



Strong global positions
in advanced polymer
compounds

ANNUAL REPORT 2015

2015 in brief

- Sales increased 26 percent to 11,229 MSEK (8,919)
- Operating profit increased 35 percent to 1,964 MSEK (1,456)
- Operating margin improved to 17.5 percent (16.3)
- Profit after tax rose to 1,393 MSEK (1,048)
- Earnings per share increased 33 percent to 4.05 SEK (3.05)
- Operating cash flow rose to 2,185 MSEK (1,676)
- The Board of Directors proposes a dividend of 1.70 SEK per share (1.20)

KEY FIGURES

	2015	2014	
Sales, MSEK	11,229	8,919	
Operating profit (EBIT), MSEK	1,964	1,456	+ 35%
Operating margin, %	17.5	16.3	
Profit before tax, MSEK	1,943	1,436	
Profit after tax, MSEK	1,393	1,048	
Earnings per share, SEK	4.05	3.05	+ 33%
Equity/assets ratio, %	72	69	
Return on capital employed, %	28.6	28.5	
Operating cash flow, MSEK	2,185	1,676	

Significant events per quarter

Q1 Significant increase of both sales and operating profit. The acquisition of RheTech Thermoplastic Compounding, a leading US provider of thermoplastic compounds, was finalized.

Q2 Continued strong growth, our best quarter so far. A share split 10:1, each existing share is divided into ten shares, was completed in May. Investment in further capacity for rubber compounds in Mexico.

Q3 Once again a strong quarter with strong growth and positive volume development. The business in the acquired RheTech Thermoplastic Compounding continued to develop according to plan.

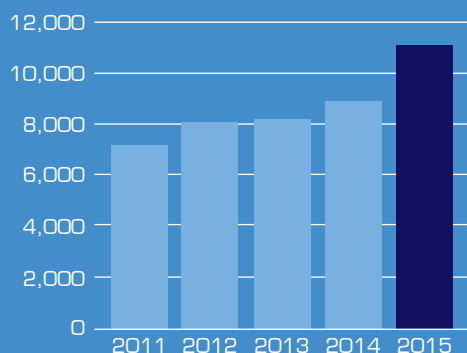
Q4 The best fourth quarter for the HEXPOL Group. Continued growth and positive volume development. Strong financial position.

11,229
SALES MSEK (8,919)

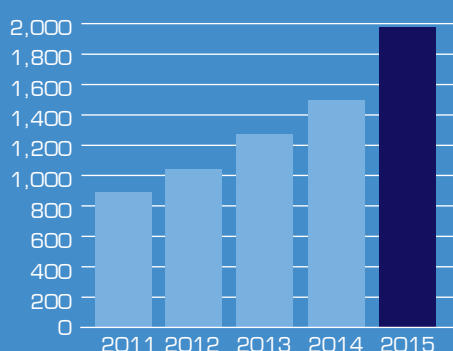
1,964 MSEK
OPERATING PROFIT (1,456)

2,185 MSEK
OPERATING CASH FLOW (1,676)

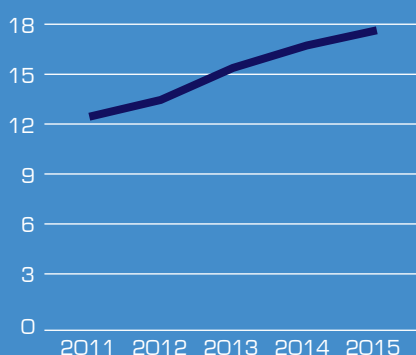
SALES, MSEK



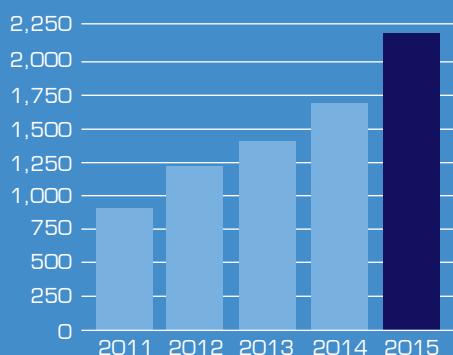
OPERATING PROFIT, MSEK



OPERATING MARGIN, %



OPERATING CASH FLOW, MSEK



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The information in this annual report is a translation of the text in the Swedish-language annual report and, accordingly, corresponds in all material respects with the original Swedish document. In the event of any contradictions between the texts contained in this document and the text in the Swedish-language annual report, the latter shall prevail.

HEXPOL in brief

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

Business area HEXPOL Compounding

OPERATIONS HEXPOL Compounding is one of the world's leading suppliers in the development and manufacturing of advanced, high-quality polymer compounds.

HEXPOL Compounding focuses primarily on three key segments of the polymer market:

- Rubber compounds
- Thermoplastic elastomer compounds (TPE)
- Thermoplastic compounds (TP)

HEXPOL Compounding supports customers globally through 30 manufacturing units in Europe, Asia and NAFTA.

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

CUSTOMERS Manufacturers of polymer products and components who impose rigorous demands on performance and global delivery capacity.

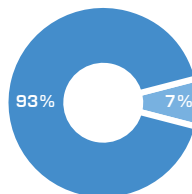
SALES 10,402 MSEK (8,198)

OPERATING PROFIT 1,859 MSEK (1,364)

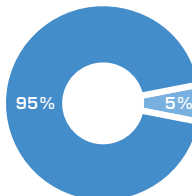
NUMBER OF EMPLOYEES AT DECEMBER 31
2,429 (2,212)

THE BUSINESS AREA'S SHARE OF THE HEXPOL GROUP (2015):

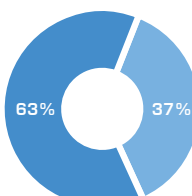
SALES



OPERATING PROFIT



NUMBER OF EMPLOYEES



Business area HEXPOL Engineered Products

OPERATIONS HEXPOL Engineered Products is one of the world's leading suppliers of advanced products such as gaskets for plate heat exchangers and wheels for the forklift industry.

MARKET Within its niche areas, HEXPOL Engineered Products is active in the global market where a considerable focus is on discerning customers and advanced applications. The market for gaskets and wheels is global, with HEXPOL's production units located in Europe and Asia and for wheels also in North America.

CUSTOMERS For gaskets, the customers are manufacturers of plate heat exchangers and for wheels, manufacturers of forklifts and castor wheels.

SALES 827 MSEK (721)

OPERATING PROFIT 105 MSEK (92)

NUMBER OF EMPLOYEES AT DECEMBER 31
1,433 (1,449)

THE GROUP IN BRIEF

HEXPOL is a world leading polymers group with strong global market positions in advanced polymer compounds (Compounding), gaskets for plate heat exchangers (Gaskets) and wheels made of plastic and rubber materials for forklifts and castor wheel applications (Wheels). Customers are primarily system suppliers to the global automotive and engineering industry, the construction sector, the energy, oil and gas sector, medical equipment manufacturers and OEM manufacturers of plate heat exchangers and forklifts. The Group is organised in two business areas: HEXPOL Compounding and HEXPOL Engineered Products. Customers outside Sweden account for approximately 97 percent of sales and 11 of the Group's 38 production units are situated in the expansive regions of Asia, Mexico and Eastern Europe.

OPERATIONS AND MARKET

To maintain long-term profitability and sustainable competitiveness, HEXPOL has focused its operations on markets that offer opportunities to capture leading positions.

Customers of the HEXPOL Compounding business area are mainly system suppliers to the global automotive and engineering industry, construction sector, the energy, oil and gas sector and medical equipment manufacturers. The customers comprise manufactures of polymer products and components that impose stringent demands in terms of quality and delivery reliability.

OEM manufacturers of plate heat exchangers comprise the largest customer group for the HEXPOL Engineered Products business area. Supported by increasing interest in energy efficiency, the market for plate heat exchangers is growing, as is demand for the products offered by HEXPOL Gaskets. At HEXPOL Wheels, the largest customers are in materials handling equipment. As a result of the increased volume of materials handling worldwide, these customers are reporting good growth. A shared feature of the business areas is the importance of cutting-edge expertise in polymer materials, applications know-how and cost-effective production operations.

FINANCIAL OBJECTIVES

The Board has adopted the following revised financial targets: Equity/assets ratio is to exceed 30 percent, and measured at a yearly average over a business cycle: sales growth (adjusted for exchange rate effects) is to exceed 10 percent and the operating margin (adjusted for items affecting comparability) is to exceed 17 percent.

DIVIDEND POLICY

HEXPOL's earnings development and equity/assets ratio determine the size of the dividend. HEXPOL's dividend policy is that 25 to 50 percent of profit after tax for the year will be distributed as a dividend to HEXPOL's shareholders, provided the company's financial position is regarded as satisfactory.

BUSINESS CONCEPT

HEXPOL's business concept is to operate as a product and application specialist in a limited number of selected niche areas for the development and production of polymer products. HEXPOL aims to be the most attractive partner for customers in key industries, such as the automotive, engineering and construction, energy, oil and gas sector, medical equipment and materials handling industries, by offering innovative and specialised polymer products and solutions.

VISION

HEXPOL's vision is to be a market leader, ranking number one or two in selected technological or geographical segments, in order to generate growth and shareholder value.

STRATEGY

To maintain its long-term profitability and sustainable competitiveness, HEXPOL attaches great importance to the competitiveness of each individual business line. In order to attain the company's vision, the following operational strategies are continued applied:

- Product development through in-depth and broad polymer and applications expertise
- Most cost-effective company in the industry
- Efficient supply management that generates volume and technological benefits
- Superior management skills through skilled and experienced teams
- Speed management through short and fast decision-making procedures

In addition to the operating strategies outlined above, the Group also pursues a strategy to achieve continued growth, both organically and through acquisitions. HEXPOL also pursue a strategy of conducting proactive environmental efforts and taking social responsibility. Such activities help HEXPOL to contribute to sustainable development and we are convinced that this will benefit society, our employees, the shareholders and our business operations. The strategy for achieving sustainable development includes the introduction of environmental management systems, improved energy efficiency, reduced risks arising from chemical products and transparent reporting of the Group's performance in terms of environmental and social responsibility.

VALUE ENHANCING AND SUCCESS FACTORS

Since 2001, Group operations have expanded from annual sales close to 500 MSEK to 11,229 MSEK, with strong and improved operating margins. This favourable trend is the result of deep and comprehensive product development skills, cost-effective production units and successful new establishments and company acquisitions. The Group is also well positioned in segments characterised by healthy growth. The corporate culture is strong, with skilled and experienced employees led by experienced management teams with short and prompt decision-making routes.

CEO comments on the year

Our best year
to date
– Successful
integration of
our acquisitions



Georg Brunstam
President and CEO
HEXPOL AB

Dear shareholders,
2015 was another good year for the HEXPOL Group. By far our best year so far! We continued to improve our market positions in all of our principal markets and we further improved our earnings. Our strategy of both organic expansion and acquired growth in our existing areas, combined with strong cash flow, is successful and stands firm.

Our strategy of organic growth and acquired growth (primarily in the Polymer Compounding area) is unchanged and during 2015 we have successfully integrated four acquired Rubber Compounding operations and also four Thermoplastic Compounding operations.

Our recent acquisitions within Rubber Compounding (VIGAR with operations in Spain and Germany, Kardoes US and Portage Precision Polymers US) have all been quickly and wisely integrated into our present organisation. We have optimised our business by transferring customer volumes between our units and achieved better efficiency and service to our customers.

Beginning of 2015 we acquired RheTech Thermoplastic Compounding, with four American units active in specialised Thermoplastic Compounding. RheTech is a relatively major North American player in fiber reinforced Polypropylene Compounds, with the automotive industry as its largest end-user segment.

All of the acquisitions are businesses that are well-known in the market and we had been monitoring them for some time. Our opportunities for successful acquisitions are always increased by having a well-thought-out and proven integration plan and by always acquiring companies in known areas.

Our strategy also includes growing organically, meaning by increasing our volumes and sales in all of our markets, and by finding new growth markets and growth areas. That's why I am delighted to say that during 2015 we had positive growth in all main markets, including Europe, and in emerging markets such as China and Mexico. In Mexico, we also continued to invest in increased capacity. Our development was also favourable in HEXPOL TPE Compounding, thanks to marketing/sales efforts and capacity expansion.

During 2015, we increased our volumes in all principal markets. Sales rose by a full 26 percent to 11,229 MSEK (8,919) but were impacted by substantially lower sales prices due to substantially

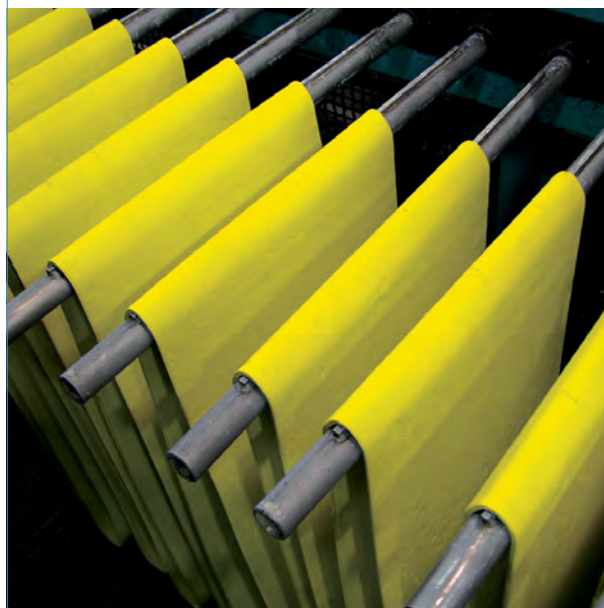
lower prices for our principal raw materials, compared with the preceding year.

In 2015, we yet again sharply improved our earnings per share, which amounted to SEK 4.05 – an increase of a full 33 percent. Our constant focus on the efficient management of working capital also generated results in the form of a very strong operating cash flow, 2,185 MSEK, and a healthy return on capital employed of 28.6 percent.

Gratifyingly, the HEXPOL share also performed well and the share price increased 24 percent during the year. Continued efforts to enhance competencies within the Group are a key component of our strategy. During 2015, we again implemented extensive programs to this end locally, regionally and nationally. The strategy of internal recruitment stands firm and many positions have been filled by internal candidates. The HEXPOL Group has a strong financial position as a result of its healthy earnings and efficient management of working capital. At year-end, the HEXPOL Group had no net indebtedness but a net cash of 454 MSEK and the equity/assets ratio was high at 72 percent. All of this provides a solid platform for continued expansion.

CONTINUED GROWTH

Our strategy is, as earlier stated, to grow both organically and through acquisitions, but always with good operating margins and strong operating cash flows. The companies that we acquire are always active in our core areas and we have normally monitored the company for a longer period; in other words, we have detailed knowledge of our acquisition targets. All our acquisitions are integrated into our existing organisation and structure. We have consistently acquired companies in markets where we already have established operations, while building new units on a proprietary basis in emerging markets, such as China and Mexico.





We have grown organically and through acquisitions from sales of nearly 500 MSEK in 2001 to sales of 11,229 MSEK in 2015. Expansion has been combined with significantly improved operating margins, resulting largely from internal improvement efforts in which all units are benchmarked and compared with each other.

The acquisition of RheTech, beginning of 2015, provides us with an interesting new and exciting platform in specialised Thermoplastic Compounding.

SKILLS DEVELOPMENT AND INTERNAL RECRUITMENT - THE BASE FOR OUR DEVELOPMENT

Our strategy is based on wide-ranging and in-depth polymer and applications expertise coupled with good commercial and ethical competencies. Our corporate culture is strong, guided by the watchwords of "DECENTRALISED BUT EXTREMELY COORDINATED". I believe that coordination and cooperation combined with a powerful, decentralised organisation generate excellent effects that are positive in a cohesive and focused group. Our committed employees are continuously offered paths to development through in-house training programmes, one-to-one programmes or our Group-wide HEXPOL LEADERSHIP DEVELOPMENT PROGRAM. We always prioritise internal recruitment and filled a large number of positions in this way during 2015. Filling positions internally always emits positive signals to the organisation and is a key strategy for the HEXPOL Group. Our acquisition strategy also adds many new, highly skilled employees to the Group. Many of our senior executives and also several members of Group Management originate from acquired operations. Our organisation is constantly evolving but is essentially stable with very few organisational changes.

LONG-TERM GROWTH IN OUR CUSTOMER SEGMENTS – CONTINUED CAPACITY EXPANSION IN MEXICO AND IN TPE COMPOUNDING

We have customers who are growing and are present in geographic markets that are growing. We see growth in many segments but with big variations during 2015 where, however, the automotive sector showed good growth. We see strong growth in the TPE area in many consumer applications, such as caps and closures. We also see geographic growth, primarily in China, Mexico and Central and Eastern Europe. We are increasing our capacity investments in these markets. We have customers in other growth segments, such as consumer and medical technology. Growth is also noticeable, on a global basis, in the automotive industry, our largest market segment. The automotive industry accounts for about 40 percent of Group sales. Of the HEXPOL Group's total sales, NAFTA accounts for 67 percent and Europe for 28 percent, mainly concentrated to Central Europe (primarily Germany) and Eastern Europe. Asia is also growing rapidly and we increased our sales there by 9 percent during the year in spite of the turbulence during the summer/autumn.

STRONG FINANCIAL POSITION

HEXPOL has a business model that functions both in good and bad times. We proved this especially in 2009 when the financial and automotive crisis broke out. We are generating strong operating cash flows and this factor, combined with healthy earnings and efficient financing, gives us a strong balance sheet which can cope with both expansion, organic and through acquisitions, and the payment of dividends. We are adhering to our dividend policy of paying between 25 and 50 percent of net profit and the Board of Directors' dividend proposal is to pay 1.70 SEK per share (1.20) – an increase of a full 42 percent.

PRIORITIES FOR 2016

In the previous annual report, I promised that we should wisely and responsibly integrate our acquired





units. We have successfully done that. I also promised to focus on growth through continued targeted market and development initiatives. My general assessment is that, in cautious market conditions, we managed to advance our positions in all principal markets. We have never previously had as many and as comprehensive development projects in cooperation with existing and future customers. I also promised that our acquisition orientation would continue and that we would continue with our proactive sustainability and social responsibility efforts. We have done this too. During 2015, we have completed the acquisition of four units – all in Thermplastic Compounding. Our sustainability work continued at an unabated pace and we are transparently reporting on it here in this Annual Report and in the separate Sustainability Report.

During 2016, we will continue with the previously adopted strategy of maintaining a focus on competence development and developing our employees. We will, as previous, continue our focus on growth through increased and targeted market and development initiatives. We see excellent potential for growth and we increase our sales efforts in a number of geographical areas, such as the French

market. The acquisition orientation stands firm and our proactive sustainability and social responsibility efforts will continue at an unabated pace.

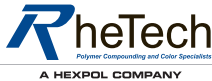
Finally, I would like to thank customers, suppliers and shareholders for your confidence and excellent cooperation during 2015. The effort shown by our employees has been fantastic – thank you all. Today, we have a larger HEXPOL Group, with strong market positions, in-depth expertise and a strong financial position. I am convinced that we can continue to develop the HEXPOL Group in a positive direction.

