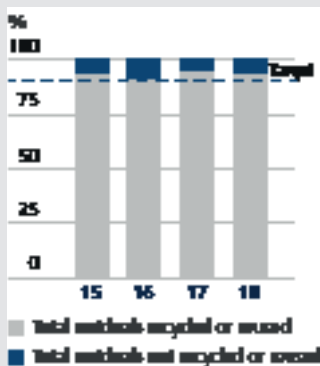
Ovako has enabled a reduction in its emissions of carbon dioxides and nitrogen oxides through ongoing development of more efficient heating processes. Other energy efficiency measures includes conversion of furnaces from LPG and oil to electricity. Energy improvements have also been achieved through heat recovery, with all major production facilities in Sweden selling residual heat to local district heating networks. Furthermore, the heat from process cooling water is recovered in several locations, which means that net usage of district heating to warm these buildings has essentially been reduced to zero.

All major production units also work according to, or are energy-certified under, ISO 50001, which means that energy surveys are regularly conducted and action is taken. This also ensures that Ovako complies with legislation requiring large companies to perform energy surveys.

Reuse of water

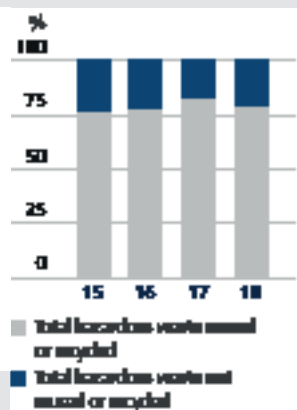
Large amounts of cooling water are used in steel smelting and rolling. Although Ovako’s major production sites are located in areas that are not classified as water stressed, the company is still working actively to achieve the most efficient possible use of water in production, including circular systems for reusing water. Process water is treated in water treatment plants and tested before it is discharged.

RESIDUAL PRODUCTS

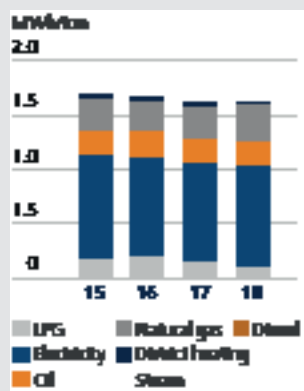


93% of all residual products, including hazardous waste, are recycled or reused.

HAZARDOUS WASTE



ENERGY USE



Total energy use was reduced by 0.09 GJ/metric ton in 2018.

CARBON DIOXIDE EMISSIONS

from manufacturing steel products (“cradle-to-gate”)



The CO₂ reduction is 26 % since 2015.

TARGETS

- Reduce the carbon footprint “cradle-to-gate” by 30% per metric ton of finished hot rolled steel products by the end of 2020, with 2015 as the base year.
- Continue to lead the circular economy work by reusing or recycling at least 90% of residual products from production.

Transport optimization

Ovako is conducting ongoing work to reduce our environmental impact from transportation, including the use of a larger proportion of rail freight, increased co-loading and more modern vehicles. Ovako’s large production sites have rail connections, enabling the company to flexibly meet different transport needs. The proportion of intermodal transport has increased in recent years, with different modes such as rail and trailer being combined. Also, a substantial proportion of Ovako’s deliveries are made directly to the customer, which means that unnecessary transport can be largely avoided.

Ovako is also working on procedures for better transport tracking in order to be able to monitor carbon dioxide emissions for outgoing freight.

New applications for residual products

Ovako works constantly to identify new applications for the residual products resulting from steel manufacturing. Using by-products, reusing internal materials and recovering metal content can reduce the extraction of virgin raw materials. Residual products produced today are largely recycled. Our goal is for 90 percent of residual products from production to be reused or recycled. In 2018, 93 percent of all residual products produced at Ovako were recycled or reused. For example, slag from electric arc furnaces is used in the production of concrete and asphalt, and brick from furnaces and casting systems can be largely recycled and used as a raw material in similar new applications. Ovako continuously work to increase recycling and reuse of other hazardous waste. Currently, 77 percent of hazardous waste is currently recycled or reused.

