

## **Address of Georg Brunstam, President and CEO, at the 2009 Annual General Meeting**

Mr Chairman, dear shareholders and other participants at the Annual General Meeting,

HEXPOL is a new company on the Stockholm Stock Exchange. Our shares are quoted on Nasdaq OMX Nordic Stockholm's MID CAP list and this is our first Annual General Meeting as a listed company. But we are by no means a new company! Our history dates all the way back to 1893 when the Gislöw brothers established a rubber factory in Gislaved, in the Swedish province of Småland. Part of this large "rubber conglomerate" subsequently became the *Technical Rubber Division*, which built a new facility in 1966 and then became Gislaved Gummi AB, which Hexagon AB acquired in 1994.

Based on Gislaved Gummi's three product areas – wheels for warehouse trucks, gaskets for heat exchangers and rubber compounds – (as shown here), Gislaved Gummi subsequently expanded under Hexagon's ownership and ultimately became a global polymer group via organic growth and acquisitions. Our current activities are essentially based almost entirely on these product areas but our operations are far larger and global for the most part. Our historical performance data are nothing new either, since we reported separately for many years as a business area – Hexagon Polymers AB – in Hexagon AB. Thus, we are by no means a new company but, instead, one with a long history, as well as being a group whose data can be readily monitored over the years. We have expanded rather rapidly! From sales of a little more than 300 MSEK in 1998 to almost 3,200 MSEK in 2008. Basically, we have increased our sales tenfold over the past decade.

As noted, 2008 was our first year as a listed company and, ahead of the listing, we also changed our name to HEXPOL, in addition to creating a new visual identity profile. The corporate name refers to our polymer linkage and our historic connection with Hexagon. I will return soon to our financial results for 2008, but I would first like to provide a brief description of our group.

The HEXPOL Group consists of 20 individual companies and is one of the leading polymer groups worldwide. Thanks to solid global market positions, HEXPOL offers innovative solutions and products in advanced rubber compounds (Compounding), gaskets for plate-heat exchangers (PHE Gaskets) and wheels made of polyurethane, plastic and rubber materials for warehouse trucks and castor wheel applications (Wheels). The Group is organised on the basis of two business areas, HEXPOL Compounding and HEXPOL Engineered Products, and pursues manufacturing in nine countries. More than 90 percent of invoicing involves customers outside Sweden and seven of the fifteen units are located in the economically expanding regions of Asia, Mexico and Eastern Europe. We are advanced suppliers of technological input goods and components with in-depth proprietary technology in materials, processes and applications.

To develop long-term profitability and sustainable competitiveness, HEXPOL has focused its operations on markets in which it is possible to attain a market-leading position.

In the HEXPOL Compounding business area, customers are primarily system suppliers to the global automotive industry and industrial companies. Customers are multinational companies that impose stringent requirements on their suppliers in terms of quality and delivery reliability. Here are some examples of key customers (Toyoda Gosei, Hutchinson, Tepro, SaarGummi, Cooper Standard, DRB, Draka, and Trelleborg).

In the HEXPOL Engineered Products business area, the largest single customer groups are OEM manufacturers of plate heat exchangers and warehouse truck manufacturers. Greater interest in energy-efficiency enhancement is driving market growth and thus demand for HEXPOL Gaskets' products. For HEXPOL Wheels, the major customers are active in materials-handling equipment. The rise in goods-handling activities worldwide has entailed strong growth for these customers. HEXPOL Profiles is one of the leading manufacturers of extruded profiles in the Scandinavian market. A common feature of all operations is the significance of leading-edge expertise in polymer materials and application expertise, as well as cost-effective production. Here are some examples of key customers (BT Trucks, Atlet, Velux, Alfa Laval, Sondex, APV, Kion, Raymond)

The business concept is to be a product and applications specialist in a limited number of product and niche areas for the development and manufacture of polymer products. HEXPOL aims to be one of the most popular partners for customers in key industries – such as the automotive, construction, energy and materials handling industries – by offering innovative and specialised polymer products and solutions.

The vision is to be a market leader – number one or two – in selected technological or geographic segments as part of efforts to ensure growth and shareholder value.

We have solid market positions. In Compounding, for example, we are number one or three worldwide, depending on how you assess the ranking. If you include rubber compounds for the rethreading of vehicle tyres, we are number three, but otherwise number one. In PHE gaskets, we are number one, with a British company as number two. In wheels, we are among the three or four largest players. We are convinced that a strong market position is essential!

Five operational strategies are applied to maintain sustainable profitability and competitiveness:

1. The development of new products is the key to success for us.
2. The most cost-effective player in the industry.

3. Moreover, thanks to our size, we enjoy significant volume and technological advantages in our raw materials procurement.
4. In addition, as a result of our experience, we have an enormous knowledge base in the form of our skilled and experienced teams.
5. Our decision-making processes are very prompt and non-bureaucratic, as exemplified by our fast and efficient manner of managing the extreme volume decline in the automotive industry.

In addition to the operational strategies, the Group has a strategy of continuing to grow organically as well as through acquisitions, as we have done to date.

The Board of Directors has set the following financial objectives over a business cycle: The objective is that organic growth shall average 7–10 percent annually and that the operating margin shall average at least of 8–10 percent annually. The objectives continue to apply, but given the current dramatic operating conditions, they must be viewed as applying over the course of a business cycle.