Malmö, Sweden, March 2016

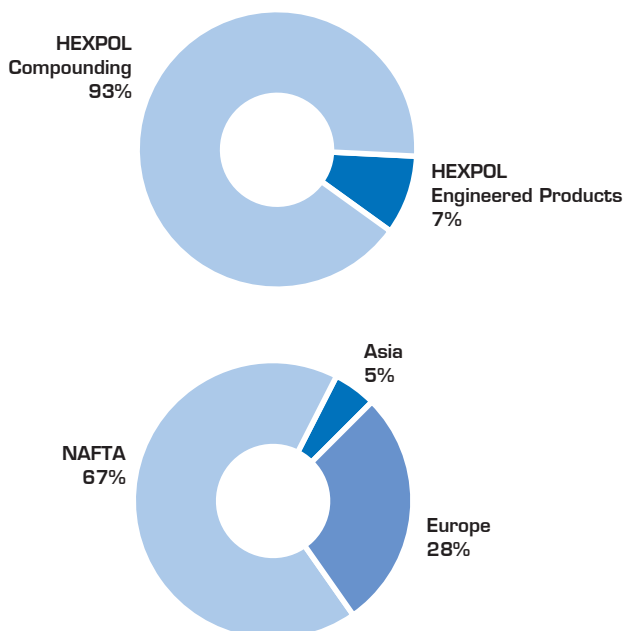
*Georg Brunstam
President and CEO*

About the HEXPOL Group

THE GROUP'S BRANDS



SALES FOR 2015 DISTRIBUTED BY BUSINESS AREA AND GEOGRAPHICALLY



The Group is organised in two business areas: HEXPOL Compounding and HEXPOL Engineered Products.

HEXPOL Compounding consists of two product areas, HEXPOL TPE Compounding and HEXPOL TP, and three geographic regions: HEXPOL Compounding NAFTA, HEXPOL Compounding Europe and HEXPOL Compounding Asia. HEXPOL Engineered Products has two product areas: HEXPOL Gaskets and HEXPOL Wheels. The organisation is structured to facilitate short and prompt decision-making processes, with clear and decentralised responsibility.

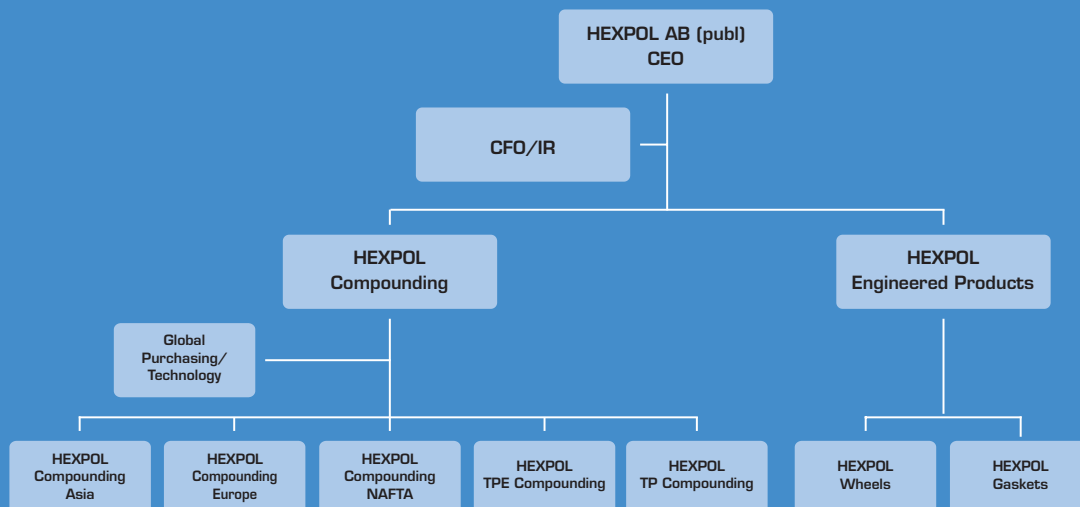
HEXPOL is a world-leading polymers group with strong global market positions in advanced polymer compounds (Compounding), gaskets for plate heat exchangers (Gaskets) and wheels made of plastic and rubber materials for forklifts and castor wheel applications (Wheels).

Customers are mainly system suppliers to players in the global automotive and engineering industries, construction industry, the energy, oil and gas sector, manufacturers of medical equipment, as well as OEM manufacturers of plate heat exchangers and forklifts.

Approximately 97 percent of sales are to customers outside Sweden. 11 of the Group's 38 production units are located in expansive regions of Asia, Mexico and Eastern Europe. The workforce totals around 3,900 employees, mainly in Asia and the US.

Most of the plants are relatively new and well invested. The high technology level, combined with far-reaching production and technological coordination, provides cost-effectiveness, high and uniform quality and the ability to smoothly relocate production among the units.

ORG CHART



BUSINESS CONCEPT

HEXPOL's business concept is to operate as a product and application specialist in a limited number of selected niche areas for the development and production of polymer products. HEXPOL aims to be the most attractive partner for customers in key industries, such as the automotive, engineering and construction, energy, oil and gas, medical technology and material-handling industries, by offering innovative and specialised polymer products and solutions.

VISION

HEXPOL's vision is to be a market leader, ranking number one or two in selected technological or geographical segments, in order to generate growth and shareholder value.

OPERATIONAL STRATEGY

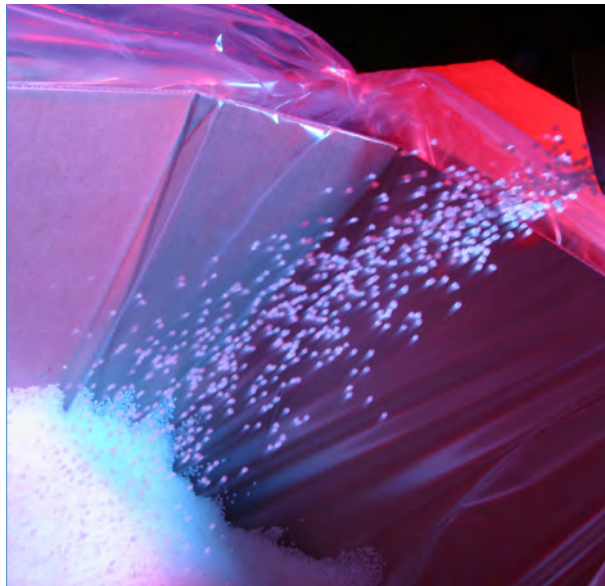
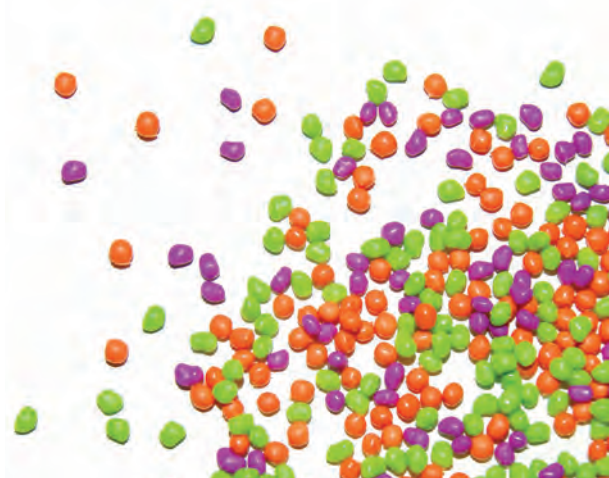
To maintain its long-term profitability and sustainable competitiveness, HEXPOL attaches great importance to the competitiveness of each individual business unit.

In order to attain the company's vision, the following operational strategies are continued applied:

1. Focus on product development

The Group possesses in-depth and wide-ranging polymer and applications expertise. In the HEXPOL Compounding business area, for example, 80 percent of the products marketed in Europe are based on unique proprietary formulas and the Group offers its customers technological cooperation for future development.

Product development is conducted at each production unit and the HEXPOL Compounding business area has a corporate technology department in Belgium. HEXPOL Gaskets has a central technology department in Gislaved, Sweden, and HEXPOL Wheels has its central technology department in Laxå, Sweden. Overall, approximately five percent of HEXPOL Compounding's employees are engaged in development work and many of them are highly qualified engineers.



2. Most cost-effective company in the industry

Well-invested plants characterised by a high level of technology and broad-based expertise in a flat and cost-effective organisation that facilitates success and progress.

3. Efficient supply management

The Group continuously focuses on finding cost-effective supply solutions in which high volume and advanced technologies are utilised. Close cooperation with customers through a local presence also provides opportunities for effective solutions.

4. Superior management expertise

Skilled and experienced management teams working on the basis of global coordination and a continuous exchange of experience enable all the units to adapt to the best practice in the Group and the industry.

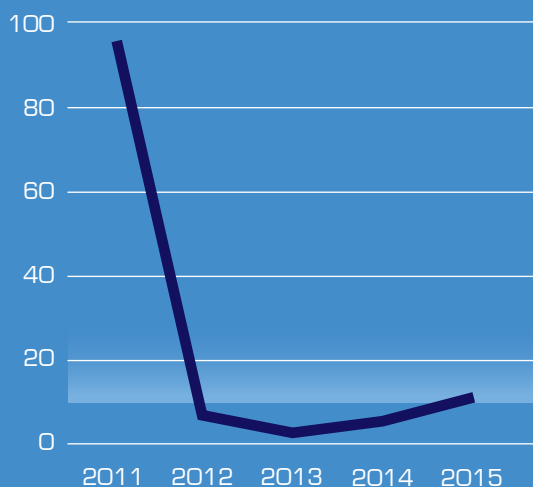
5. Speed Management

Short and prompt decision-making processes and time efficient implementation enhance competitiveness and boost the organisation's capacity.

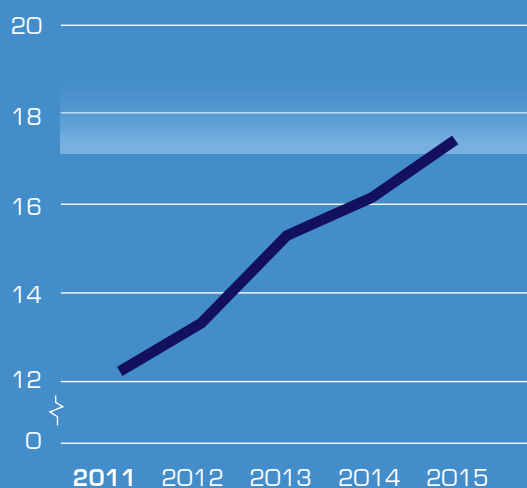
In addition to the above operating strategies, we pursue a strategy of conducting proactive sustainability efforts and taking social responsibility. Based on various activities, HEXPOL contributes to the achievement of sustainable development and we are convinced that our efforts will benefit society, our employees, the shareholders and our business operations. Our strategy for achieving sustainable development includes the introduction of environmental management systems, improved energy efficiency, reduced risks arising from chemical products and transparent reporting of the Group's performance.

GROWTH STRATEGY

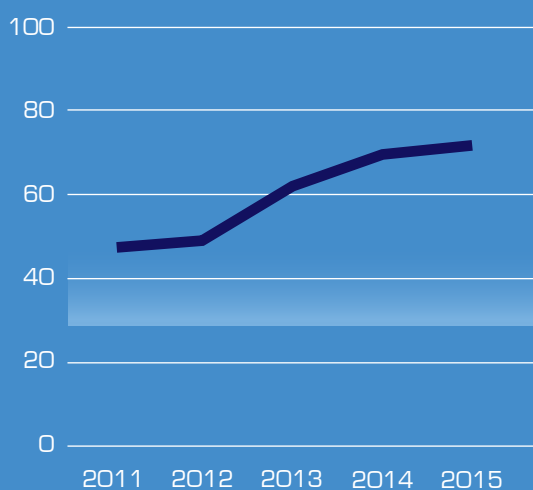
Over the years, HEXPOL has expanded sharply on the basis of healthy organic growth and strategic acquisitions. The same approach will be pursued in the future.

SALES GROWTH* % (Target >10%)

* Adjusted for exchange rate effects

OPERATING MARGIN* % (Target >17%)

* Excl. items affecting comparability

EQUITY/ASSETS RATIO % (Target >30%)**ORGANIC GROWTH**

Drivers in the Group's principal markets are trends in a number of end-customer segments, which are primarily pursuing development in the industrial, engineering, automotive and construction markets. The Group is endeavouring to position itself so that it can capitalise on development and growth in these markets. The Group strategy also includes continuing to leverage opportunities arising when manufacturers of rubber components face the decision of whether to switch from proprietary compounding operations to outsourcing.

ACQUISITION STRATEGY

The Group's strategy is to continue to acquire companies in the polymer field, primarily in current business areas but also including a broadening of application areas, types of material and geography. Potential acquisition targets are monitored continuously in accordance with a distinct acquisition model, whereby attractive targets are analysed on the basis of a series of strategic parameters. The Group has a strong cash flow, a strong financial position and the leadership capacity to capitalise on interesting acquisition opportunities.

BRANDS

HEXPOL markets its products via a number of well-established brands. For example, the Gislaved Gummi brand is well-known and highly reputed for gaskets far beyond the confines of Sweden. Other brands are HEXPOL Compounding, Gold-Key, Stellana, Burton Rubber, Chase Elastomer, Colonial Rubber, Robbins, Müller Kunststoffe (incl. product brands), ELASTO (incl. product brands), Elastomeric, Vigar, Kardoes as well as RheTech, which are recognised brands in their particular product areas and geographical markets.

FINANCIAL TARGETS

The Board of Directors has adopted the following revised financial targets; equity/assets ratio is to exceed 30 percent, and as a yearly average over a business cycle: sales growth (adjusted for exchange rate effects) is to exceed 10 percent and operating margin (adjusted for items effecting comparability) is to exceed 17 percent.

TARGET FULFILMENT

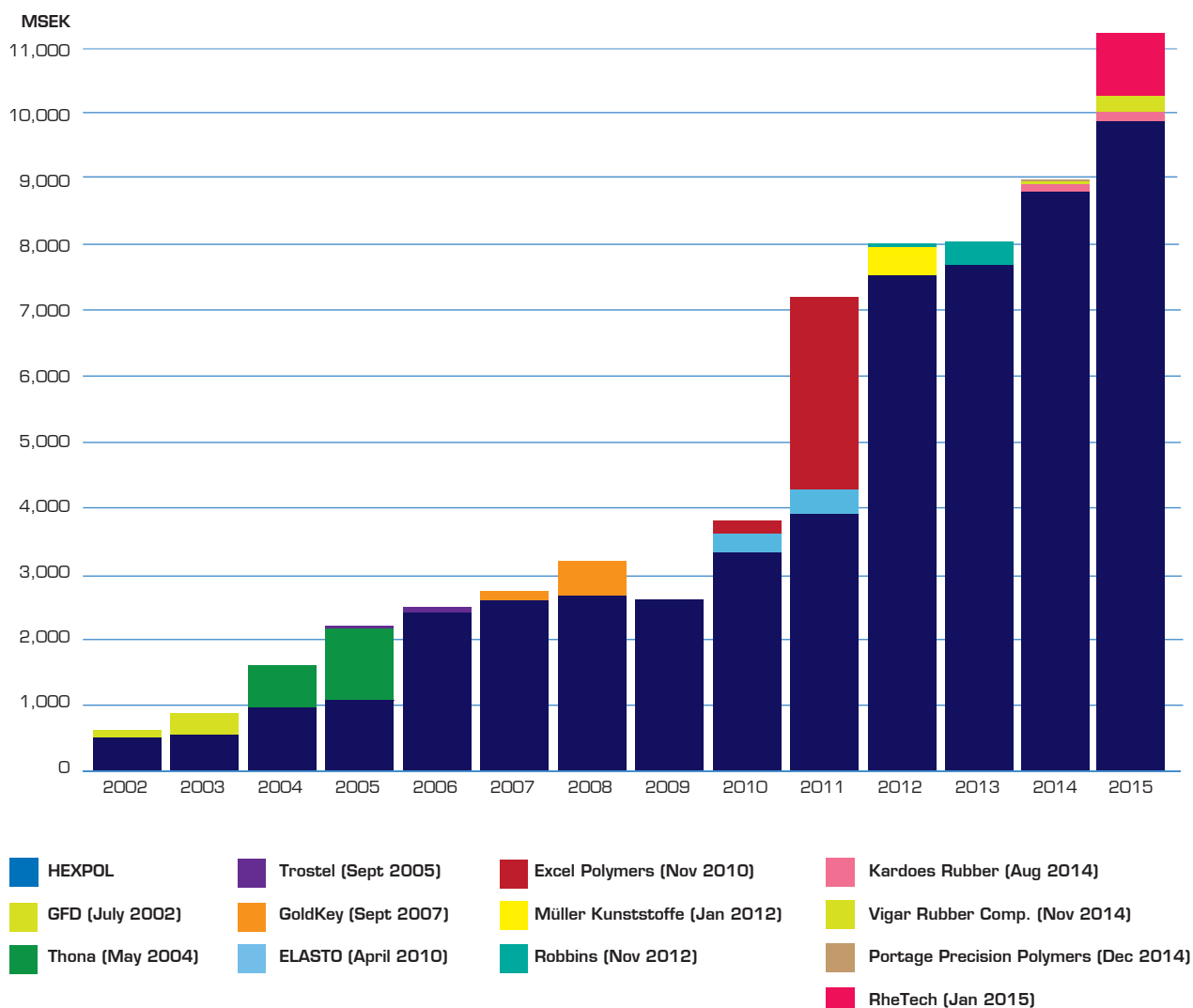
The diagrams illustrate target fulfilment over the past five years.

HEXPOL has met its targets for the equity/assets ratio over the past five years. The 2015 equity/assets ratio amounted to 72 percent.

The target for sales growth was fulfilled for both 2015, 11 percent, as well as the average for the period 2011-2015, 25 percent.

The target for the operating margin was fulfilled for 2015 with an operating margin of 17.5 percent, while the average for the period 2011-2015 was 15.0 percent.

STRONG GROWTH Contributions to sales made by acquisitions in 2002–2015, acquisition month in parenthesis.



HISTORY

HEXPOL has its origins in Svenska Gummifabriks AB in Gislaved, a Swedish industrial company established towards the end of the 19th century. This segment of the once highly diversified Gislaved Group, with operations focused on rubber compounds and technical products, was acquired in 1994. The operations have since been developed through investments in product development and acquisitions of complementary companies. A large and important step in this development was the acquisition of the Thona group in 2004.

Up to 2008, HEXPOL was part of the Hexagon group. In 2008, HEXPOL was spun off to Hexagon's shareholders and was listed as a separate company, HEXPOL AB, on NASDAQ OMX Nordic.

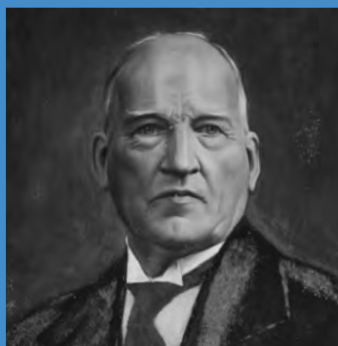
During 2010, two major acquisitions were completed: ELASTO Group in order to broaden the material base with thermoplastic elastomers (TPE); and Excel Polymers Group, which made HEXPOL a global leader in rubber compounds.