Achieving the high quality of Ovako’s steel requires that some production takes place through ingot casting in large molds in Hofors. These are subjected to a great deal of wear, and about 700 molds need to be replaced every year. However, the molds can be reused in a circular business model, and are reworked through smelting and re-casting without any additional materials. This means that the alloying elements in the molds are fully utilized in a never-ending recycling loop.

EXAMPLES OF ACTIVITIES IN 2018

- The operations in Finland have switched to using fossil-free electricity, which means that Ovako’s entire production now uses electricity from energy sources with low emissions of CO₂.
- Ovako decided to invest in a new vacuum degassing facility in Smedjebacken. This will reduce CO₂ emissions by 3,000 metric tons and reduce energy consumption by 13,000 MWh. The new facility will be operational during the second half of 2019.
- Imatra replaces its steam-based vacuum system with a mechanical one. This reduces Imatra’s total energy consumption by 22,000 MWh, while total water consumption and CO₂ emissions will decrease by 20 % and 8 %, respectively.
- In Hofors, additional pit-furnace conversions were carried out during the year, which means that the plant has switched from oil burners to gas (oxyfuel). The investment offers energy savings, and CO₂ emissions are reduced by 15 % and NOx emissions by 75 %. A furnace has also been converted to the oxyfuel system in Hällefors, and is expected to reduce emissions of CO₂ and NOx by 20 % and 40 %, respectively.
- The furnace in the Boxholm medium rolling mill has also been rebuilt during the year for better heat utilization, which is expected to reduce emissions of CO₂ by almost 10 %.
- Together with other players in the industry, Ovako produced the steel industry’s joint manual for residual products. The purpose of the manual is to clarify the potential that exists for the residual products of the iron and steel industry.



PRODUCTS AND SERVICES

Development of climate-adapted products

Demand for climate-adapted products continues to increase, and Ovako works actively with customers, suppliers and other stakeholders to reduce the total environmental impact over the product life cycle. The company also cooperates with industry organizations, such as Jernkontoret, aimed at achieving the joint industry vision of a long-term sustainable steel industry including reducing the carbon footprint of steel production.

Climate declarations

An Environmental Product Declaration (EPD®) is a verified and registered document that provides transparent and comparable information about the environmental impact of products over their life cycle. The information is often adapted to specific user needs or market areas by focusing on a single environmental aspect. The most popular of these are climate declarations that only indicate the carbon footprint of the product. The climate declarations produced by Ovako enable comparison between the global average and Ovako’s carbon footprint per kilogram of finished steel product, from raw material until the product leaves the company’s production sites, from “cradle-to-gate”. This information helps customers to make accurate calculations and informed decisions about their steel purchases. The declarations are based on life cycle assessments, which show that Ovako’s products have an 80 percent lower carbon footprint than the global average for hot-rolled steel products.

Ovako’s steel differs from many other suppliers when it comes to climate footprint. The company has produced Life Cycle Assessments (LCAs), which show that the carbon footprint for Ovako’s rolled steel products is considerably lower than the global average. While the global average for a rolled steel product is a carbon footprint of about 2,690 kg of CO₂/metric ton, Ovako’s rolled steel bar has only one sixth of this, which is to say 420-450 kg of CO₂/metric ton.

Product use

Ovako’s steel often generates particularly great environmental benefits when the customers’ end products are put to use. Inclusions and defects in the steel are minimized during Ovako’s manufacturing process, resulting in highly clean steel with better fatigue strength than conventional steel. This enables Ovako’s customers to develop advanced solutions for components that are lighter and stronger, and that have a longer service life, which means that Ovako, in turn, helps its customers to create better product solutions with lower environmental impact.

TARGETS

- Increase number of new case examples where improved carbon footprint in customer applications has been calculated.

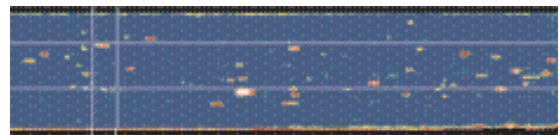
EXAMPLES OF ACTIVITIES IN 2018

- Continued work with climate declarations.
- Development of higher levels of purity and fatigue strength in Ovako steel.
- Continued work with leading vehicle manufacturers to improve transmission solutions for internal combustion engines and electric motors.