How did the Group perform in 2008? 2008 was a good year for the HEXPOL Group. We continued to grow with favourable margins, despite progressively more difficult market conditions. Sales rose by 17 percent to 3,190 MSEK (2,730) and operating profit increased 2 percent to 310 MSEK (305). This represents an operating margin of 9.7 percent (11.2). Operating cash flow remained robust and advanced to 288 MSEK (92). Earnings per share were 6.89 SEK.

Accordingly, we experienced a turbulent year with a solid first half characterized by good growth, albeit accompanied by sharply rising commodity prices. The second half of the year showed a steady decline in demand and the latter part of 2008 was sharply and negatively affected by the international financial and automotive crises. Nevertheless, HEXPOL delivered favourable results in all quarters, although with a gradually declining growth rate. However, because of our exposure to the automotive industry, we experienced a dramatic close to 2008.

The international financial and automotive crises adversely impacted our shipment volumes to international system suppliers of the automotive industry. We expect this trend to continue throughout 2009, during which the automotive production is expected to decline. Long-term, however, we view the automotive industry as a growth market.

We have an excellent market position with a presence on major markets, as well as good positioning vis-à-vis the OEM manufacturers that are showing superior volume growth. We notice better trends in our other market segments, such as the energy sector and materials handling. These also offer substantial after-markets. However by historical standards we have experienced a dramatic market situation.

Moving on to the business area results for 2008, let me begin with HEXPOL Compounding:

2008 was a strong year for HEXPOL Compounding. Net sales rose by 24 percent to 2,425 MSEK (1,955), with operating profit advancing 15 percent to 224 MSEK (195). The operating margin was 9.2 percent (10.0). HEXPOL Compounding's goal is strengthen its leading market position worldwide as a developer and supplier of high-quality rubber compounds for customers with meticulous demands in, for example, the automotive industry. In addition, the strategy involves raising sales in other demanding application areas, such as cabling, water management, pharmaceuticals, and the energy and oil industry. One challenge here is to be able to handle the volatile commodities environment by continually developing more cost-effective solutions or adjusting market prices.

HEXPOL Compounding is well positioned for continuing growth, both geographically and in terms of applications. However, 2009 will be a challenging year during which our priorities are to increase market shares by means of technology and process development. We are also giving priority to emerging markets such as Mexico, China and Eastern Europe. Our share outside the vehicle sector is also continuing to grow, thanks to many new application areas that we gained primarily through the acquisition of GoldKey.

Moving on to the HEXPOL Engineered Products business area, we note that this is also a global operation. 2008 was a year of relatively stable sales but with falling margins due to price pressure. Net sales totalled 765 MSEK (775), with operating profit declining to 86 MSEK (110). The operating margin fell to 11.2 % (14.2). The decline in earnings was due primarily to difficulties in offsetting higher materials prices, lower volumes and exchange rate losses in Sri Lanka.

Volumes decreased steadily during the year in the gaskets area and the number of major project-related orders declined. The volume of castor wheels shipped from Sri Lanka increased while the demand for polyurethane wheels for the warehouse truck industry declined towards the close of the year, giving rise to low capacity utilisation in Stellana's plants in the US and Sweden. During the year, we also launched a number of new products, including perfectly balanced wheels from our US company.

Demand for our profiles from construction-related customers in Scandinavia also slackened. The fall in volume was partly offset by new customers in these segments. The workforce was reduced throughout the business area's units during the year.

Demand for energy-efficient solutions is rising. The market for heat exchangers is growing steadily as a result of new application and geographic markets, which favours the long-term demand for gaskets for heat exchangers.

During 2009, we will give priority to raising our market shares and further broadening our sales geographically. An intensive, focused sales programme is planned for the Chinese market ahead of the start-up of our new gasket plant in China, which will be commissioned during the first six months of the year. Our customer focus is on global companies with an advanced and high level of technology.

Demand for materials handling is rising in pace with the ever-larger goods volumes. This favours demand for our wheels. In wheel operations, we plan to continue our expansion in China, where we opened a plant in 2008. Higher market shares in polyurethane wheels for OEM manufacturers, a keener focus on the aftermarket and continuing product development are other priorities.

Thus, 2008 was a favourable year for the HEXPOL Group, but with a progressively more troublesome market situation due to the financial and automotive crises, along with a global recession at year-end.

Before summarising and concluding, I would like to comment on our interim report for the first quarter of 2009, which we released at 2 pm today. There are copies available here in the hall, which perhaps some of you have read. 2009 has commenced on a tough note with substantially lower demand, and not just in the automotive industry. We also noted similar trends in other segments.

We also previously reported restructuring costs of 98 MSEK, which we charged in the first quarter – primarily for the closure of our rubber compounding facility in Canada.

*- presentation of the Q1 2009 interim report -*

Thus, overall, Q1 was a dramatic quarter with a very difficult market situation that entailed lower volumes, but for which – thanks to powerful action programmes – we reported an operating profit of 46 MSEK, entailing a profit margin of 7.1 percent.

By way of conclusion, I would like to summarise my address as follows:

- HEXPOL is a newcomer on the Stockholm Stock Exchange but is by no means a new company.
- We have a transparent history of favourable growth combined with healthy margins and solid cash flow.
- We are a global player with a keen technology focus – 90 percent of our sales derive from outside Sweden.
- We had a good 2008 but the close of the year was tough – indeed, dramatic.

- Although 2009 has started on a dramatic note with low volumes, rapid and effective action programmes have permitted reasonable margins despite the circumstances.
- We work with demanding customers in industries with long-term growth.

Thank you for this opportunity to speak to you and for your attention.

Malmö, 5 May 2009

Georg Brunstam