During 2012, a further two major acquisitions were completed. The German company Müller Kunststoffe was acquired, making HEXPOL a leading European producer of TPE compounds, and Robbins, a leading Rubber Compounder in the US, was acquired which strengthening HEXPOL's US position in rubber compounds.

During 2014 the business of the well-known Rubber Compounder Kardoes Rubber, which strengthen the presence in South Eastern US, and the well-known European Rubber Compounder Vigar Rubber Compounding, with facilities in Spain and Germany, were acquired. The business of Portage Precision Polymers, was also acquired which strengthening the market position in North Eastern US.

The acquisition of RheTech Thermoplastic Compounding, with four American facilities, within specialized Thermoplastic Compounding was finalized in January 2015.

1893



Carl Gislow and his brother Wilhelm, founders of Svenska Gummifabriks AB

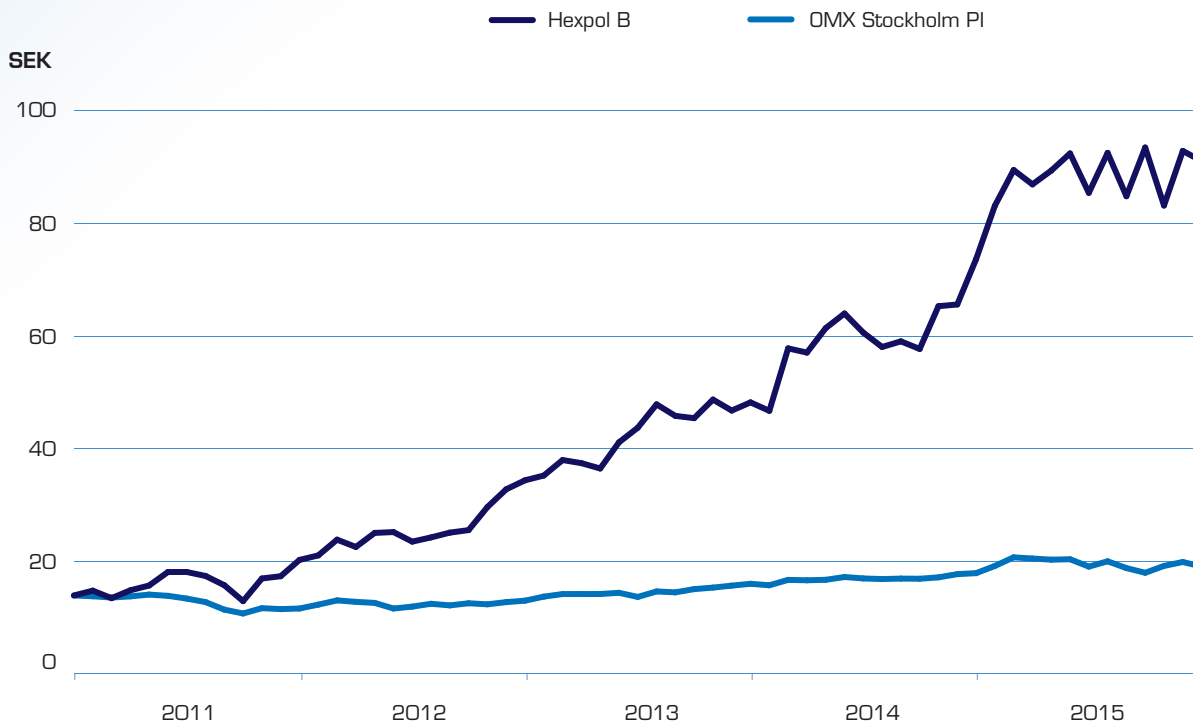
THE PRINCIPAL PHASES IN THE DEVELOPMENT INTO THE CURRENT HEXPOL HAVE BEEN:

- 1893 The Gislow brothers form a rubber factory in Gislaved
- 1966 A new factory for the product known as Technical Rubber is built
- 1990 The Technical Rubber division becomes Gislaved Gummi AB
- 1991 Production of gaskets for plate heat exchangers is acquired
- 1994 Hexagon AB acquires the Company
- 1995 Stellana AB in Laxå, Sweden is acquired
- 1998 Elastomeric Engineering Co Ltd in Sri Lanka is acquired
- 2002 GFD Technology in Germany is acquired
- 2004 Thona group of Belgium, with operations in Belgium, Czech Republic, Canada and the US, is acquired
- 2005 Trostel SEG (Stellana Inc.) in the US is acquired
- 2007 Establishment of three new plants for rubber compounds, wheels and gaskets in China and a new plant for rubber compounding in Mexico.
- 2007 GoldKey Processing Ltd in the US is acquired
- 2008 Change in corporate identity from Hexagon Polymers to HEXPOL
- 2008 Distribution of HEXPOL to Hexagon's shareholders and listing of the share on the NASDAQ OMX Nordic
- 2009 Restructuring programme and closure of the compounding operation in Canada
- 2010 ELASTO Group with operations in Sweden and the UK is acquired
- 2010 The global rubber compounds group, Excel Polymers, with operations in the US, China, the UK and Mexico, is acquired
- 2011 Excel Polymers is re-branded as Burton Rubber Processing, Colonial Rubber Works, Chase Elastomer and HEXPOL Compounding
- 2012 The German TPE compounding company, Müller Kunststoffe, is acquired
- 2012 Capacity investments in the emerging markets Mexico and China
- 2012 Robbins, a leading US rubber compounding company, is acquired
- 2013 Capacity investments in HEXPOL Rubber Compounding in Mexico and China and in HEXPOL TPE Compounding
- 2014 Kardoes Rubber, a well-known US Rubber Compounding manufacturer, was acquired
- 2014 Vigar Rubber Compounding, a well-known European Rubber Compounding manufacturer, was acquired
- 2014 Portage Precision Polymers, a well-known US Rubber Compounding manufacturer, was acquired
- 2015 RheTech Thermoplastic Compounding, with four American facilities, within specialized Thermoplastic Compounding was acquired
- 2015 Continued investments in capacity within rubber compounding in Mexico

The share and shareholders

HEXPOL AB was listed on NASDAQ OMX Nordic on June 9, 2008 and the Class B share was quoted on the Stockholm Mid Cap list in the industrial sector.

SHARE PRICE TREND 2011-2015



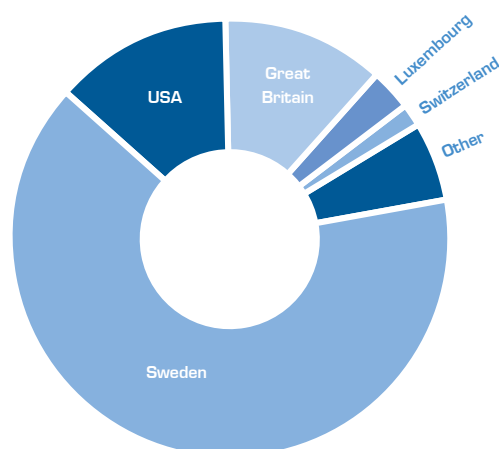
NUMBER OF SHARES PER SHAREHOLDER, DECEMBER 31 2015

Number of shares per shareholder	Number of shareholders	Number of Class A shares	Number of Class B shares
1-500	5,290	0	1,051,785
501-1000	1,854	0	1,541,844
1001-5000	2,991	0	7,129,831
5001-20000	992	0	9,910,175
20001-	569	14,765,620	309,802,025
Total	11,696	14,765,620	329,435,660

KEY FIGURES PER SHARE, ADJUSTED FOR SHARE SPLIT 10:1 2015

	2015	2014	2013	2012	2011
Earnings	4.05	3.05	2.70	2.19	1.87
Equity	18.11	14.67	10.51	8.45	7.19
Dividend	1.20	0.90	0.60	0.50	0.30
Market price class B shares Dec 31 last traded price	91.10	73.65	48.20	34.35	20.20

GEOGRAPHIC DISTRIBUTION OF SHAREHOLDINGS DEC 31 2015



THE HEXPOL SHARE

The share capital in HEXPOL AB totals 68,840,256 SEK, represented by 344,201,280 shares. Of these, 14,765,620 are Class A shares and 329,435,660 Class B shares. Each Class A share carries ten voting rights and a Class B share one voting right. All shares carry equal rights to the company's assets and earnings.

SHARE SPLIT

With the purpose to facilitate the trade in the company's shares the Annual General Meeting in May 2015 resolved on a share split 10:1, where the number of shares in the company is divided into ten shares of the same series. This split was completed in May 2015. The following information is adjusted according to the above mentioned share split.

SHARE PRICE TREND AND TRADING VOLUME

The price of the HEXPOL Class B share rose by 24 percent during 2015 and the closing price at the end of the year was 91.10 SEK. The highest closing price was 99.50 SEK (July 21). The lowest closing price during the year was 72.30 sek (January 7). During 2015, 192.5 million (145.0) HEXPOL shares were traded. Average trading per day in the share was 766,953 shares (583,290). The number of shares traded represented 56 percent (42) of the total number of shares.

As well as Nasdaq Stockholm, the HEXPOL share is traded on marketplaces such as Chi-X, Turquoise and BATS Europe. The share trading on Nasdaq

Stockholm is the largest, with approximately 70 percent of the total share trading.

OWNERSHIP STRUCTURE

As of December 31 2015, HEXPOL AB had 11,696 shareholders (8,280). The major shareholder is Melker Schörling AB, who owns all Class A shares. Melker Schörling AB also owns Class B shares and owns 26 percent of the share capital and 47 percent of the voting rights. The number of shares held by non-Swedish shareholders totaled 36 percent (36) of the capital. The 20 largest shareholders accounted for 62 percent (62) of the capital and 73 percent (73) of the voting rights.

DIVIDEND POLICY

HEXPOL's earnings development and equity/assets ratio determine the size of the dividend. HEXPOL's dividend policy is that 25 to 50 percent of profit after tax for the year will be distributed as a dividend to HEXPOL shareholders, on condition that the Group's financial position is deemed satisfactory.

SHAREHOLDER VALUE AND ANALYSTS

HEXPOL's executive management works continuously to develop the company's financial information to create favourable conditions for valuing the Group in the most accurate manner possible. This includes working actively through meetings with analysts, shareholders and the media.

For a current list of the analysts who continuously monitor HEXPOL, visit www.hexpol.com.

MAJOR SHAREHOLDERS, DECEMBER 31 2015

Owner/manager/custodial bank	Number of Class A shares	Number of Class B shares	Share capital (%)	Votes (%)
Melker Schörling AB	14,765,620	74,533,159	25.9	46.6
Didner & Gerge Fonder Aktiefond	0	22,198,381	6.4	4.6
Swedbank Robur fonder	0	15,761,906	4.6	3.3
Handelsbanken fonder	0	13,522,878	3.9	2.8
AMF - Försäkring och Fonder	0	10,281,251	3.0	2.2
State Street Bank & Trust Com., Boston	0	9,384,048	2.7	2.0
JPM Chase NA	0	7,459,808	2.2	1.6
SEB Investment Management	0	5,851,390	1.7	1.2
CBNY - Norges Bank	0	5,353,839	1.6	1.1
Livförsäkringsbolaget Skandia Öms	0	5,212,902	1.5	1.1
SSB Client Omnibus AC OMO3 (O PCT)	0	4,068,891	1.2	0.8
Afa Försäkring	0	3,631,120	1.0	0.8
Andra AP-fonden	0	3,494,347	1.0	0.7
Bonnier, Simon	0	3,184,280	0.9	0.7
NTC Fidelity Funds Northern Trust	0	2,985,000	0.9	0.6
State Street Bank & Trust Com., Boston	0	2,869,173	0.8	0.6
Mellon US Tax Exempt Account	0	2,435,315	0.7	0.5
Skandia fonder	0	2,409,497	0.7	0.5
Fjärde AP-fonden	0	2,281,736	0.7	0.5
Nordea Investment Funds	0	2,274,562	0.7	0.5
Total of the 20 largest shareholders	14,765,620	199,193,483	62.1	72.7
Total other shareholders	0	130,242,177	37.9	27.3
Total	14,765,620	329,435,660	100.0	100.0

OWNER STRUCTURE, DECEMBER 31 2015

Shareholder	Number of shareholders	Shareholder (%)	Holding (%)	Votes (%)
Physical persons	10,180	87.04	10.26	7.40
of whom living in Sweden	10,077	86.15	9.21	6.65
Legal entities	1,516	12.96	89.74	92.60
of whom living in Sweden	789	6.75	54.90	67.45
Total	11,696	100.00	100.00	100.00
of whom living in Sweden	10,866	92.90	64.11	74.10

Business area HEXPOL Compounding

Continued growth and high acquisition activity



Senior executives within the business area



Tracy Garrison,
President HEXPOL Compounding
NAFTA and President HEXPOL TP
Compounding



Ralph Wolkner,
President HEXPOL Compounding
Europe/Asia and President
HEXPOL TPE Compounding



Carsten Rüter,
President HEXPOL Compounding
Global Purchasing/Technology,
President HEXPOL Compounding
Europe/Asia and President
HEXPOL TPE Compounding

HEXPOL Compounding in brief

Global organisation

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

10,402

SALES MSEK (8,198)

1,859 MSEK

OPERATING PROFIT (1,364)

Global market

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

High quality, global delivery capacity

CUSTOMERS Customers are manufacturers of polymer products and components who impose rigorous demands on performance and global delivery capacity.

NUMBER OF EMPLOYEES AT DECEMBER 31
2,429 (2,212)

Operating units HEXPOL Compounding	Location	Number of employees Dec 31, 2015	Area m ²	Production capacity, tonnes
HEXPOL Compounding North Carolina	Statesville, USA	91	3,400	20,000
GoldKey Processing	Middlefield, USA	188	14,900	40,000
HEXPOL Compounding – Burton Rubber Processing	Burton, USA	256	19,900	55,000
HEXPOL Compounding – Burton Rubber Processing	Jonesborough, USA	108	9,800	50,000
HEXPOL Compounding – Colonial Rubber Works	Dyersburg, USA	245	38,200	150,000
Chase Elastomer	Kennedale, USA	74	7,200	18,000
HEXPOL Compounding – California	Santa Fe Springs, USA	41	2,900	13,500
Robbins	Muscle Shoals, USA	51	20,900	12,000
HEXPOL Compounding Aguascalientes	Aguascalientes, Mexico	120	6,500	24,000
HEXPOL Compounding Queretaro	Queretaro, Mexico	137	8,300	37,000
HEXPOL Compounding Belgium	Eupen, Belgium	83	3,400	16,000
HEXPOL Compounding Sweden	Gislaved, Sweden	58	9,200	16,000
HEXPOL Compounding Germany	Hückelhoven, Germany	79	5,400	35,000
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	115	8,600	35,000
HEXPOL Compounding UK	Manchester, Great Britain	59	2,500	5,500
HEXPOL Compounding Qingdao	Qingdao, China	70	5,900	20,000
HEXPOL Compounding Foshan	Foshan, China	33	6,350	20,000
Elastomeric Group	Bokundara, Sri Lanka	(53) ¹	2,000	6,000
ELASTO Sweden	Åmål, Sweden	64	5,300	20,000
ELASTO UK	Manchester, Great Britain	45	4,500	13,000
Müller Kunststoffe Plant 1	Lichtenfels, Germany	36	3,600	10,000
Müller Kunststoffe Plant 2	Lichtenfels, Germany	83	6,300	25,000
HEXPOL TPE Compounding Foshan	Foshan, China	10	750	5,000
HEXPOL Silicone Compounding	Mogadore, USA	–	1,600	–
Kardoes Rubber	LaFayette, USA	86	20,500	40,000
HEXPOL Compounding Spain	Barcelona, Spain	87	12,000	30,000
RheTech Compounding	Whitmore Lake, USA	149	13,200	65,000
RheTech Compounding	Fowlerville, USA	44	7,900	38,000
RheTech Colors	Sandusky, USA	46	6,500	4,500
RheTech Engineered Plastics	Blacksburg, USA	15	10,200	12,700
Total		2,429	267,700	836,200

¹ Organisationally included in HEXPOL Engineered Products.

HEXPOL Compounding is one of the world's leading suppliers in the development and production of advanced, high-quality polymer compounds and one of only a few truly global suppliers in the industry.

Polymer compounding is a high-technology process which enhances the properties and performance of base polymers by blending them with various components, such as additives and stabilisers, to create new and tailor-made material combinations.

Whether a customer needs flame retardant, oil resistant, UV stable or medically approved polymer materials, HEXPOL Compounding offers solutions that precisely match application requirements.

With operations in Europe, Asia and NAFTA, HEXPOL Compounding assists customers across the globe in building strong partnerships through advanced technical knowledge and a strong portfolio. HEXPOL Compounding primarily focuses on three important polymer compounding areas:

- Rubber Compounding
- Thermoplastic Elastomer Compounding (TPE)
- Thermoplastic Compounding (TP)

These products add value to a wide array of applications in the automotive, construction, energy, medical technology, industrial and consumer markets.

HEXPOL Compounding offers customers world-class polymer compounds and services. Long-term growth, which is an overall objective, is achieved through effective organisations in a safe environment hallmarked by continuous improvement. This is made possible by well-trained and highly skilled employees who are dedicated to do their utmost to satisfy customers.

ORGANISATION

HEXPOL Compounding's operations include 30 production units with production, sales and development operations. The units are divided into the geographic regions of NAFTA, Europe and Asia, as well as into the product areas HEXPOL TPE Compounding and HEXPOL TP Compounding.

A global unit in Belgium provides service to the production units and assumes global responsibility for:

- Research and development (coordination between the units and development of new materials and products)
- Global delivery agreements (strategic supplier choices, price negotiations)
- Engineering (design of equipment)

Most units are structured as separate units with complete organisational functions for sales, pro-

duct development and production. The units are strongly coordinated and cooperate closely with each other in all areas, and all global customers are served on a worldwide basis.

MARKET

HEXPOL Compounding's customers comprise manufacturers of polymer products and components that impose stringent demands on the materials' properties and global delivery capabilities. The largest end-customer segments are the automotive and engineering industries. Other key segments are the medical technology, general industry, construction and infrastructure, consumer, cable and water treatment and the energy, oil and gas sector.

The largest customer segments for thermoplastic elastomer compounds (TPE Compounding) are medical technology, general industry and consumer industries while the largest customer segments for HEXPOL TP Compounding is the automotive industry and consumer applications.

A large portion of the products in HEXPOL's markets are geared towards the automotive industry and includes rubber compounds for products such as sealing strips for doors and windows, hoses and gaskets and for example reinforced polypropylene compounds to the automotive industry. The demand for components and products from system suppliers to the automotive industry is strongly related to automotive manufacturing activity. Automotive manufacturing is in turn primarily governed by macro-economic factors such as GDP growth, the disposable income of households and the cost of capital. In addition to these macro-economic factors, demand is driven by developments in specific automotive industry areas, such as increased safety, enhanced comfort, lower weight and lower fuel consumption.