PURITY LEVEL

The difference between Ovako’s clean steel and conventional steel can be illustrated with high-frequency ultrasonic measurements under water.

Conventional steel



Ovako steel



200 mm

IQ-STEEL® ENABLES MORE EFFICIENT VEHICLES AND REDUCED EMISSIONS

Ovako faced a tough challenge 15 years ago, to develop a steel that enables the highest possible injection pressure in diesel engines. This required high strength in all load directions, and led to a very important development and industrial success with the creation of a new steel family that continues to find new uses.

IQ-Steel stands for Isotropic Quality. Thanks to its isotropic properties, this steel is suitable for complex loading and has a fatigue strength in the transverse direction double that of conventional steel. This enables modern diesel injection at very high pressures, resulting in Ovako's unique steel saving more than 10 million metric tons of CO₂ each year.

With the ongoing trend for the electrification of vehicles, it is set to play an important new role as the high rotational speed of electric motors places an increased demand on the fatigue strength of power-train components.

Each year, Ovako's unique steel saves more than

10

MILLION METRIC
TONS CO₂



SUPPLIERS

Long-term relationships and high quality

Ovako’s suppliers are largely located in Sweden and Finland. Others are based throughout Europe, and some production materials are bought from countries like China and Ukraine. All scrap purchased by Ovako is accompanied by a certificate of origin that guarantees the content of the material.

Ovako has a Supplier Code of Conduct that is included in all new contracts. This imposes standards on suppliers in areas including legal compliance, business ethics and anti-corruption, working con-

ditions and human rights, health and safety, and the environment.

Suppliers are qualified and assessed in a standardized purchasing process based on cost, quality and delivery.

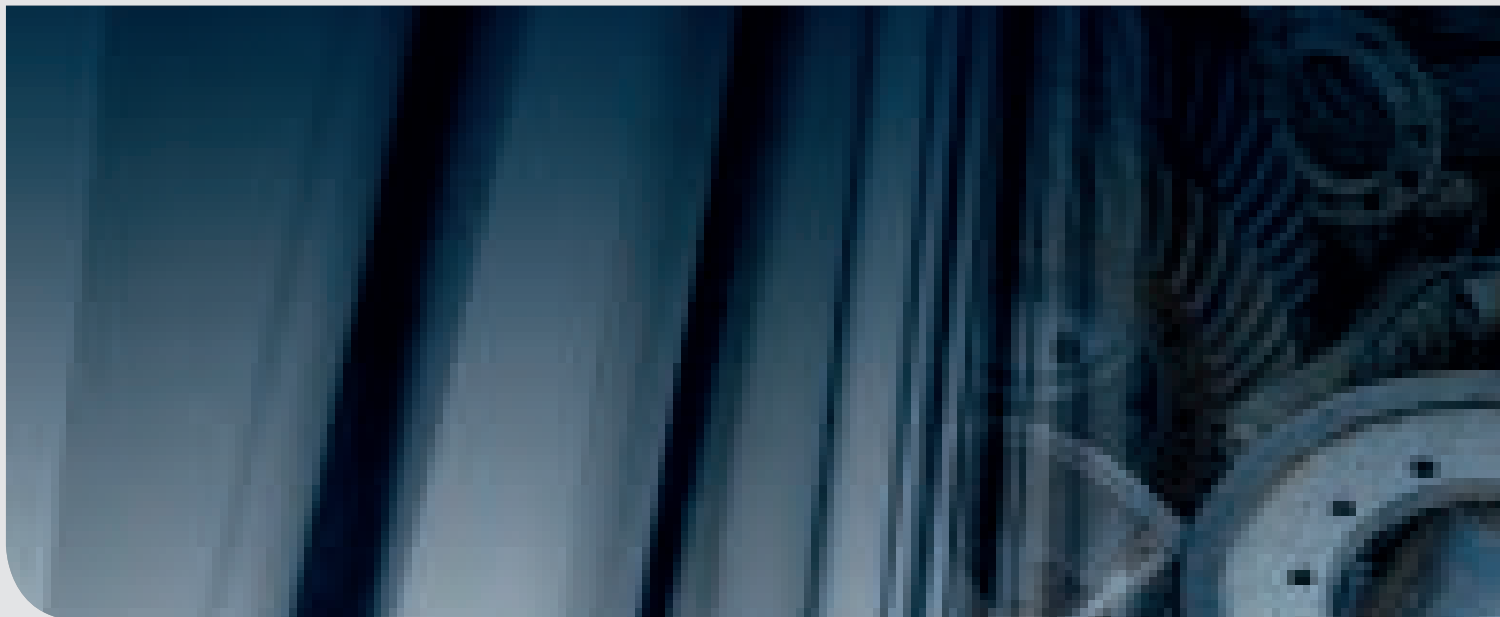
Ovako’s evaluations are conducted using a self-assessment form completed by the supplier that includes sustainability aspects.

TARGETS

- All suppliers categorized as medium or high risk with regard to sustainability must be evaluated and approved according to Ovako’s sustainability criteria before year-end 2020.
- Ovako’s Code of Conduct included in all procurement agreements before year-end 2020.

EXAMPLES OF ACTIVITIES IN 2018

- Annual audits of suppliers providing products that can impact quality.
- Support system for supplier monitoring is under evaluation.





ANTI-CORRUPTION

Continued training on the Code of Conduct

Ovako conducts business in an ethical and honest way and has zero tolerance for all forms of corruption, bribery, anti-competitive actions and similar conduct. Suppliers and partners are required to prevent all forms of corruption and comply with the policies Ovako

has drafted in this area. Ovako has not had any known incidents of corruption or anti-competitive behavior during the year. The objective is zero internal or external incidents related to corruption.

TARGETS

- Zero confirmed incidents of corruption and bribery from external and internal sources.
- Relevant employees must be trained and have in-depth knowledge concerning anti-corruption and bribery before year-end 2018, in accordance with the training provided with group management and executive management for sales and marketing.

EXAMPLES OF ACTIVITIES IN 2018

- The entire business has been inventoried from a risk perspective, including corruption.
- In 2018, relevant employees who are at risk of coming in contact with corruption have received special training.
- An e-learning module has been developed for Ovako's Code of Conduct, covering matters such as corruption and competition law. All employees are expected to complete the course in 2019.

CLOSING THE CIRCLE WITH OVAKO'S STEEL

Ovako uses over 800,000 metric tons of steel scrap per year in its production, making us one of the largest steel scrap recyclers in the Nordic region. Ovako's steel is therefore part of a cycle in which scrap becomes steel which again becomes scrap, and we can proudly contribute to the circular economy.

The residual product left over when our customers process the steel is collected by a recycling company that is able to clean it and remove unwanted material. Further treatment then converts the residual product into briquettes, for easier handling and better safety when smelting, before it returns to Ovako.

We are dependent on our partners to help us create a circular economy. One example is Ovako's long collaboration with SKF and Stena Recycling. Once the steel has left Ovako and been processed into the final product at SKF, the residual product is collected by Stena Recycling, which takes care of it, sorts it, reprocesses it and quality assures it before it is delivered back to Ovako as a process-critical raw material. Back at Ovako, the scrap is reused for steel components and then goes out to our customers – and the steel's cycle is closed.



EMPLOYEES, HEALTH AND SAFETY

Engagement as an important part of the strategy

Our employees are Ovako's most important asset. The company has an open and strong culture with a pride in the business and our employees. Ovako's solid tradition and good prospects make us an important part of our local communities.

Safety as the number one priority

Employee safety is a top priority for Ovako, and an area in which the company is always investing and looking to improve. Our long-term target is to entirely eliminate workplace accidents, and the number of lost time injuries has been decreased by almost 70 percent in recent years.