The HEXPOL Group's portion of sales to industries other than the automotive industry significantly increased following the acquisition of ELASTO Group, Excel Polymers Group, Müller Kunststoffe and Robbins. The Group's share of sales to the automotive industry is about 40 percent (2007 58%). For many car manufacturers, particularly in the premium segment, high-quality sealing strips, for example, represent a key component, since the strip often influences the end-customer's quality impressions in the form of quiet performance. HEXPOL Compounding is a leading supplier of rubber compounds in areas such as sealing strips for the automotive industry. The major manufacturers in the automotive industry and their system suppliers are active globally. These factors favour HEXPOL Compounding, who focuses on global delivery capabilities for the market's best products, offering identical quality regardless of the production unit.

In the wake of the strong economic downturn in the second half of 2008 and 2009, the production of passenger cars declined sharply, by a total of



Santa Fe Springs, USA



Kennedale, USA



Aguascalientes, Mexico



Queretaro, Mexico



Dyersburg, USA



Jonesborough, USA



Burton, USA



Middlefield, USA



Statesville, USA



Fowlerville, USA



Whitmore Lake, USA



Sandusky, USA



Mogadore, USA



LaFayette, USA



Muscle Shoals, USA



Blacksburg, USA



Manchester, Great Britain



Manchester, Great Britain



Åmål, Sweden



Gislaved, Sweden



Eupen, Belgium



Hückelhoven, Germany



Lichtenfels, Germany



Lichtenfels, Germany



Unico, Czech Republic



Barcelona, Spain



Bokundara, Sri Lanka



Foshan, China



Foshan, China



Qingdao, China

Senior Managers at HEXPOL Compounding's operating units



Randy Simpson,
COO HEXPOL Compounding
NAFTA



Jan Wikström,
Managing Director
HEXPOL Compounding
Sweden



Joey Young,
General Manager
Chase Elastomer, USA



Omar Guifarro
General Manager
Kardoes Rubber, USA



Ed Dowdall,
Managing Director
HEXPOL Compounding UK



Thomas Nilsson,
Managing Director
ELASTO Sweden



Mark George,
Managing Director
HEXPOL Compounding
North Carolina, USA



John Gorrell,
General Manager
HEXPOL Compounding –
Burton Rubber Processing,
Burton, USA



Peter Ryzko,
Managing Director
Müller Kunststoffe,
Germany



René Herbiet,
Managing Director
HEXPOL Compounding Bel-
gium and HEXPOL
Compounding Germany



Larry Lowe,
General Manager
HEXPOL Compounding –
Burton Rubber Processing,
Jonesborough, USA



Milos Pitela,
Managing Director
HEXPOL Compounding
Czech Republic



Saul Reyes,
Regional Director HEXPOL
Compounding Mexico



Ernesto Gutierrez,
Managing Director
HEXPOL Compounding
Aguascalientes, Mexico



Jerry Saxion,
Managing Director
GoldKey Processing,
USA



Shannon Smith,
General Manager
HEXPOL Compounding –
Colonial Rubber Works,
USA



Francisco Viliesid,
Managing Director
HEXPOL Compounding
Queretaro, Mexico



Andrew Wallace,
General Manager
HEXPOL Compounding –
California, USA



Dominic Philpot,
Managing Director
ELASTO UK



Terry Elgin,
Managing Director
Robbins, USA



Gareth Jefferson,
Regional Director
HEXPOL Compounding Asia



Jeremy Xing,
Operations Director,
HEXPOL Compounding
Qingdao, China

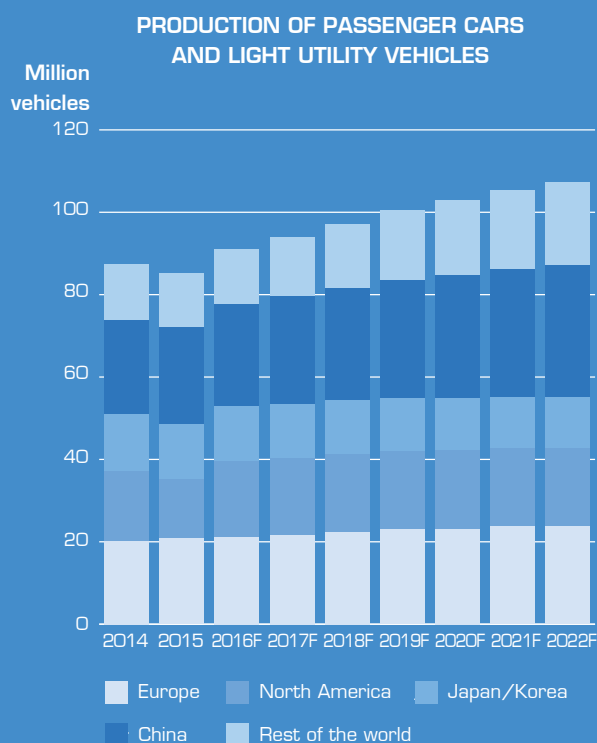


John T. Levinson,
Managing Director
RheTech Compounding,
RheTech Colors and
RheTech Engineered Plas-
tics, USA



Eduard Barragan,
Managing Director
HEXPOL Compounding
Spain, Spain

11.9 percent in 2009 on a global basis. In 2010, the market recovered and global production rose compared to the preceding year. According to the market institute IHS Global Insight, a total of 72.2 million light vehicles were produced in 2010. In 2011, the market grew by 6.6 percent to 77 million light vehicles and in 2012 the growth continued at a rate of 5.7 percent to 81.2 million light vehicles. During 2013, production increased to 84.5 million light vehicles and during 2014, the production increased to 87 million light vehicles. During 2015 the production increased to 88.3 million. The number of light vehicles manufactured is expected to rise in the coming years, primarily as a result of increased demand in emerging markets such as China. For 2016, growth of 3.2 percent is expected, with even greater increases in China and other emerging markets. Accordingly, many automotive producers are increasing manufacturing in these expansive markets. For system suppliers, this trend, combined with requirements for proximity as well as export and import tariffs, is leading customers to demand that HEXPOL follow suite and offer manufacturing in these markets.



The market for TPE compounds is undergoing strong growth with interesting and growing customer applications in the medical technology, general industrial, consumer and automotive areas. Through the acquisition of ELASTO Group, HEXPOL Compounding expanded its product range, which resulted in new opportunities for HEXPOL in this market segment. The acquisition of Müller Kunststoffe in 2012 further strengthened the focus on this attractive area. In addition, HEXPOL has constructed and opened a new state-of-the-art

plant for TPE Compounding in Foshan, China, to cover the growing Chinese market. During the year, the capacity of HEXPOL TPE Compounding was further increased. The market for TP Compounds is also emerging with interesting and growing customer applications not least for polypropylene (PP) compounds and polyamide (PA) compounds.

COMPETITORS

Only a small number of large manufacturers of rubber and TPE compounds have true international operations, with AirBoss, Teknor Apex, Dynamix, PTE, Multibase, GLS and Kraiburg, as notable examples. There are also a significant number of smaller manufacturers that operate locally. In rubber compounding, the competition also consists partly of customers with proprietary rubber compounding operations. However, due to cost and process-technology considerations, there is a general trend whereby small and midsize rubber companies are facing growing difficulties in maintaining proprietary production of rubber compounds. Such companies opt instead to outsource an ever-larger percentage of their production operations to plants including HEXPOL Compounding.

HEXPOL Compounding's potential to offer a global concept and cost-effective production of rubber and TPE compounds is highly competitive, compared with local and regional competitors, or the customers' in-house production operations.

BUSINESS MODEL

Production is primarily customer order-based and focused on a considerable number of selected raw materials. The main raw materials are largely oil-based and subject to price fluctuations. Accordingly, pricing is renegotiated several times a year, often monthly. The key polymer compound formulas are often developed in close cooperation with customers and unique expertise is required to achieve optimal product qualities. In most cases, the formulas are HEXPOL's property. For example, about 80 percent of the compounds sold in the European market are based on HEXPOL's own recipes.

Sales are handled mainly through HEXPOL's own qualified sales organisation including experienced technical support. The concept "Think global, act local" accurately describes how HEXPOL Compounding functions.

STRATEGY

Close relations with customers

HEXPOL focus especially on cooperation with customers operating globally, for example the automotive industry. HEXPOL Compounding has a well-balanced customer structure that includes substantial global deliveries to Japanese, German, American and Korean system suppliers to the automotive industry.

Focus on innovation and cost efficiency

HEXPOL Compounding's operations focus on pro-

duction and sales of high-quality products developed in close cooperation with discerning customers. The business area aims consciously to develop products that improve the total production costs of customers.

Further growth in existing and new markets

HEXPOL Compounding is well-positioned to increase its shares of existing markets and leverage its strong global presence and development capability to increase volumes in new markets.

High-quality products for demanding applications

HEXPOL Compounding's largest customer segments are the automotive, engineering, construction, energy, oil and gas sectors. Customers in the automotive industry are not the automotive manufacturers themselves, but rather large system suppliers to vehicle manufacturers (Tier 1). However, it is essential for these system suppliers to meet the automotive industry's meticulous demands.

Continuous improvements

HEXPOL Compounding works continuously to improve the processes used in the organisation. One example is the internal benchmarking of production data, which creates a strong drive for operating units to pursue continuous improvements through exchanges of experience.

BRANDS

HEXPOL Compounding serves customers under a number of brands: HEXPOL Compounding, which is used globally in many markets; GoldKey, Burton Rubber, Chase Elastomer, Colonial Rubber, Robbins and Kardoes, are well-established brands in the North American market as well as Vigar in the European market. In the HEXPOL TPE Compounding area, ELASTO, Müller Kunststoffe and their product brands are used globally. In the HEXPOL TP Compounding area, RheTech and its product brands are used.



OPERATIONS IN 2015

2015 was another strong year of growth for HEXPOL Compounding. Volumes rose in all markets and for most of the units. Sales were strong to the global automotive industry's system suppliers and the engineering industry, while sales with other market segments, such as the energy, oil and gas sector was weak. The US,

Chinese and Mexican units reported the strongest sales increases and the European units recovered despite the general uncertain economic situation. Sales amounted to 10,402 MSEK (8,198) and operating profit increased to 1,859 MSEK (1,364), resulting in the operating margin rising to 17.9 percent (16.6).

During 2012, the German company Müller Kunststoffe, was acquired. Combined with ELASTO UK and ELASTO Sweden, this resulted in HEXPOL becoming one of Europe's leading manufacturers of thermoplastic elastomer (TPE) compounds. Completion of the newly built production plant for TPE compounds in China in early 2013 strengthened the global operations.

During 2012, Robbins, an US rubber compounding manufacturer, was acquired to strengthen the presence in the US in end-customer segments such as agriculture and mining. During 2014 the business of the well-known Rubber Compounder Kardoes Rubber was acquired, which strengthen the presence in South East US, and the business of Vigar Rubber Compounding, a well-known European Rubber Compounder with facilities in Spain and Germany, was also acquired. In December 2014 the business of Portage Precision Polymers, a well-known US Rubber Compounder, was acquired which strengthening the market position in North East US. At the beginning of the year the acquisition of RheTech Thermoplastic Compounding, with four American facilities, within specialized Thermoplastic Compounding was finalized.

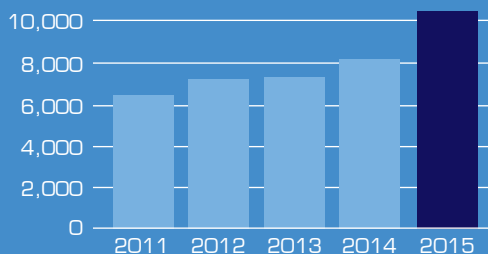
OUTLOOK AND PRIORITIES

HEXPOL Compounding aims to offer customers local service in all markets and to be a development partner on a global and local basis. With 30 production and development units in ten countries, our structure is unique for the industry and provides our global customers with local service. HEXPOL Compounding is favourably positioned for continued growth, both from a geographic and an applications perspective.

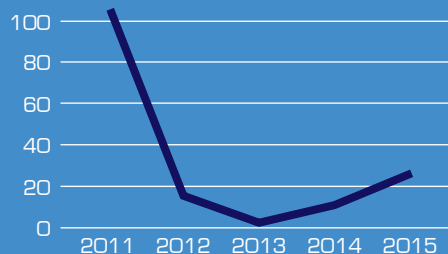
2016 will be another exciting year characterised by intensive efforts to increase market shares through technological and process advancements in cooperation with customers. HEXPOL assigns priority to continued initiatives in the areas of automotive, medical equipment, energy, oil and gas applications, combined with continued activities in growth markets such as China, Mexico and Central and Eastern Europe. HEXPOL Compounding will also continue to work with the ISO 14001 environmental management system in all units.

HEXPOL Compounding, five-year figures

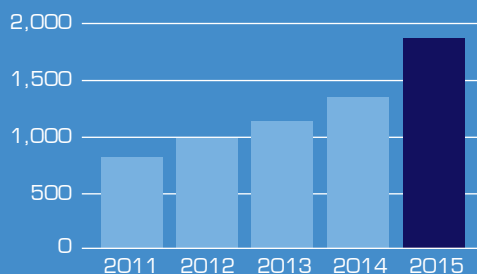
SALES, MSEK



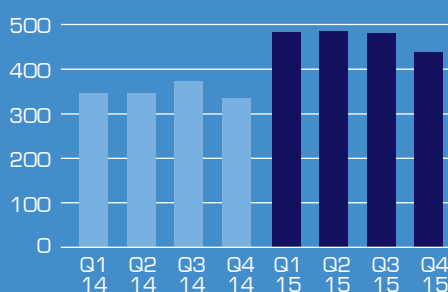
SALES GROWTH, %



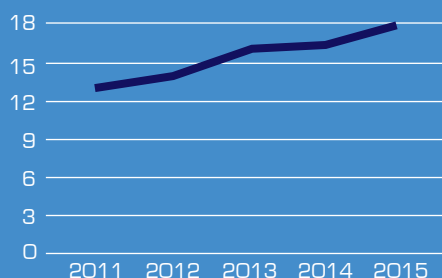
OPERATING PROFIT, FULL YEAR, MSEK



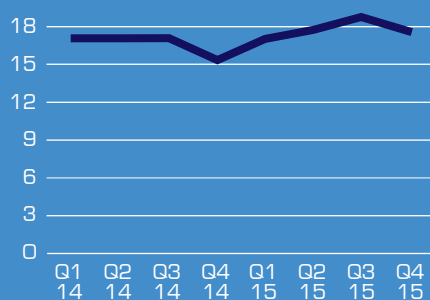
OPERATING PROFIT, QUARTERLY, MSEK



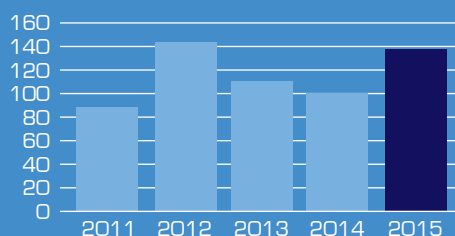
OPERATING MARGIN, FULL-YEAR, %



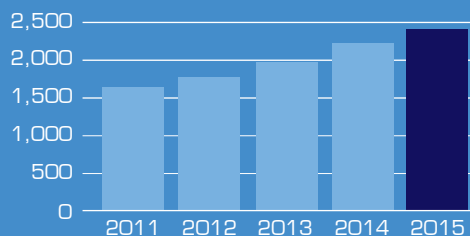
OPERATING MARGIN, QUARTERLY, %



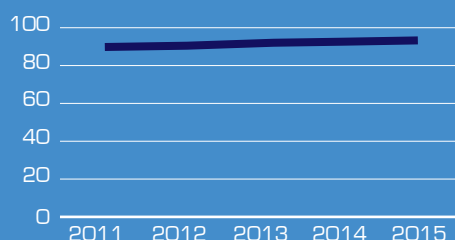
INVESTMENTS, MSEK



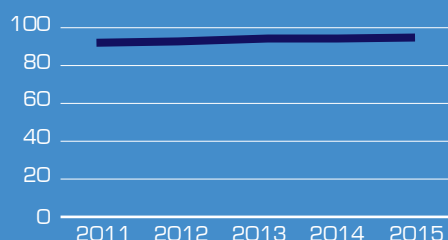
AVERAGE NUMBER OF EMPLOYEES



PERCENTAGE OF CONSOLIDATED SALES, %



PERCENTAGE OF CONSOLIDATED OPERATING PROFIT, %



HEXPOL ACQUIRES RHETECH GROUP

HEXPOL acquired RheTech Group from the founders' families on January 16, 2015. RheTech has close to 50 years' experience of polymer compounding and is a leading provider of polyolefin compounds, engineered resins and multifunctional colorant and additives.

"The acquisition expands HEXPOL Compounding NAFTA's capabilities and capacities within Polymer Compounding and is a very good complement to our present Polymer Compounding business." Tracy Garrison, President and CEO HEXPOL Compounding NAFTA.

RheTech has four facilities (including manufacturing and laboratories) located in Whitmore Lake, MI (RheTech), Fowlerville, MI (RheTech), Sandusky, OH (RheTech Colors) and in Blacksburg, SC (RheTech Engineered Plastics). RheTech had a turnover of 114 MUSD in 2015 and approximately 210 employees.

"This is a further step in expanding and strengthening the HEXPOL Group with another acquisition within our core business. RheTech, with its competence and capabilities, will fit nicely into the HEXPOL Group and broadens our product range within Polymer Compounding." Georg Brunstam, CEO HEXPOL Group.

The acquisition price amounted to 112 MUSD on a cash and debt free basis.



HEXPOL ENTERS THE SPANISH MARKET

HEXPOL acquired the well-known Spanish rubber compounder, Vigar Rubber Compounding, at the end of 2014. During 2015 a lot of changes and investments were implemented and the unit was renamed HEXPOL Compounding S.L.U. A new management team with skill sets to lead the changes was put in place, led by Mr. Eduard Barragan (new Managing Director).

In just a year the manufacturing capabilities have been vastly enhanced by several technical investment projects outlined below:

- Refurbishment of the line 4 mixer
- Installation of a strip head, pelletizing unit, gear pump, batch off unit.

- Installation of a gear pump on line 2
- Installation of a new batch off unit on line 3 (injection molding grades)

In order to support the new operational capabilities the IT environment was updated with a new ERP system as well as new mixer control systems.

At the end of 2015 HEXPOL started to transfer an automotive product range with sponge compounds to the Spanish unit. The first commercial projects have already been started up utilizing this new technology.

Quality and environmental responsibility have also been high on the agenda during 2015. HEXPOL Spain achieved ISO 14001 certification while going through the HEXPOL Group certification process.

RHETECH THERMOPLASTIC COMPOUNDING EXPANDS WHITMORE LAKE FACILITY



In 2015, RheTech LLC completed the addition of approximately 7,200 square feet of additional manufacturing and warehouse floor space to the Whitmore Lake, Michigan, facility. This floor space can store approximately 300,000 pounds of material – primarily super sacks with mineral and fiberglass. With the planned growth of production capability, there was a need for additional storage space for items that are large volume but not able to be delivered in bulk tankers or railcars.

This new space will also provide for some additional direct feed blending capability for inline blending for low volume color and other additive products. This aspect will provide better quality and lower personnel costs than the current methods. This blending process when completed will allow for more on floor storage space than available with the process being used now to get these ingredients into the extruders.

In addition, this area contains a large engineered mezzanine to facilitate the pneumatic convey pumps and blowers for both the current production lines and the new lines being added to the facility. This area was designed with sound insulation and proper ventilation resources to remove excess noise and heat from the main production areas in which people work. This is both a quality of work life issue and it provides for more on floor storage than just the 7,200 square foot expansion.

HEXPOL COMPOUNDING QUERETARO, MEXICO – COMPANY OF THE YEAR 2015

At the annual HEXPOL Top Management Conference in November, HEXPOL Compounding Queretaro SA, Mexico, was elected Company of the Year 2015.

The team in Queretaro led by Francisco Viliesid, Managing Director, has achieved both strong growth and good profitability which is an outstanding achievement. The company is also well positioned for the future with on-going capacity investments on a vibrant and growing market in Mexico.

Also nominated for the Company of the Year award were Stellana US, Lake Geneva, USA and HEXPOL Compounding Unicov, Czech Republic where the latter received the Best Improvement Award.

HEXPOL Rubber Compounding

ORGANISATION

HEXPOL traces its origins to the rubber industry in 1893, when the Gislöw brothers established a rubber factory in Gislaved, Sweden. As a result of continued investment combined with both organic and acquisition growth, HEXPOL has now established itself as a global leader in advanced rubber compounds.

HEXPOL Rubber Compounding has step by step become a global leader in a fragmented rubber compounding industry. Integration of new businesses has been rapid, with good synergies in skills, technologies and supply chain. HEXPOL's dedication to superior performance, from our operations, products and teams, means that HEXPOL Compounding is a strong global supplier with high development capabilities with a well-managed cost base and proven employees.

In 2012, HEXPOL further strengthened its position with the acquisition of Robbins – a leading US rubber compounder. This was yet another acquisition in the core rubber compounding area, which expanded both HEXPOL's customer offering and the product portfolio. During 2014 the business of the well-known Rubber Compounder Kardoes Rubber was acquired, which strengthened the presence in South Eastern US, and the business of Vigar Rubber Compounding, a well-known Euro-

pean Rubber Compounder with facilities in Spain and Germany, was also acquired. In December 2014 the business of Portage Precision Polymers, a well-known US Rubber Compounder, was acquired which strengthening the market position in North Eastern US.

The Rubber Compounding business is divided into three geographic regions: Asia, Europe and NAFTA. HEXPOL Compounding's units feature some of the most advanced processing lines in the industry. HEXPOL Compounding's customers are product manufacturers who place meticulous demands on performance and global delivery capabilities. The largest market segment is the automotive industry. Other key segments are building and construction, engineering, energy, oil and gas, water treatment, wire and cable, the tire market, roll covering and performance additives.

TECHNOLOGY AND PRODUCTS

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

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

LIGHTWEIGHT NONCONDUCTIVE EPDM COMPOUNDS

Car parts made of light metal alloys based on aluminum or magnesium tend to corrode when in contact with rubber. In 2014, HEXPOL Compounding in Belgium launched a new series of low- and nonconductive EPDM compounds to avoid this problem. White specialty fillers instead of carbon black are used to significantly increase the electrical resistivity.

This project has resulted in a range of products where HEXPOL is able to meet a wide range of OEM requirements between 106 $\Omega \cdot \text{cm}$ - 109 $\Omega \cdot \text{cm}$ and above. White fillers can however degenerate the mechanical properties and process ability of the compound due to the strong filler network. Intensive research was necessary to overcome these problems resulting in adjustments of the recipe and by optimizing the polymer matrix.

Another issue is the weight of white fillers, resulting in a higher weight of the finished compound. Driven by the CO₂ discussion,

the automotive industry is targeting weight reductions in all parts of the car. Therefore HEXPOL needed to reduce the density of the compounds without deteriorating other important properties. This was finally achieved by a unique proprietary HEXPOL technology. Lightweight nonconductive compounds are now available with up to 20% weight reduction. This development also offers new opportunities in the building & construction industry thus these compounds have a lower thermal conductivity which is a benefit in window seal applications.



The rubber compounds that leave HEXPOL Compounding's production plants are processed further by customers through, for example, extrusion, injection moulding and compression moulding to give the components their final shape. Continuous or discontinuous vulcanisation gives the end-products their elasticity properties.

HEXPOL Rubber Compounding's production plants have sophisticated quality assurance systems.

The production process is computerised to ensure efficiency and quality. Mixing rubber in a closed mixer is what is termed as a batch process and, accordingly, all ingredients must be prepared in compliance with the weight specified in the recipe or formula. The various weighing stages are monitored by IT systems to ensure maximum precision and enable traceability of the entire batch. Since the formula and the mixing process are both critically important to product quality, HEXPOL Com-

CAPACITY EXPANSION IN MEXICO

HEXPOL Compounding NAFTA continues to expand the company's Mexican operations, investing in added capacity with "Best-in-Class" equipment and technology. Since opening rubber-compounding operations in Mexico in 2000, HEXPOL has built two plants in the center of Mexico's OEM auto production corridor.

After having shared with its sister plants in Aguascalientes and Statesville the 2013 HEXPOL "Best Plant of the Year" award, HEXPOL Compounding Queretaro commissioned an eagerly awaited second mixing line during the fourth quarter of 2014. The new line incorporates the best HEXPOL technology to date, including in-line straining, in order to best serve its current and new customers in Mexico as well as new markets under development. This is the fifth mixing line HEXPOL has in Mexico, bringing with it increased versatility to the Mexico business and will ultimately benefit all customers through improved quality and customer service.

"We are thrilled with the continued growth of HEXPOL in Mexico" Tracy Garrison, President & CEO HEXPOL Compounding NAFTA, explained. "Our team has developed tremendous skills over the past 14 years. Queretaro is one of our top performing facilities worldwide.

Based on this excellence and market demand, we are committed to continued investments in Mexico."

"The significant investment by HEXPOL is further evidence of the success of our team in the Mexican market," said Queretaro Managing Director Francisco Viliesid. "We continue to develop new markets, applications and channels. Our job, however, is far from finished, and our associates stand ready to continue growing with our customers. This new investment in capacity and capabilities furthers our commitment to our customers and enables us to continue to enhance our service in this key growth market."



MAJOR INVESTMENTS IN RUBBER COMPOUNDING IN GERMANY

HEXPOL has decided to start up a new mixing line in HEXPOL Compounding GmbH in Germany. The mixer consists of a Pomini VIC 165X series body including a new ram and new rotors. The rotor geometry is the standard PES intermesh. The equipment is supplied by HF Group which is the standard configuration within HEXPOL Group.

This particular series of mixers are unique within HEXPOL Group utilizing a continuous gap adjustment technology. This specific technology is beneficial for non-EPDM compounds

such as SBR, CR, NBR and NR in a one-stage mixing process.

The combination of the new mixer body and rotors will increase the capacity by 10% compared to the old machine. The new machine also has automated ram cleaning which will improve the mixing process as well as the quality.

To further improve upstream performance the HEXPOL Engineering group has installed a prototype bale cutter which works fully electrically without any hydraulics. Taking all the improvements into consideration the new line is expected to be the first mixing line within the facility to generate an output of more than 2,000 kg/h.

pounding's research and development engineers are responsible for creating the formulas and for the mixing process in accordance with the intended application, ingredients and quality requirements.

HEXPOL Compounding is continuously advancing the technology behind the filtration methods that are built into the process flow so that extremely pure rubber compounds are produced. With advanced technologies, the plants can easily adapt their processes to meet specific customer requirements.

HEXPOL PROVIDES SUPPORT TO SUPERIOR FIRE HOSE

Without warning, an extruder at Superior Fire Hose Corp., located in Pineville, North Carolina, went down during the week of Thanksgiving. Short on maintenance help because of the holiday, Rick Bergeron, Superior's President and General Manager, turned to HEXPOL Statesville for assistance. Statesville has been providing Superior with a proprietary formulation since 2007.

The maker of industrial, municipal, and rubber-covered hoses had a backlog of orders to fulfill and couldn't afford any downtime. Superior contacted Anita Toflinski, Business Development Manager at HEXPOL Statesville, to see if HEXPOL could recommend an extrusion company to produce tubes for Superior Fire Hose until they could repair the extruder.

With no one available on short notice during the holiday week, Anita requested photos of the damaged extruder to help determine if Statesville's maintenance staff could make emergency repairs. Rubber accumulation on the head and collar had damaged the threads.

Anita and Mark George, Managing Director of the HEXPOL Statesville campus, reviewed the photos with Steve Koenig, Maintenance Manager. The Statesville team decided to send Koenig and Hector Ramirez, new Maintenance Manager, to evaluate whether the damage to the extruder could be temporarily repaired.

In an effort to get the extruder in production, Koenig hand filed the head and collar to get the machine operational, enabling Superior Fire Hose to fulfill pressing orders. It took him about an hour to make the repairs and he stayed at Superior until the machine was running and making new parts. His handy work kept the extruder in production until the extruder's head and collar could be replaced with new components.

"It is a bonus for any company to be affiliated with a supplier who is as much invested in our success as we are" said Rick Bergeron.

This is an example of the value add that HEXPOL brings to its customers. In addition to providing second-to-none compounding services, when needed, the Statesville campus – as all of our HEXPOL Compounding campuses – provides ongoing technical support services. Superior Fire Hose had an important order that needed filled and, in the midst of a potential production crisis, HEXPOL delivered timely and effective maintenance support.

Like HEXPOL, Superior Fire Hose provides its customers with unmatched quality, reliability, integrity and experience. Superior has been manufacturing fire hose for over 20 years, guaranteeing their products for 10 years against defects in materials and workman-ship.

FURTHER INVESTMENTS IN RUBBER COMPOUNDING IN GERMANY

In the end of 2015 the installation of a new cooling unit started in HEXPOL Germany with support of the HEXPOL engineering group. This new piece of equipment will enable central cooling of all machinery in the plant using a turbo chiller and a cooling tower.

With a cooling capacity of 10,000 liters of water or 611 KW this investment will result in a significant electricity saving. The project group estimates electricity consumption to be reduced by approximately 25%. This translates

into an annual saving 55,000 EUR and a reduced environmental footprint.

During the winter period, the excess heat from the system can be used for heating the production area. The heating was previously done with oil which can be reduced with approximately 60% translated into an additional annual saving of 25,000 EUR.

HEXPOL

TPE Compounding

ORGANISATION

As a result of the acquisition of ELASTO Group in 2010, with plants in the UK and Sweden, HEXPOL broadened its product offering to encompass the fast growing Thermoplastic Elastomers (TPE) sector. TPE Compounding represented a natural next step for HEXPOL, being a complementary technology to rubber with growth potential in a diverse range of markets. The addition of TPE Compounding to our product portfolio strengthened HEXPOL's market position and customer offering while opening up new markets and application areas.

In 2012, HEXPOL completed the acquisition of Müller Kunststoffe. The manufacturer has two production units in Germany, which complement the units in the UK and Sweden. In response to growing demand, HEXPOL increased the capacity

at the German plant with a new production line that came on stream in the first quarter of 2013. During 2015, the capacity has further increased at Müller Kunststoffe and a new technical laboratory was inaugurated. With the integration of ELASTO and Müller Kunststoffe, HEXPOL has now established a robust European organisation for TPE Compounding, with progressive solutions, a very high level of technical expertise and ideally positioned to capture growth.

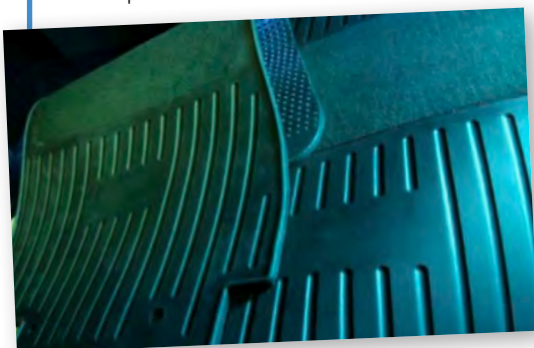
In 2012 HEXPOL invested in a new TPE compounding unit in southern China. The production facility operates from HEXPOL Compounding's existing Foshan site in the expansive Guangzhou area, a key location for polymer component manufacturing. HEXPOL TPE Compounding has supplied customers in Asia for a number of years, initially to European and US manufacturers with local business in the area but increasingly to locally owned producers. As sales in Asia continue to grow, it is important that our existing and new customers receive the same high-quality production, technical expertise and local support as our European customer base.

HEXPOL TPE COMPOUNDING SHOWCASE TPE FOR AUTOMOTIVE INTERIORS

At the Chinaplas 2015 exhibition HEXPOL TPE China showcased how thermoplastic elastomers (TPE) are introducing new possibilities to the automotive interiors market.

Among the products on display were Dryflex AM, a range of TPE compounds developed for automotive mats. Dryflex AM TPEs include grades based on SBS and SEBS which are available in hardnesses from 50 to 75 Shore A. High-flow grades are available which have been designed for complex mouldings with a large surface area such as trunk liners. Other applications for Dryflex AM TPE compounds include floor mats, coin mats, cup holders, fascia mats and trim.

For automotive floor mats the material needs to have high scratch and abrasion resistance. It is also critical that the material is non-slip, even when wet. The material structure of Dryflex AM compounds produces the high co-efficient of friction, helping to create a non-slip surface.



Dryflex AM materials are low odour and fogging. They require no vulcanisation and are 100% recyclable during production. This means less energy is used and production is faster and more cost-efficient.

The China operation is part of HEXPOL TPE Compounding which also has production operations in Germany, UK and Sweden and has partnered several European and Asian automotive OEMs on the development of TPE compounds for automotive interiors.

Klas Dannäs, Global R&D coordinator at HEXPOL TPE explained, "For our multi-national customers it is important that we deliver consistent materials and local support across several geographies. HEXPOL TPE maintain fast decentralised – but coordinated – teams across our European and China operations. Our customers have access to the full range of products and knowledge our family has to offer, supported by highly responsive, local technical sales teams".

Gareth Jefferson, Regional Director HEXPOL Compounding Asia, added "Our coordinated work with multi-national automotive OEMs demonstrates why the HEXPOL TPE group has a leading position in the TPE market. Our success is built on the close contact we have with our customers, with tailored TPE compounds supplied from advanced production and product development facilities. HEXPOL TPE China is located in Foshan, in the heart of the Guangdong Province, a key location for polymer component manufacturing. We are therefore ideally positioned to provide advanced, technical TPE solutions with competitive and flexible local supply."

HEXPOL TPE COMPOUNDING PRESENTS TPE SOLUTIONS FOR ELECTRICAL & ELECTRONICS MARKETS

HEXPOL TPE Compounding with operations in Germany, Sweden, UK and China, exhibited for the first time at the Plastpol 2015 trade show in Poland.

Of particular focus at the show was the Dryflex and Lifoflex TPE compounds for electrical and electronics applications. The HEXPOL TPE group has developed several solutions that combine the functional performance and soft-touch aesthetics required for consumer electronics, white goods, connectors and electrical items.

Conductive grades are available to protect electrical devices from electrostatic charge or where the end product needs to be ATEX rated. The conductive TPE compounds can be individually adjusted within a range from 10¹ to about 10⁵ Ω m. They are available in 15 Shore A to 60 Shore D hardnesses.

Dryflex and Lifoflex TPE compounds offer excellent colourability and durability, with

resistance to UV, flex-fatigue and wear and tear. They can also be used in combination with various thermoplastic substrates including PP, PE, PC, ABS and PA in multi-component applications.

For sealing applications in white goods such as washing machines, dishwashers and dryers, where there are requirements for higher service temperatures or resistance to fluids, HEXPOL TPE Compounding can offer Dryflex V range of Thermoplastic Vulcanisate (TPV) compounds.

Dryflex V grades have been designed to retain compression set and dynamic sealing properties over long periods of time and at elevated temperatures. Fluid resistance testing in various detergents and washing fluids has been carried out to ensure the material's long term stability and property retention. Grades are available with low viscosity and high-flow properties for injection moulded sealing applications with long and complex flow paths.

Sven-M. Druwen, product manager for HEXPOL TPE commented "Electrical and electronics is an interesting market for TPEs and one where we are seeing particular growth in Eastern Europe. The Plastpol exhibition is therefore an ideal platform for us to showcase the extensive range of customised TPS and TPV solutions we have developed".



With the creation of HEXPOL TPE Compounding, immediate growth and innovation synergies were achieved. HEXPOL TPE Compounding is focused on delivering TPE solutions to facilitate high-growth in markets offering strong growth potential, such as the consumer, medical technology, toys and automotive markets, as well as markets for caps and closures.

In the caps and closures area, HEXPOL TPE Compounding consolidated its product offering in July 2012 by taking over the business activities of European Plastic Sealants (EPS) based in Germany. EPS specialise in the development of compounds for beverage caps and closures. Sales are worldwide under the EPSeal® product brand to a range of closures markets including beverage sealants in crown corks, aluminum and plastic closures. The sales have continued to develop favourably in 2015.

TECHNOLOGY AND PRODUCTS

The TPE market includes a number of material classes, each based on different chemistries and

technologies. The various classes display different properties and end-use applications.

HEXPOL TPE Compounding offers one of the strongest portfolios of TPE compounds in the marketplace covering the following technologies:

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

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

A number of the markets in which HEXPOL TPE Compounding is active, for example, the markets for medical technology, toy and food contact, require the highest level of production control, material traceability and consistency. HEXPOL operates state-of-the-art compounding and product

HEXPOL TPE COMPOUNDING GROWS IN MEDICAL APPLICATIONS

ELASTO Sweden, part of the HEXPOL TPE family, continues to grow the medical capabilities with the start-up of a new medical line and expansion to the technical centre at their facility in Åmål, Sweden.



ELASTO Sweden was the first European TPE compounder to be awarded the ISO 13485 certification for the development, manufacture, marketing and sales of TPE compounds for the medical device industry. The new line is one piece of the continued focus on medical TPE and supports the sales growth of the Mediprene TPE compounds for medical applications.

Mediprene TPE offer many advantages for medical device applications; they are sterilizable with gamma, EtO and steam. Mediprene TPE are PVC, silicone and latex free, making them allergen free and a viable alternative to PVC based compounds. Applications include medical tubing, IV systems, catheters, respiratory equipment, syringe plunger seals and wound care products.

"High quality materials, produced under consistent conditions with a strict raw material selection policy, all backed by specialist technical support, this is what we've built our medical strategy on," commented Niklas Ottosson, medical technical manager at ELASTO. "Our strong heritage in this sector gives us a deep understanding of medical device regulations and requirements, such as; traceability, reproducibility and formulation stability."

As part of the investment, ELASTO has also expanded the technical resources at the Swedish facility, Klas Dannäs, Global R&D coordinator for HEXPOL TPE commented "HEXPOL TPE operate technical centres at each of our production sites; ensuring fast and responsive customer support. Our teams of chemists and polymer engineers' use advanced polymer testing and analysis equipment to develop progressive TPE compounds customised to our customers' requirements. To support our growing customer base, we have added to our technical centre in Sweden with the installation of a new pilot line and further investments in analytical equipment such as FTIR, DSC and TGA machines."