Ovako has run a group-wide Safety at Work program since 2015, aiming to further integrate safety practices into daily operations. A key aspect of this is to create a culture in which safety is always given top priority. Safety issues are highlighted under the Dare to Care concept, employing initiatives such as providing information and special workshops throughout the organization. The intention is to change behaviors and create a common safety culture. The Safety week places a particular focus on safety in the form of audits, special activities, information campaigns, training and the sharing of experiences.

Investments in safety are prioritized and are made systematically throughout the company. In addition to group-wide safety efforts, the business units have customized plans that include more specific initiatives and activities. Safety risk reporting is a key element of safety improvement at Ovako. When all employees help report safety risk, they can be addressed and eliminated. The number of safety improvement measures has also been increased as part of Ovako's preventive safety efforts.

Increased employee engagement

Ovako's strategy has been updated during the year and now includes a clear focus on employees. The aim is to achieve higher employee engagement than the Nordic industrial benchmark, which is measured annually using an engagement index in Ovako's employee survey.

An employee survey is conducted every year, and measures engagement, leadership, team efficiency, organizational and social aspects, safety engagement and the employee satisfaction index. The results are followed up and used to guide any action taken.

This year's survey showed slightly improved results compared

with the previous year. Among other things, the survey showed that the company's internal communication was improved due to the introduction of new communication tools. Furthermore, the study showed that efforts to create clarity in terms of goals, expectations and feedback must continue.

Diversity and gender equality

The steel industry has traditionally been male-dominated. Ovako works continuously to increase its number of female employees, and 25 percent of the participants in the Ovako Leadership Development program for first-line managers are women. Ovako also focuses on highlighting female employees in communications contexts, and external recruitment firms are required to always present women candidates for potential recruitments.

The goal is for at least 25 percent of managerial positions to be held by women, and for the entire organization to be at least 20 percent female. During the year, these numbers were 21 percent and 19 percent, respectively.

In addition to gender equality, Ovako is working actively to achieve greater diversity in relation to other factors. Everyone must have equal opportunities, and the company has zero tolerance for any form of discrimination or harassment.

Development through training

The new Ovako Academy concept now offers its first leadership development training program, with 10 modules over a year. By December, 45 managers had participated in the program and new groups will start in spring 2019. A training program for senior managers will begin in 2019.

Ovako also offers professional development to all employees in the form of digital training through the company's Ovako Skills portal. A number of new courses have been produced during the year, and work is ongoing to ensure the development of our employees. By constantly working with skills development, employees can be offered opportunities while ensuring the company's need for the right future skills is met.

One challenge for Ovako is to ensure that future expertise will be available in the locations where the company operates. Ovako therefore places great emphasis on cooperating with education institutions to ensure that the skills need is met on an ongoing basis.

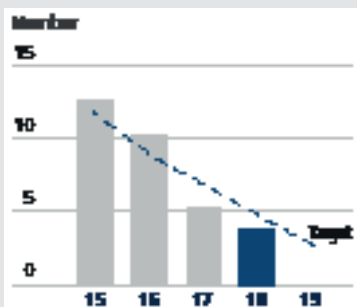
TARGETS

- Reduce the Lost Time Injury Frequency Rate (LTIFR) by more than 50% before year-end 2019, with 2016 as the base year. This is a step towards the company's long-term objective of eliminating accidents entirely and being the safest steel company in the Nordics.
- Continuous improvement of the Employee Satisfaction Index up to year-end 2020.
- Improve gender equality in the organization with the objective of having at least 25% women in managerial positions and at least 20% women in the entire organization by year-end 2020.

EXAMPLES OF ACTIVITIES IN 2018

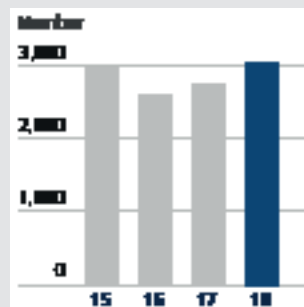
- Launch of Leadership Development program to give all managers the knowledge, tools and prerequisites for improving clarity and goals for employees.
- Continued development of the Safety at Work program. Among other initiatives, each unit has identified the five biggest safety risks and developed action plans and activities to minimize them.
- Safety week was arranged for the third year in a row.
- Start-up of the Ovako Academy concept, development of a number of new courses in the Ovako Skills training portal and a newly started collaboration with KTH for the development of executive managers.
- Ovako's own safety award is handed out each year, and this year it went to Imatra which for the second time has had a year without lost time injuries. Clear focus and commitment from the management along with structured and systematic health and safety efforts have led to excellent results.