Thomas Nilsson, who joined ELASTO Sweden as managing director in 2015, added "I have been impressed with the commitment, know-how and dedication of our team. As a supplier to the medical device industry it is critical that we operate to the highest-standards by investing in advanced compounding and product development processes. The new line and investment in technical resources is part of our on-going commitment to supply leading quality TPE products and expertise to our growing medical customer base".

development facilities in Europe and Asia with a strong emphasis on operational excellence and optimisation. HEXPOL invests in high-quality compounding technology and supporting sub-systems, while also operating extremely versatile processes that have allowed HEXPOL to develop a comprehensive product offering.

HEXPOL TPE Compounding has a strong heritage in its home markets, with a trusted reputation for technical, custom-formulated solutions. ELASTO was among the first companies to start producing TPE compounds and has continually invested in people, production and technology to expand capacity and support the growing global customer base.

With European and Asian production facilities and sales offices, HEXPOL TPE Compounding is ideally placed to provide flexible, local support to its customers and to quickly respond to demand. During 2015 HEXPOL TPE Compounding also



HEXPOL TPE COMPOUNDING IN CAPS AND CLOSURES

At the 2015 Brau Beviiale exhibition Müller Kunststoffe, the German arm of the HEXPOL TPE, presented the EPSeal range of TPE for food and beverage caps and closure applications.

EPSeal is a range of TPE compounds for use as beverage sealants. They are EU and/or FDA approved, with several series designed for specific closure applications. The EPSeal product range includes grades which can be used for crown corks, aluminium roll-on closures, PP and HDPE plastic closures of various diameters. As well as grades for wine corks and T-stoppers for spirits with high alcohol content.

EPSeal TPE compounds are PVC free, with excellent organoleptic results a key requirement for sensitive filling goods like mineral water, (materials are tested under DIN 10 955 conditions, together with many bottlers own test methods). EPSeal TPE compounds also offer consistent short, medium and long term opening torques which provides consumer friendly functionality and also make it easier for children and senior citizens to open the bottles. EPSeal TPE compounds are available for carbonated soft drinks, beer, wine, fruit juice and milk based beverages. Including versions for cold fill, hot fill, pasteurisation or sterilisation processing.

Speaking of the caps and closures market, Ray Exon, EPSeal business development manager commented "Several years ago the aluminium closure, which is traditionally used for returnable glass with mineral water, was losing its market share position versus the

plastic closure. The sealing compounds available for aluminium closures at that time had essentially three weak points:

- 1) Inconsistent sensory results
- 2) Insufficient sealing
- 3) Inadequate consumer opening torques

Müller Kunststoffe took up the challenge and within a relatively short timeframe developed a sealing compound which solved these issues. The EPSeal 311 TPE compound was born and the aluminum closure has now stabilized its market share".



Peter Ryzko, Managing Director at Müller Kunststoffe added "EPSeal TPE compounds deliver the right combination of hardness, elasticity and taste-free properties, they are produced from selected raw materials and handled within our strict production parameters configured to suit the very sensitive beverage industry. Supported by our diligent attention to product safety and knowledge in current and emerging industry regulations, EPSeal TPE compounds consistently achieve the desired high levels of innovation and quality demanded by the food and beverage industry".

started up production in US. Since a number of customers operate across both Europe and Asia, they now partner with HEXPOL on an increased global scale.

Our TPE customers place a strong value on the high levels of product development and technical support HEXPOL TPE Compounding provides. The development departments are the core of the business, with the aim of engineering intelligent solutions which precisely match application requirements but also to find solutions that meet gaps in the market. HEXPOL's technical and sales teams work hand-in-hand with the customer, providing in-the-field support and the expertise to engineer solutions that transform our customers' ideas into superior products.



HEXPOL SILICONE COMPOUNDING

During the past year we have dramatically increased our silicone processing capabilities by re-introducing true custom mixing for silicone rubber compounds. HEXPOL is helping its customers unlock the possibilities and benefits offered by silicone elastomers by providing full-service, dedicated silicone resources and recipe development.

Leveraging our well-known heritage in organic rubber compounding, defined by industry-leading innovation, HEXPOL provides a comprehensive line of silicone rubber products and services. We're our customers' single source for all types of compounding, whether silicone or organic rubber.

"One of our objectives is to continually find ways to better serve our customers with expanded capabilities," said Donald Picard, HEXPOL Compounding NAFTA's VP Sales & Marketing. "Expanding our silicone capabilities provides our customers with compounds similar to organic rubber compounds, but better suited for extreme and harsh applications. This also adds some new end-user markets to HEXPOL's portfolio."

Our silicone capabilities include:

- Silicone, Fluorosilicones, and all Types of Silicone/EPDM Compounds
- A Formulary with Hundreds of Compounds for Multiple Silicone Applications

- An Array of Physical Forms: Continuous Strips or Slabs, Preforms, and Pigs-Rolls
- Silicones Pigmented to Almost any Color, Including Black, from Translucent to Opaque
- Strategic Raw Material Sources and Purchasing Relationships
- Compounds that Meet Typical Silicone Specifications and Standards

Age resistance, thermal stability, elasticity, pliability, and flexibility are some of silicone's beneficial properties. Silicone elastomers from HEXPOL are versatile and durable, ideal for harsh environments such as temperature extremes, UV and ozone exposure.

True custom mixing means we collaborate with customers by providing the right silicone with the right properties for their applications. We strive to address their silicone needs in multiple industries, such as automotive and mass transit, energy, food processing, health-care, consumer, and pharmaceuticals.

GET A GRIP WITH HEXPOL DRYFLEX TPE

ELASTO UK, part of HEXPOL TPE compounding, developed a special grade of Dryflex thermoplastic elastomer (TPE) to give the high levels of non-slip grip required for Polyco's award winning Grip It® MAX gloves.

The Grip It® MAX gloves have a knitted liner with a three-quarter injection moulded TPE coating. The ergonomic design with underslung thumb matches the natural position of the hand at rest to allow for ease of movement and the tapered fingers ensure that dexterous tasks can be performed with ease. The three-quarter TPE coating which has been reinforced in critical areas, offers exceptional abrasion resistance delivering maximum protection; it has a unique and specially designed tread pattern on the palm and fingertips which contributes to its exceptional gripping ability.

ELASTO worked with distribution partners Distrupol UK on the development of the custom formulated grade for Polyco. Mark Griffiths, R&D Manager at ELASTO UK explained "The material structure of the Dryflex TPE



compound helps to produce the high surface friction required for the non-slip properties in this application. It was also critical that we developed a compound that could perform efficiently in the high precision manufacturing process."

The gloves can typically be used for transport, logistics, scaffolding, roofing, engineering and manufacturing applications.

Grip It® MAX was recently recognized at the prestigious Plastics Industry Award's in the UK where the judges were said to have been impressed with the complexity of the product and level of engineering that went into it, in terms of design and tooling.

HEXPOL TPE COMPOUNDING IN MEDICAL APPLICATIONS

ELASTO Sweden, part of the HEXPOL TPE group has expanded the range of Mediprene TPE compounds for plunger seals in single-use syringes.

Niklas Ottosson, medical technical manager for ELASTO commented "Over recent years there has been a rise in demand for single-use syringes and a clear move to TPE for plunger seals. To support this growing market, we have expanded our range of Mediprene TPEs specifically designed for syringe plunger seal applications".

Mediprene grades are sterilizable with gamma, EtO and steam and representative grades have passed cytotoxicity tests according to ISO 10993-5 and biocompatibility tests according to USP Class VI. The Mediprene materials are latex free, which reduces the risk of allergic reactions. Mediprene TPEs are resistant to many fluids used in the healthcare environment.

The Mediprene grades are available in a range of hardnesses from 43 to 73 Shore A. The TPE seal, which is mounted on the end of

the plunger, needs to provide a leakproof seal with the syringe barrel, the Mediprene TPEs offer low compression set helping to maintain seal integrity.

ELASTO offer these grades as translucent or coloured compounds, made from medical grade raw materials. The colour masterbatch supplier has been selected with care, ensuring that not only the pigments and carriers are compliant but also that the

masterbatches are manufactured under rigorous controls with regard to traceability, consistency and change control thereby fitting the Mediprene concept at ELASTO Sweden's ISO 13485 accredited facilities.

Alongside their material advantages, because of the cost and speed at which they can be manufactured, Mediprene TPEs are being specified and they require no vulcanisation and are 100% recyclable. Consistent shrinkage also allows for tight

dimensional tolerances with fewer process steps and without the need for additional operations such as trimming.



HEXPOL TP Compounding

ORGANISATION

Through the acquisition of RheTech Thermoplastic Compounding in January 2015 HEXPOL increased its product range with specialised Thermoplastic Compounds (TP). RheTech is a leading American provider of reinforced polypropylene compounds (PP), polyamide compounds (PA) and color additives. RheTech has four modern well-invested US units. Specialised TP Compounding is a growing area with many qualified customer applications, not least to the intensive automotive industry. The operation complements the other HEXPOL Compounding operations with for example common end-customers and similar technologies. During 2015, extensive investments have been completed in the units in Michigan and South Carolina to increase capacity and capability.

TECHNOLOGY AND PRODUCTS

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



RHETECH THERMOPLASTIC COMPOUNDING INCREASE CAPABILITY AND CAPACITY

In 2015, RheTech LLC embarked upon a capacity expansion that included additional production machinery. With continued growth expectations in the next few years, RheTech LLC needed to add capacity for both current customers and new markets. Based upon current capacity constraints in glass filled compounding and the sales funnel that included substantial increases in glass filled compounds, RheTech LLC and its equipment vendors designed a custom machine for delivery in 2015.

This machine is a 125 mm twin screw extruder that takes into account new technology and best practices that will allow a substantial improvement in output, quality and reliability over the 125 mm twin screw extruders currently in use at the Whitmore Lake facility. Depending upon product mix, the machine can provide up to an additional 50,000,000 pounds of production. It will also be able produce other compounds such as blow molding products, talc filled compounds and TPOs should product mix change over time.



Business Area HEXPOL Engineered Products

Increased sales and improved results



Senior executives in the business area



Jan Wikström,
President HEXPOL Wheels
President HEXPOL Gaskets

HEXPOL Engineered Products in brief

Strong positions

OPERATIONS HEXPOL Engineered Products is active in a number of niche areas in which it occupies strong global positions in gaskets for plate heat exchangers, as well as polyurethane, rubber and plastic wheels for forklifts and material handling.

827

SALES MSEK (721)

High quality, global delivery capacity

CUSTOMERS HEXPOL Engineered Products' customers are usually large-scale global OEM manufacturers with market leading positions and for whom HEXPOL's products are frequently of vital importance for the quality and service life of the finished product. Technical competency and long-term relations are of major importance for both parties.

105 MSEK

OPERATING PROFIT (92)

Demanding customers and advanced applications

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

NUMBER OF EMPLOYEES DEC 31

1,433 (1,449)

Operating units HEXPOL Engineered Products	Location	Number of employees Dec 31 2015	Area m ²
HEXPOL GASKETS			
Gislaved Gummi	Gislaved, Sweden	92	6,000
Gislaved Gummi Lanka	Bokundara, Sri Lanka	487	7,000
Gislaved Gummi Qingdao	Qingdao, China	124	8,000
Gislaved Gummi, profiles	Gislaved, Sweden	25	2,500
Total		728	23,500
HEXPOL WHEELS			
Stellana Sweden	Laxå, Sweden	80	8,000
Stellana US	Lake Geneva, Wisconsin, USA	76	6,600
Stellana China	Qingdao, China	44	1,080
Elastomeric	Horana, Sri Lanka	505	16,590
Total		705	32,270
Total HEXPOL Engineered Products		1,433	55,770

HEXPOL Engineered Products possesses unique material technology expertise which, along with its extensive application technology and efficient manufacturing processes, enables it to create attractive offerings for its customers. A large part of production is marketed and distributed globally, placing huge requirements on having an efficient logistics chain.

Greater demand for shorter lead times and for high delivery reliability poses special requirements on operations. In recent years, a major initiative has been implemented on the logistics side with the creation of several local distribution centers. The centers, together with a well-developed ERP system, ensure that communications, from reception of orders to delivery, occurs entirely without manual intervention. This has significantly reduced internal throughput times.

HEXPOL Engineered Products works continuously to develop its manufacturing processes. Production is based on the LEAN concept, using well-regulated processes, and with strong focus on continuous improvement. All benchmarking occurs online using a global business management system, driving development forward. All units are ISO 9001/14001 certified.

ORGANISATION

The HEXPOL Engineered Products business area is divided into two product areas: HEXPOL Gaskets and HEXPOL Wheels.

MARKET

The market for gaskets for plate heat exchangers is global, with an emphasis on three continents: Europe, Asia and North America. The market is dominated by a number of large global manufacturers. In China, the market is fragmented and consists of a large number of smaller manufacturers who primarily sell their products in the Chinese market. The Asian market, and the Chinese market in particular, has continued to grow faster than the rest of the world and is today of significant size. The international OEMs occupy a strong position in China and take advantage of their significantly high expertise and product quality. HEXPOL Gaskets has strategically located production plants and distribution centers in Europe, Asia and North America.

The market for forklift wheels is also global, although with strong regional differentiation due to varying material preferences and quality standards. The market is dominated by a number of large global manufacturers but even here there are a number of smaller local players, mainly in

Asia. HEXPOL Wheels is one of few forklift wheel manufacturers with production units in Europe, North America and Asia.

HEXPOL Gaskets holds a global market-leading position and its customers consist primarily of leading global plate heat exchanger OEMs in Europe, the US and Asia. Energy prices and an increased focus on reducing negative environmental impacts are driving market growth through increased demand for energy recovery and generation, as well as the production of alternative fuels. Overall GDP growth is generating higher standards of living, urbanization and increased global trade, which is in turn driving demand in areas such as comfort (cooling/heating), food and drink and marine transports. Plate heat exchangers are utilized in all of these areas, and are frequently equipped with gaskets from HEXPOL Gaskets.

The global gasket market remained relatively stable during 2015. The market for large projects continued to be weak, although demand improved somewhat during the year. Demand for small and midsize plate heat exchangers has remained good. Aftermarket demand remains strongly driven by maintenance investments in existing facilities.

HEXPOL Gaskets currently supplies all major OEM manufacturers of plate heat exchangers. The aftermarket is estimated to account for approximately one-fourth of the total market. HEXPOL Gaskets has solidified its position as a market leader and stands well equipped in the face of increased demand.

HEXPOL Wheels operates in the expansive market for wheels and castor wheels for electric and hand pallet forklifts. The market is dominated by a handful of major players in Europe and North America. During 2015, global sales of new forklifts showed continued favorable growth. The aftermarket for forklift wheels also increased somewhat and is





Lake Geneva, USA
HEXPOL Wheels



Laxå, Sweden
HEXPOL Wheels



Gislaved, Sweden
HEXPOL Gaskets



Gislaved, Sweden
HEXPOL Profiles



Bokundara, Sri Lanka
HEXPOL Gaskets



Horana, Sri Lanka
HEXPOL Wheels



Qingdao, China
HEXPOL Wheels



Qingdao, China
HEXPOL Gaskets

dominated by OEM manufacturers of forklifts and independent distributors.

In the warehouse forklift market continues the consolidation process that has taken place in recent years. The development of new forklift models representing a larger share of joint global content is growing stronger. Here is HEXPOL Wheels, as one of few global players in the forklift wheel market, well-positioned to capture additional market shares. The castor wheel market is more diversified with a few major players and a large number of local manufacturers.

STRATEGY

The HEXPOL Engineered Products business area's strategy is to identify, develop and operate in polymer niche areas in which HEXPOL, with its unique polymer expertise, has the potential to become the market leader. HEXPOL has opted not to enter areas in which the Group's rubber compound customers are direct competitors.

BRANDS

HEXPOL Engineered Products conducts operations under the Gislaved Gummi (gaskets), Stellana (wheels) and Elastomeric (wheels) brands.

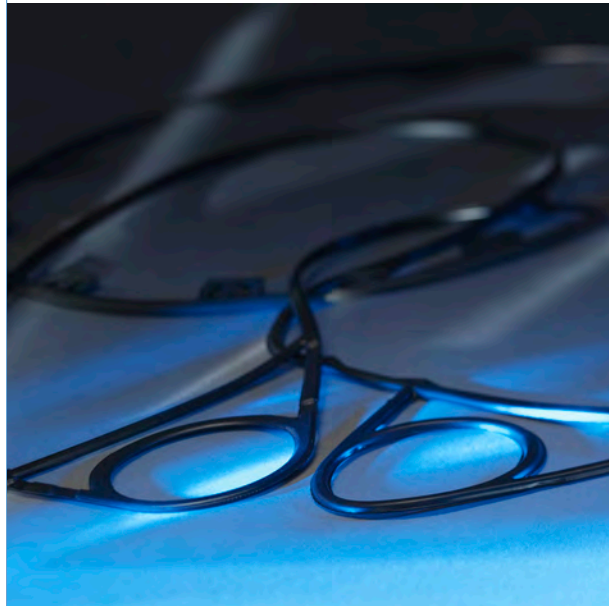
Gislaved Gummi is a globally well-known brand in the market for gaskets for plate heat exchangers. Stellana is a well-known brand in the material handling industry globally while Elastomeric is a well-known brand in its niche in Europe and Asia.

OPERATING UNITS

HEXPOL Gaskets has production plants in Europe (Gislaved, Sweden) and Asia (Bokundara, Sri Lanka and Qingdao, China). The plants are modern and incorporate local expertise in production and logistics development. The LEAN concept is used successfully in the respective plants and manufacturing processes are coordinated and standardized. HEXPOL Gaskets places a strong emphasis on ensuring the same high level of quality

regardless of the production plant. Development of distribution from the distribution centers in Sri Lanka and the US continued during the year. Internal throughput times and administrative work have been sharply reduced with the introduction of a shared ERP system, through which all plants access the same online database.

HEXPOL Wheels has production plants in Europe (Laxå, Sweden), the US (Lake Geneva, WI) and Asia (Horana, Sri Lanka and Qingdao, China). The plants are well adapted to local market conditions, although the unit in Sri Lanka focuses on exports to Europe, the US and Asia.



COMPETITORS

The market for gaskets for plate heat exchangers is dominated by a limited number of major players, among whom HEXPOL Gaskets is a market leader. The largest competitors are the family-owned company TRP and Trelleborg. A number of

Brands in the business area



OEM manufacturers of plate heat exchangers also have proprietary gasket production operations.

The market for polyurethane wheels is dominated by about ten manufacturers, of which HEXPOL is among the leading. The primary competitors in the European market are Räder-Vogel and Wicke, both of which are family owned. In the US market, Thombert, Superior, Falcon and HEXPOL's Stellana US are four of the largest companies. A large number of minor wheel manufacturers are active at the local level. The Chinese market is highly fragmented with a large number of manufacturers of polyurethane, plastic and rubber wheels. The relatively fragmented market is resulting in opportunities for continued growth through acquisitions.