LTIFR (LOST TIME INJURY FREQUENCY RATE)

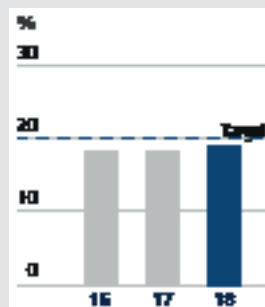


Accidents with sick leave per million working hours.

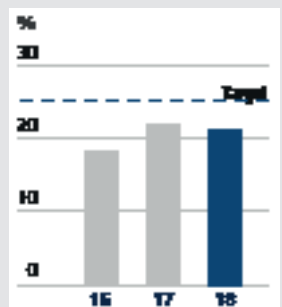
RISK OBSERVATIONS



WOMEN IN THE ORGANIZATION



WOMEN IN MANAGERIAL POSITIONS





SOCIAL ENGAGEMENT

An important player in many locations

Ovako is often the largest employer in locations where the company operates and is thus an important player in the local community, which means it is important for the company to get involved in developing these communities. Ovako buys a large portion of its required services, including maintenance and the like, from local suppliers and contractors.

Ovako gets involved in several ways and works closely with various stakeholders where the company operates. This involves, for example, contributing to maintaining a vibrant community where people are satisfied and want to stay. This not only benefits current Ovako employees, it ensures that there will be a local workforce in the future. The future availability of competence is one of Ovako's

particular focus areas in terms of local engagement. The company cooperates with education institutions and other education providers to ensure a future workforce. One example is the collaboration with Rinman Education, a technology college in Hällefors. The school has a program that is adapted to the competence needed at Ovako, and the students do practical work within the company's operations.

In order to contribute to vibrant communities, Ovako is also involved with local business networks, supports local sports clubs and similar organizations in various ways, and works closely with local municipalities in several areas. The company also cooperates with other public authorities concerning infrastructure matters.



HUMAN RIGHTS

Rigorous demands on partners

Ovako is committed to respect human rights in all aspects, and the company imposes rigorous demands on collaborative partners to do the same. Ovako's positions on human rights and the standards imposed on suppliers are set forth in the Code of Conduct for suppliers. These standards include equal treatment, prevention of discrimination and harassment, offering market-based salaries and good working conditions. Ovako condemns all forms of forced and child labor and requires its partners to ensure that it does not occur.

Zero tolerance of conflict minerals

Ovako does not use conflict minerals such as tin, tantalum, tungsten or gold. Conflict areas refer to the Democratic Republic of Congo and neighboring countries, as defined in the Dodd Frank Conflict Mineral Legislation. Ovako also places demands on suppliers regarding responsible extraction of raw materials and does not accept activities that contribute to conflicts in extraction areas.

The company supports the Responsible Business Alliance (RBA) and the Global e-Sustainability Initiative (GeSI), which, among other things, has drawn up a program for conflict-free materials and a framework for reporting on the use of conflict minerals.



GOVERNANCE AND MONITORING

Operations governed by frameworks and policies

Ovako works in accordance with the ILO Declaration on Fundamental Principles and Rights at Work, the Rio Declaration, the Ten Principles of the UN Global Compact and the UN Universal Declaration of Human Rights, as well as combating corruption and environmentally destructive activities.

Laws and requirements related to sustainability are a minimum level for Ovako and systematic efforts are ongoing to identify new and amended laws and take action where necessary. The company was not accused of any legal violations during the year.

Ovako's Code of Conduct is the basis of all operations and compliance is required of all employees. All employees should be familiar with the Code of Conduct and understand what is expected of them as individuals. An updated e-learning module for all employees on the Code of Conduct will be launched in 2019.

There is a whistle-blowing function on the Ovako intranet, where employees can anonymously report suspected violations. The function was used a few times during the year, in relation to HR matters in all cases.

EXAMPLES OF ACTIVITIES IN 2018

- During the year, Ovako was acquired by Nippon Steel Corporation. Extensive work is ongoing regarding coordination and integration of governance and internal controls.



CERTIFICATIONS

Certifications are an important basis for the monitoring of Ovako's operations. During the year, all units have updated their certificates to the new ISO 14001:2015 standard. Re-certification from OHSAS 18001 to ISO 45001 was carried out for Imatra during the year, and was started for Hofors and Hällefors.

Continuous risk analysis

Ovako continuously evaluates the risks that may be associated with the identified material aspects and prepares action plans to address them.

| MATERIAL ASPECT | RISK | MANAGEMENT |
|-------------------------------------|---|--|
| Employees, health and safety | <i>Employee health and safety</i> The risk of serious accidents and illnesses that affect employees, visitors or contractors. | Ovako introduced the Safety at Work program in 2015, which has been implemented throughout the organization. The aim is to create a culture in which safety is prioritized in all situations. Ovako is committed to helping its employees stay healthy, both while they are with the company and afterwards, and works constantly to identify signs of illness in employees to enable early intervention. |
| | <i>Ability to recruit the right skills</i> The risk of being unable to continue operating a value-creating business due to skills shortages in the locations where Ovako operates. | The company takes an active approach by engaging with schools and other education providers to ensure that future skills will be available in the locations where the company operates. The skills that are particularly important for Ovako are engineers, technicians and operators. The company employs a large number of measures to promote education in these areas, and to get young people to return to the communities where the company has operations after completing their education. |
| | <i>Diversity and gender equality</i> The risk of limiting and missing current and future business opportunities due to an organization that is too homogeneous. | The steel industry has traditionally been male-dominated and Ovako is working continuously to increase the share of women in the workforce. |
| Environment | <i>Negative environmental impact</i> The risk that Ovako's operations or those of suppliers will cause serious environmental damage, locally or regionally. | All Ovako operations have the necessary permits and licenses and work proactively and long-term to renew these as required. Robust monitoring systems are in place and continuous investments are made to reduce the company's environmental impact. Ovako has a Supplier Code of Conduct that is included in all new contracts. This imposes standards on suppliers in areas including legal compliance, business ethics and anti-corruption, working conditions and human rights, health and safety, and the environment. |
| Anti-corruption | <i>Corruption and bribery</i> The risk that employees will engage in criminal activity that has long-term impact on the company's financial position and brand. | Ovako's Code of Conduct and Anti-corruption Policy address anti-corruption and human rights. All employees at risk of encountering corruption and bribery shall complete special training on the subject. Executive management and certain managers in sales and marketing have already been trained in how corruption can be discovered and prevented. |
| | <i>Cartels</i> The risk that employees participate in discussions with competitors about prices and conditions, and thus jeopardize the competitive situation. | Ovako has an e-learning module on competition law and anti-competitive behavior in order to avoid the company ending up in cartels and other illegal collaborations. |
| Human rights | <i>Respect for human rights</i> The risk of non-compliance with internationally established human rights in Ovako's value chain. Assessed as most relevant to the supply chain. | Ovako is committed to respect human rights in all areas and the company imposes stringent demands on collaborative partners to do the same. Ovako's positions on matters including human rights are set out in the Supplier Code of Conduct. The scrap that Ovako purchases is always accompanied by a certificate of origin. These certificates guarantee that the material contains what it is supposed to contain. Steel from Ovako contains no conflict minerals, and in accordance with the Code of Conduct, suppliers commit to ensuring that the materials they supply come from conflict-free areas. |
| Other | <i>Trade policy measures</i> Risk of political decisions causing difficulty for the operations. Recently, various forms of trade policy action such as tariffs and sanctions have changed the possibilities of doing business between certain countries. | Ovako actively monitors developments in world markets to handle unforeseen changes in terms of opportunities for import and export from and to different countries. |



OVAKO

HOFORS BRUK

OVAKO

STÅL PÅ VÄG