OPERATIONS IN 2015

HEXPOL Engineered Products had sales of 827 MSEK (721) in 2015, a year-on-year increase of 15 percent. Operating profit in 2015 increased to 105 MSEK (92). The operating margin amounted to 12.7 percent (12.8).

HEXPOL Gaskets increased its sales during the year through increased market shares to a number of larger customers, and continued strong growth in the Asian market. Demands for shorter lead times have continued to increase. They have been met through an effort that has sharply reduced internal throughput times, combined with continued development towards more local distribution centers.

The market for forklift wheels and castors has continued to grow during 2015. Pricing pressures remained high, especially for forklift wheels in Europe. HEXPOL Wheels saw positive development in all markets.

FUTURE PROSPECTS AND PRIORITIES

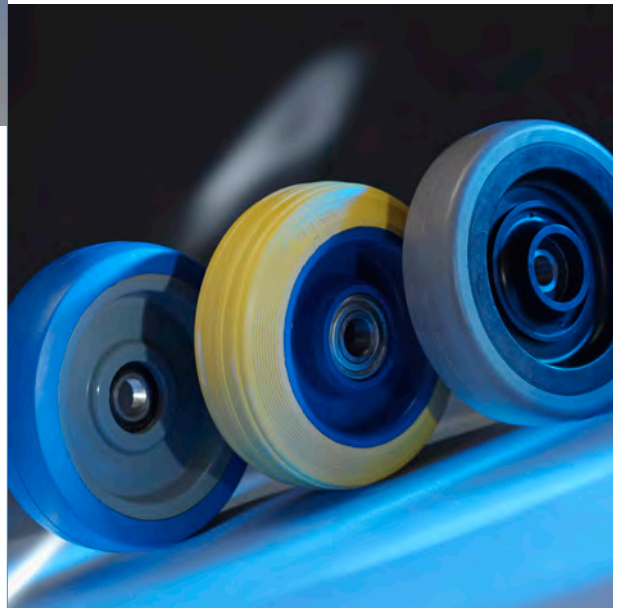
The goal of HEXPOL Gaskets is to be the primary

supplier to all OEM manufacturers of plate heat exchangers. The market for gaskets for plate heat exchangers is growing long-term due to increased demand for energy efficient solutions. On the logistics side, unique customer solutions will provide additional opportunities for reducing lead times and make it easier for customers to do business with HEXPOL Gaskets.

HEXPOL Gaskets focus on developing new markets in Asia and North America continues. During the year, capacity utilization in China increased, and an increase in efficiency was achieved. HEXPOL Gaskets carefully monitors market developments and is able to quickly expand its capacity when needed.

HEXPOL Wheels continued to optimize its operations during 2015. Efforts to raise the quality and efficiency continue with unchanged force. During the year a distribution center for aftermarket customers has been established in Europe. These efforts, together with previous investments enable HEXPOL Wheels to offer customers the same products, quality and service, both globally and locally according to their unique needs.

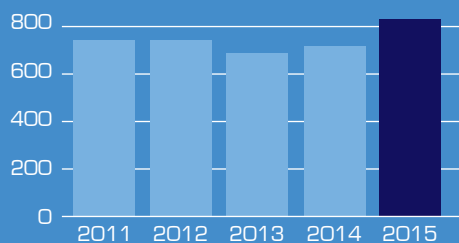
The assessment that the currently fragmented wheel market will enter a consolidation phase stands firm. HEXPOL is well positioned to take an active role in any structural projects. We believe that continued investments in customer service and product development are critical factors for success in 2016.



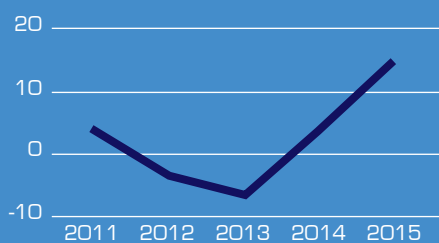
HEXPOL Engineered Products continues its systematic focus on LEAN and synergies between the operations units. During the year a production development programme has started to develop and to make the business area's production system more efficient.

HEXPOL Engineered Products, five-year figures

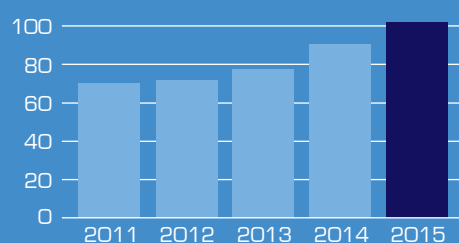
SALES, MSEK



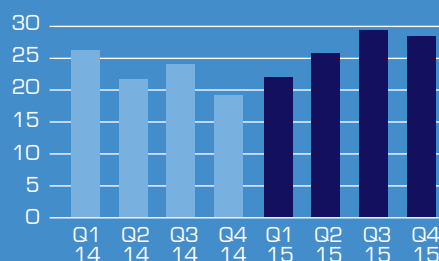
SALES GROWTH, %



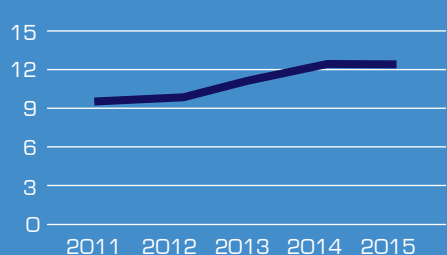
OPERATING PROFIT, FULL YEAR, MSEK



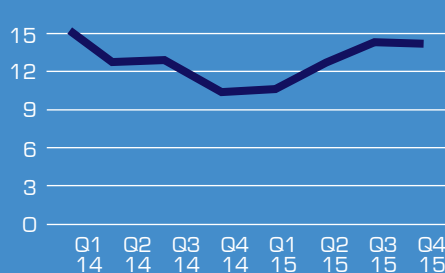
OPERATING PROFIT, QUARTERLY, MSEK



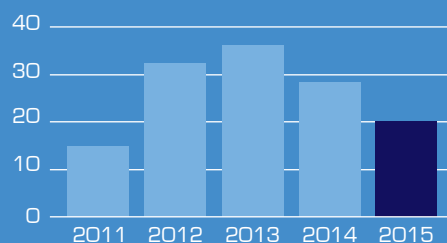
OPERATING MARGIN, FULL-YEAR, %



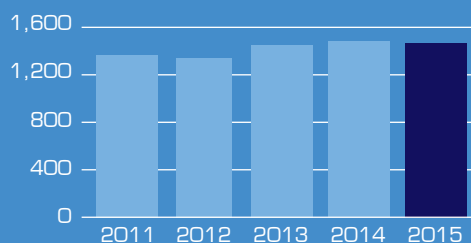
OPERATING MARGIN, QUARTERLY, %



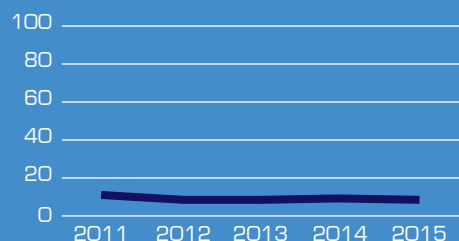
INVESTMENTS, MSEK



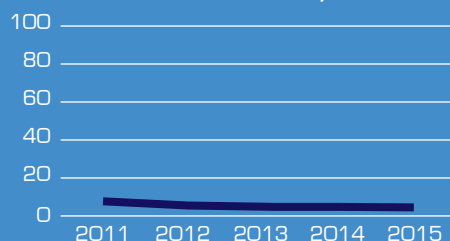
AVERAGE NUMBER OF EMPLOYEES



PERCENTAGE OF CONSOLIDATED SALES, %



PERCENTAGE OF CONSOLIDATED OPERATING PROFIT, %



HEXPOL Gaskets

ORGANISATION

HEXPOL Gaskets is a product area in HEXPOL Engineered Products. The management of the product area is stationed in Gislaved, Sweden. Each manufacturing unit has a responsible manager who reports directly to the Product Area Manager.

TECHNOLOGY AND PRODUCTS

HEXPOL Gaskets is a product specialist for the manufacture of rubber gaskets for plate heat exchangers. The technology content is high and the end product meets exacting quality requirements. The gaskets consist of rubber and are delivered in a variety of sizes from a few decimeters in length up to several meters depending on the plate heat exchanger's size. Temperature, pressure and media determine the choice of gasket type and rubber material in the heat exchanger. Performance of the gasket is dependent on the composition of the rubber material and the geometric design of the gasket. Both of these factors are critical to a gasket's service life. From a technology viewpoint, HEXPOL Gaskets' responsibility is to develop unique material properties combined with efficient manufacturing processes that meet the exacting demands of the market in terms of quality and cost efficiency. Development of new rubber compounds take place at Gislaved Gummi in Gislaved, Sweden, which is a part of HEXPOL Gaskets.

Development is being driven by and towards higher temperatures and pressures, more aggressive

media and by exacting demands for cost-efficiency in the refinement process. HEXPOL Gaskets currently offers gasket production from three plants around the globe: Sweden, Sri Lanka and China. The ready-mixed rubber material is manufactured adjacent to the plant in Sweden. From there, the rubber material is distributed to the respective manufacturing plants, thus ensuring that the principal component – the rubber compound – has uniform characteristics and that the gasket will, consequently, have the same final properties, regardless of the production plant in which the gasket was manufactured. The machinery is highly standardized among the plants, providing flexibility and allowing for easy shifts in production among the plants, for example during production peaks. Production is tool-specific, where every tool creates a unique gasket type. HEXPOL Gaskets manufactures most of the tools that it uses.

MARKET

The market for the manufacture of plate heat exchangers is dominated by a number of large global companies, and all are customers of HEXPOL Gaskets. One major difference is the Chinese market, which consists of a large number of local manufacturers, who primarily sell their products in the domestic market. Several of those are concentrated in limited application segments and/or geographic segments. Many of the large Western manufacturers also have market-leading manufacturing positions in China, especially in the more demanding application areas. The market for gaskets for plate heat exchangers is driven primarily by increased prosperity, increased globalization, marine transports, demands for reduced emissions, energy efficiency and energy gains.

HEXPOL GASKETS BOOSTS CAPACITY IN CHINA

Gislaved Gummi (Qingdao) Co Ltd started running double daylight presses (press with a two-sided mould) during 2015, which increased capacity by 70% compared to the old technology with single daylight presses (one-side mould).

Running double daylight presses is more complicated than running single daylight presses. It results in a more complex production planning, but the benefits in capacity are significant. The increased capacity enables the unit in China to grow without the need for additional press investments.

The decision to go for double daylight presses was taken in the middle of 2014. The sales & marketing group had a close dialogue with the customers who saw the benefits and were willing to invest in this technology.

The initial plan was to increase manning to run the double daylight presses. Several technical issues were resolved during the im-

plementation phase and the end result more than exceeded expectations both in output and manning.

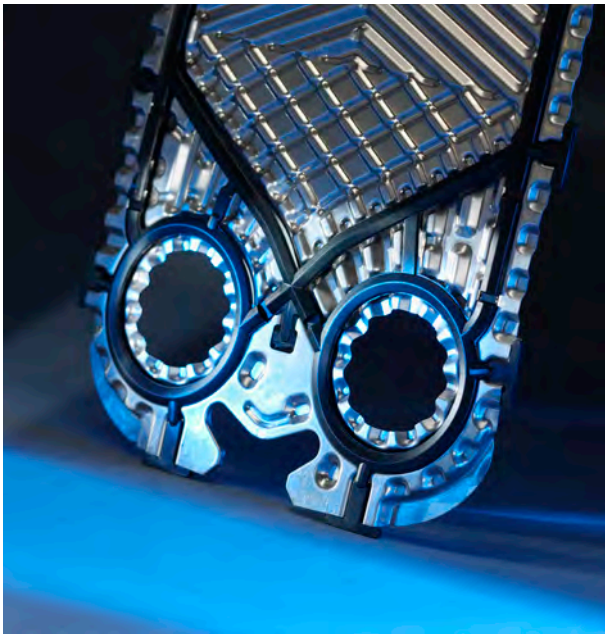
The project has been very successful and HEXPOL Gaskets in China is now running double daylight press operation in full production.



DISTRIBUTION

HEXPOL Gaskets' three units have a shared, ERP system that generates benefits in the form of transparency between the units. This represents an advantage, since logistics are complex with deliveries worldwide that have to meet to short lead times. Each product is unique and, in many cases, there are only tools in one of the production units that can be used to manufacture the unique product. In recent years, HEXPOL Gaskets has consciously focused on developing an efficient distribution system.

By offering more local distribution, HEXPOL Gaskets is creating a market advantage for its customers, in the form of short lead and transport times, while increasing the efficiency of total



tied-up capital. Synergies are also achieved, primarily through marine transports, since fully loaded containers can be sent to the respective distribution centers.

BUSINESS MODEL AND STRATEGY

HEXPOL Gaskets is a global product specialist that develops, manufactures and markets high-quality gaskets for plate heat exchangers under the Gislaved Gummi brand.

MATERIALS DEVELOPMENT WITH LEADING-EDGE EXPERTISE

The composition of the rubber material is the key to the gasket's function and service life. For decades, HEXPOL Gaskets has focused on a materials development team in which years of experience is mixed with youthful curiosity and initiative. The material developers have extensive insight and knowledge into how a heat exchanger operates within their respective areas of application. This is gained through very close cooperation with customers, which provides invaluable input for materials development projects. Development of rubber materials for a new gasket application for plate heat exchangers usually takes several years. Before the material is approved and released onto the market, extremely rigorous evaluations are conducted in laboratory environments, which are then followed up with service life testing with some of our customers.

SALES WITH CUSTOMER FOCUS

It should be easy to do business with HEXPOL Gaskets. The goal is to have the highest expertise and availability in the market, including sales representatives. By having a large presence in the marketplace, HEXPOL Gaskets can catch signals from customers early on and thereby take steps

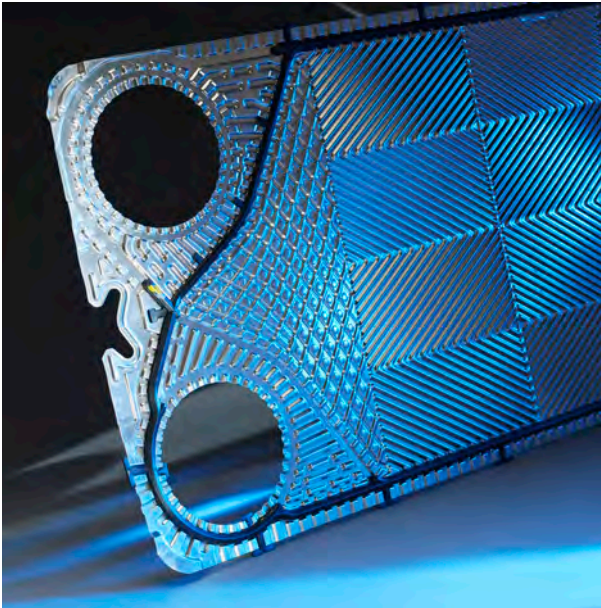
HEXPOL GASKETS SERVES CUSTOMERS WITH LOCAL PRESENCE AND IT TOOLS

Gislaved Gummi has expanded its world presence over the years, becoming the number one partner for most of the OEM's within the plate heat exchanger industry. The company's footprint continues to grow with production facilities and distribution centers in Europe, Asia and North America, in line with the HEXPOL philosophy of thinking globally, but acting locally.

The new US distribution center located in Muscle Shoals, AL enables faster deliveries and enhanced customer service to customers in North- and South America. This investment has proved successful through reduced time to market and sales growth.

In addition to being locally present, the Gislaved Gummi customers are offered access to a web portal with live data from the global Gislaved ERP system. The portal gives access to product data and product availability around the clock.

Gislaved Gummi's business concept with local presence and access to live product data has been well received by the customers and differentiates Gislaved Gummi from most other competitors in the industry.



to meet customer demands. Most manufacturers of plate heat exchangers are global, with plants in several countries, and frequently also on several continents. The marketing organization works from Gislaved, Sweden, with the exception of the market in China, where there is also a local sales organization that reports to a sales manager in Gislaved, Sweden.

OPERATING UNITS

Manufacturing occurs at the three units in Gislaved, Sweden, Bokundara, Sri Lanka, and Qingdao, China. The strategy is to manufacture low-volume items and gaskets made of special materials in Sweden, while medium and high-volume production takes place primarily in Sri Lanka. The unit in China manufactures a complete range of the gaskets that are sold in the Chinese market, but also serves as a backup for rapid demand hikes from the rest of the world. HEXPOL Gaskets continuously invests in new production equipment in order to maintain its market-leading position.

LOCAL DISTRIBUTION

An efficient distribution of the gaskets manufactured at the various global units creates competitive advantages for HEXPOL Gaskets and its customers by providing a high degree of accessibility and short lead times, while generating economies of scale in the manufacturing process.

The integration of all operating units and distribution centers into a shared ERP system has resulted in shorter internal throughput times and also better management of the items that should be available for routine deliveries from the warehouse. A large part of total sales is now distributed from local distribution centers situated in Asia, NAFTA and Europe. This has resulted in a continued reduction in lead times and tied up capital, while transports have been streamlined. All distribution centers are managed and coordinated from Gislaved, Sweden, where customer orders and forecasts are received and processed. Being able to communicate and receive all information from one source makes it easy for customers.

Senior Managers at HEXPOL Gaskets Operating units



Jan Wikström,
President HEXPOL Gaskets,
Managing Director Gislaved
Gummi, Sweden



Roger Jonsson,
Managing Director Gislaved
Gummi Lanka, Sri Lanka



David Jia,
Managing Director Gislaved
Gummi China

HEXPOL Wheels

ORGANISATION

The HEXPOL Wheels product area comprises four units and is organised as a part of HEXPOL Engineered Products. Management of the product area is located in Laxå, Sweden, directly adjacent to the Swedish manufacturing unit. The operation is decentralised with rapid decision making channels which, in combination with close global cooperation, leads to considerable flexibility and a strong customer focus.

TECHNOLOGY AND PRODUCTS

HEXPOL Wheels offers a complete range of polyurethane wheels for electric-powered warehouse and hand pallet forklifts, as well as tyres and special wheels in natural rubber and thermoplastics. HEXPOL's size enables it to offer both new development and access to a highly extensive product portfolio. Considerable emphasis is placed on the control and handling of raw materials, which are largely purchased from certified suppliers. The production process is continuously monitored and quality controls are conducted at several phases during the process. The fleet of machinery is continuously renewed and is automated to a great extent.

Five types of products are produced by HEXPOL Wheels:

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

The global forklift market is highly differentiated in terms of product requirements and the selection of materials. In the European market, the market-leading polyurethane material is Vulkollan™, which is licensed from Covestra. The material is highly wear resistant and can cope with heavy loads without being deformed. HEXPOL is one of the leading suppliers of Vulkollan wheels in Europe. In other markets, polyurethane is used as

more of a generic term, although a large selection of various material types is offered.

HEXPOL Wheels is on the cutting edge in terms of developing wheels for new forklift models in Europe and the US. A success factor is access to advanced testing equipment to simulate realistic wear and various types of strain.

BUSINESS MODEL AND STRATEGY

HEXPOL Wheels develops and markets wheels, mainly for transport and materials handling. The operation is international with a clear local adaptation in terms of selecting materials and technical solutions. Technical excellence, broad product portfolio and cost efficiency frequently make HEXPOL Wheels the first choice among OEM manufacturers of forklifts in all major markets.

HEXPOL Wheels also offers a comprehensive range of replacement wheels in the aftermarket. Most aftermarket sales are conducted through OEM manufacturers of forklifts, although independent distributors are also used to gain greater access to the market. A distribution center in Hamburg, Germany is established. The aim is to provide better service to customers in the aftermarket with access to products and rapid delivery. Several major customers are increasing production capacity to rapidly expanding Asian markets. HEXPOL Wheels' global presence enables it to monitor customers and quickly offer quality products in the local market.

OPERATING UNITS

HEXPOL Wheels has production facilities in Laxå, Sweden, Lake Geneva, the US, Horana, Sri Lanka, and Qingdao, China.

The Swedish unit cooperates closely with European OEM manufacturers of forklifts and is often involved in development of new products. An extensive test databank and an advanced wheel lab enable the wheel's properties to be simulated and optimised at an early stage of the development process.

The Swedish unit manufactures wheels in cast polyurethane (including Vulkollan) and polyamide, as well as smaller quantities of rubber and

HEXPOL WHEELS LAUNCHES NEW PRODUCTS

Stellana launched the Tmax line of products to the industrial forklift market. The product line is designed to improve traction in cold, wet and outdoor applications. The unique chemistry of the product gives the physical properties and load carry capacity of much higher durometer materials at the high traction 70 Shore hardness. The load carrying demands of the industry have pushed the demand for harder and harder tyres yet the safety needs of the industry require respon-

sive breaking and steering. Tmax meets both requirements and is becoming the industry's safest solution for difficult traction applications.

Stellana is introducing the product line into other difficult applications such as the Automated Guided Vehicle (AGV) and floor cleaning markets. The engineering qualities of the product make it an excellent solution for many difficult applications.

thermoset wheels. The distribution center in Hamburg, Germany, is closely integrated with the production unit in Laxå, but the center is also managing products from the other units.

The US unit in Lake Geneva is one of the largest suppliers of polyurethane tyres and castors in the North American market. Also here, product development is conducted in close cooperation with major OEM manufacturers. Wheels are tested in wheel laboratories to be able to adjust the wheel's properties to the desired results at an early stage in the development process. The plant in Horana, Sri Lanka, manufactures rubber castor wheels, injection-moulded thermoplastic wheels and solid tyres. The unit has an extensive machinery fleet and proprietary rubber compounding equipment. It also has development resources with access to advanced testing equipment. A technical center has been established in Sri Lanka for the development of own and customer specific products.

Technical support for product development, testing and validation will be given to all the other units within HEXPOL Wheels. Unlike the product area's other units, all sales are conducted on an export basis. Most products are exported to Europe, but also to Asia, Africa, the Middle East, Australia and the US. Products from Sri Lanka will also be distributed via the distribution center established in Germany.

The Chinese unit in Qingdao produces polyurethane and polyamide wheels. Both Chinese and global forklift manufacturers are expanding their manufacturing capacity in China. Stellana has established a position as a supplier of high-quality wheels and has succeeded in entering into co-operation with most of the major manufacturers. In addition to forklift wheels, efforts to become a supplier of wheels for the general industry have also yielded fine results.

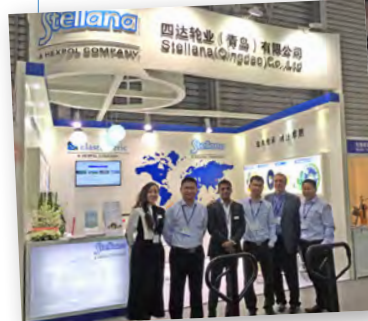
HEXPOL WHEELS GROWS GLOBALLY

Increasing demand for quality wheels and just in time delivery in Asia, has challenged Stellana China to work even harder on continuous improvements. A relentless focus on quality, short lead times, communication and customer service has made Stellana stand out in the Chinese wheels market.

A recent example of this customer focus was when one of Stellana's customers, HC, needed a special lot of wheels urgently. Stellana made this a priority and managed to deliver the products the next day. HC managed to meet their commitments and both Stellana and HC came out of the situation with high rewards. This was also an example of the HEXPOL philosophy of thinking globally, but acting locally.

Stellana China is also expanding the business outside the traditional fork lift market. Tailor made solutions are developed for baggage conveyors, airport material handling, auto conveyors, auto doors, escalators and fast trains. Stellana has improved the wheels in

these markets to reduce equipment downtime and maintenance cost. The feedback from customers has been very good and Stellana continues the development of these products alongside the main portfolio of wheels for forklifts.



Senior Managers at HEXPOL Wheels Operating units



Jan Wikström,
President HEXPOL Wheels,
Managing Director Stellana
Sweden



Roger Jonsson,
Managing Director Elasto-
meric Wheels, Sri Lanka



Peter Li,
Managing Director
Stellana China



Mark Shea,
Managing Director
Stellana US

Corporate responsibility

Prerequisite
for long-term
value creation

Taking long-term responsibility for people, the environment and society is a feature of HEXPOL's corporate culture and a prerequisite for long-term value creation. Questions related to environmental impact, social responsibility and business ethics are key aspects of both everyday work and strategic planning.

We focus on continuous improvement, as exemplified by the Supplier Sustainability Guideline introduced in 2015. The guidelines summarise the values and requirements that we expect our suppliers to fulfil. During the year, we implemented examinations of more than 800 suppliers. We also continued to focus on the issues that HEXPOL and the Group's stakeholders consider to be essential – business ethics, energy consumption, climate impact, product development and safe workplaces.

MATERIALIZING OUR VALUES

Materializing Our Values is our ethical compass and it summarises HEXPOL's fundamental approach to business ethics, information, the environment and occupational health and safety. The guidelines constitute the Group's code of conduct and provide guidance to everybody in respect of legal liability, accounting, conflicts of interest, environmental impact, working conditions, social issues and sound business ethics.

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

In a number of areas covered by Materializing Our Values, a practice of zero tolerance is applied to nonconformity. This applies, for example, to the need to abide by legislation and to respect human rights, the prohibition of bribery and other forms of corruption and the fact that competition law must be complied with. In other areas, the code of conduct provides an approach that is based on preventive measures and continuous improvement, such as in the environmental and work environment area.

"Whistleblowing" is encompassed by the Group's fundamental values and means that all employees have the right to blow the whistle to bring serious irregularities to the attention of the Board of Directors and company management. Whistleblowing is done by e-mailing the Audit Committee and does not give rise to reprisals against the informant.

LEGAL AND REGULATORY REQUIREMENTS

Group companies identify and take actions to introduce and apply the ordinances, rules and laws that impact on business operations. These

MATERIALIZING OUR VALUES

AT HEXPOL we recognize that our activities have an impact on people and the environment, both locally and globally, but we are convinced that we can contribute to sustainable development being responsible citizens.

Our primary objective is to create profitable growth and a prerequisite for doing that is to show responsibility for people and the environment, and to demonstrate sound business ethics. The commitments – Materializing Our values – are deeply rooted in our culture and strategy, meaning that we strive to limit the Group's impact on the environment and to offer a safe and stimulating work environment for our employees worldwide. It is equally important that HEXPOL is associated with credibility and health values in our contacts with, customers, suppliers and business partners.

"Materializing Our Values" represents the Group's Code of Conduct and states the principles governing relations with employees, business partners and other stakeholders. The guidelines offer direction to those activi-

ties in the Group in respect of legal, finance and accounting, conflicts of interest, labor conditions, and social aspects as well as good business ethics.

You can find the document on our website www.hexpol.com.

To order printed copies please contact the Group Headquarter at info@hexpol.com.



take the form of major national and international laws in many areas, such as bans on the formation of cartels, export and import ordinances affecting international business transactions, trade embargoes and economic sanctions. The prevailing legislation in the environmental and work environment areas is also wide-ranging and here the ISO 14001 (environment), OHSAS 18001 (work environment) and OHSAS 50001 (energy) management systems contribute to ensuring its application in a structured manner.

In addition to binding legal and regulatory requirements, many customers present their own sustainable development requirements. These requirements are being sharpened as time progresses, thus contributing to the development of HEXPOL's sustainability work. We are also regularly scrutinised by independent institutions and investors, and here too we focus on transparency and performance. The Group's sustainability report and CDP (Carbon Disclosure Project) report are important sources of information for these stakeholders.

BUSINESS ETHICS GUIDELINES

The business ethics guidelines constitute a component of Materializing Our Values and provide guidance to employees concerning what is and what is not permitted in business contacts with customers, suppliers, competitors and distributors. The guidelines are complemented by a detailed Compliance Program, in which all senior executives in the Group confirm with their signatures that he/she is complying with the rules. The managers undergo regular reviews of the importance of complying with the business ethics guidelines and zero tolerance is applied to non-compliance. An online course was offered at the end of 2015, which included a written examination on international legislation concerning cartels, competition and prohibited forms of business cooperation. About 60 HEXPOL's senior executives participated in the course.

The Group has a zero-tolerance policy towards all forms of corruption, which is clearly expressed in Materializing Our Values. No events that could be associated with corruption were reported in 2015, and managers of the Group's companies work actively on these issues through training, policies, verification measures and follow-up.

STRATEGY FOR SUSTAINABLE DEVELOPMENT

Corporate responsibility creates value for the Group's stakeholders and, by integrating the environment, social responsibility and ethics into the HEXPOL business model, conditions are created for a strategy that contributes to sustainable development. The Group-wide goals are long term, and they subscribe to several of the global development goals presented by the UN in 2015, in areas such as energy, the climate and sustainable production patterns. As apparent from the figure below, HEXPOL has continuously taken actions to further develop its sustainability work. Important areas are efficient energy consumption, a reduced climate impact, phasing out chemical substances that could pose a risk to people and the environment and resource-efficient use of raw materials, as well as reducing quantities of waste. Offering customers knowledge and solutions concerning environmentally compatible product development is another important area. Evaluating suppliers' sustainability work is also a high priority.

INTERACTION WITH STAKEHOLDERS

Stakeholders' requirements and expectations are important, and our ambition is to actively participate in dialogues and exchanges of views. Interaction with stakeholders includes:

- Fulfilling customer requirements in respect of quality, delivery precision, sustainable development and other areas.
- Following up requirements involving the Group's suppliers in a large number of countries.
- Communicating on a regular basis with the capital market, including shareholders, investors, analysts, banks and media.
- Listening to and cooperating with the Group's approximately 3,900 employees. This takes the form of measures including developmental discussions and surveys on the situation at work.
- Maintaining constructive relationships with neighbours, authorities, mass media, schools, universities and other representatives of society.

The Sustainability Report provides an overview of how the interaction with stakeholders proceeded in 2015 and how this affected the Group's analysis of important aspects of sustainable development.

EXAMPLES OF ACTIVITIES THAT CONTRIBUTE TO SUSTAINABLE DEVELOPMENT

2010

- Sustainability reporting in accordance with GRI level B.
- Reporting of climate impact in accordance with CDP.
- 80 percent of facilities certified in accordance with ISO 14001.
- Sustainability issues included in strategic planning.
- Projects to increase energy efficiency implemented.

2011

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

2012

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

RELEVANT INFORMATION TO OWNERS AND INVESTORS

HEXPOL aims to provide shareholders and other players on the capital market with relevant information that offers a basis for accurate valuation of the Group. The objective is to apply a candid and factual approach and provide a high level of service in financial reporting, in order to uphold confidence in the company among existing and potential shareholders.

The Group complies with customary accounting policies, applies internal controls and drives processes to ensure that accounting and reporting comply with legislation, ordinances and listing agreements. HEXPOL applies a policy of transparency in its reporting and, in line with the Group's communication policy, provides well-founded, comprehensive information to the market. Corporate governance is described in the Corporate Governance Report on pages 78-83 and is available at www.hexpol.com. All published financial information is also available on the website, as are presentations, press releases, financial statements and annual reports.



PROFESSIONAL CUSTOMER RELATIONS

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



cable business ethics and thus competes fairly in business activities, including marketing and advertising. HEXPOL complies with prevailing competition regulations in the geographical markets in which the company is active. Business decisions are taken in accordance with the Group's interests and are not based on personal considerations or relations.

Customer requirements related to sustainable development have increased in recent years and, in 2015, 100 percent (92) of the companies reported customer requirements for certified environmental management systems, the phase-out of hazardous substances, product declarations, the existence of conflict minerals, social responsibility and compliance with the customer's code of conduct. At 62 percent (56) of the Group's production units, customers implemented follow-ups of their requirements. The outcome of surveys and audits were generally highly positive and improvement proposals were received in a number of cases.

CONTINUOUS IMPROVEMENTS

Since employee responsibility for and contributions to improvements in processes, products and service are in the interest of both the individual employees and the Group, the concept of continuous improvements is an integral feature of the corporate culture and encompasses all conceivable activities. Product quality is a key competitive factor and quality-assurance work is conducted in accor-

2013

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

2014

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

2015

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

dance with the requirements of the international ISO 9001 standard. All units are certified and conducting work to achieve continuous improvements is a fundamental requirement of the quality management system. The purpose of quality-assurance work is to ensure the right quality, fulfil security and legal requirements and to exceed customer needs and expectations. For this reason, customers and suppliers are frequently involved in the development of new products or changes in existing products.

SUPPLIER SUSTAINABILITY GUIDELINE

Supplier assessments have been used for a long time to evaluate whether the Group's requirements concerning technical performance, quality, delivery capacity, solvency and other areas are being fulfilled. Our requirements for supplier's environmental efforts are stipulated through the ISO 14001 standard. In addition to these fundamental requirements, it is important to ensure that the Group is cooperating with suppliers that display sound business ethics, a good work environment and respect for human rights. Irrespective of the size of suppliers or their global or local status, we expect them to meet the same requirements concerning environmental and social conditions as those we impose on ourselves.

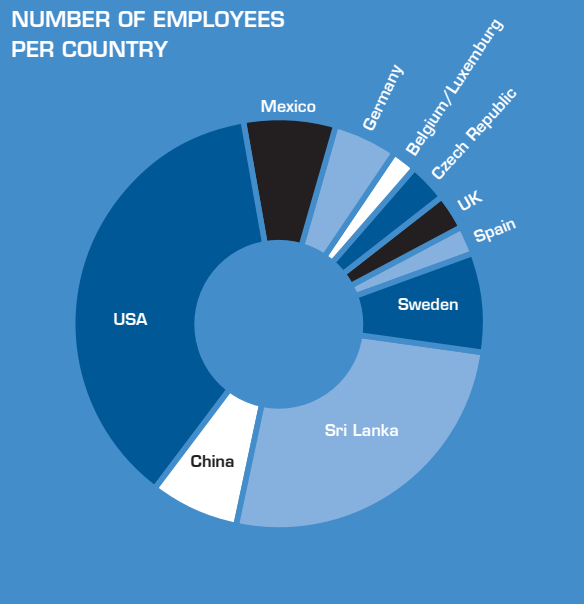
In order to strengthen the requirements and be clearer in communications with the suppliers, a Group-wide guideline was introduced in 2015. It is called the Supplier Sustainability Guideline and it summarises HEXPOL's values and specifies requirements for sustainable development. Assessments are performed through self-declarations, questionnaires, site visits and formal audits. During the year, more than 800 suppliers (170) were evaluated in respect of environment and social responsibility. We also conducted a special initiative to assess natural rubber producers (see page 71).

DIVERSITY, COMPETENCE, COMMITMENT AND WELL-BEING

Employees in 11 countries

During the financial year, the number of employees was 3,867 (3,666), of whom 2,429 (2,212) worked in HEXPOL Compounding and 1,433 (1,499) in HEXPOL Engineered Products. The Parent Company had 5 employees (5). HEXPOL is a global company and 92 percent (91) of the employees work outside Sweden. Since the workforce is relatively evenly spread across the US/Mexico, Europe and Asia, diversity in the form of various cultures is a natural feature of daily activities. With the Group's presence in global markets, the mix of competencies is an important precondition for the ability to grow nationally and internationally. Because local presence in the various geographical markets is particularly important, we endeavour to recruit necessary competencies in the region or country concerned. For HEXPOL, diversity is a matter of seeing the big picture and showing respect and professionalism, as supported by the open corporate culture,

NUMBER OF EMPLOYEES PER COUNTRY



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

A good work environment and respect for human rights

Materializing Our Values has its background in internationally known agreements and guidelines on human rights, social responsibility and sustainable development, including the UN Global Compact and the standard for social responsibility (ISO 26000). The Group's requirements are that workplaces should be safe, facilitate development and comply with occupational health and safety and labour legislation. No employee may be discriminated against.



minated due to gender, religion, age, physical or mental disability, sexual orientation, nationality, political opinions or origin. HEXPOL encourages diversity and distances itself from all forms of discrimination. Equal rights issues are addressed in a decentralised manner and the employees are entitled to form and join trade unions and to collective negotiations. They also have complete insight into and the right of codetermination in accordance with the provisions of national legislation. During the year, many employees underwent refresher courses in HEXPOL's values, and Materializing Our Value is included in the induction of new employees.



Work environment efforts focus on preventive measures and include risk analyses, training programmes and technical improvements. It is particularly important to highlight near misses and adopt preventive measures. Creating a good work environment and well-being are the responsibilities of executive management and improvement programmes are conducted in cooperation with employees and employee representatives. About half of the plants have reward systems in place for improvements made in the environmental and work environment field. For more information about health and safety, refer to pages 73-74 and to the Sustainability Report.

In the global polymer industry, men account for a substantial part of the workforce, and HEXPOL is no exception. The proportion of female employees is 14 percent (14) and the level is highest in Sweden and China at about 40 percent. The opposite prevails in Sri Lanka, where women account for only 4 percent of the workforce and men account for more than 90 percent of the workforce at a number of facilities. The proportion of female members of the Board is 29 percent (29), and 17 percent (14) in Group management. The proportion of female members of local management teams is 11 percent (11). There is a Group-wide equal

opportunities policy and Group management has issued a clear message that an increased share of women should be sought for in connection with external and internal recruitments for various positions.

During the year, nothing arose that showed that the Group had breached the guidelines concerning human rights, equal opportunities or diversity.

Personal development and remuneration

Job satisfaction, employment security and opportunities for personal advancement are important factors for many employees. At HEXPOL, the remuneration level is on market terms and competitive. Basic principles are that wage formation should comply with legislation, at least match the minimum wage levels in the countries in which the Group is active and be fully market based. Variable remuneration linked to the performance that a person can influence is paid to employees in certain parts of the Group. Personnel costs during 2015 totalled 1,385 MSEK (1,025).

Social involvement

HEXPOL engages in social activities throughout the world. These include "open houses" for employees and their families, contacts and projects in cooperation with schools and universities, and financial support for sports, health projects and associations. From a strategic perspective, it is important that young people and students are informed about the future opportunities offered by the polymer industry. Companies in the US are particularly active in contacts with polymer technology students by arranging study visits, development projects, degree projects and traineeships. Several hundred young people participated in activities at the Group's facilities in 2015. Activities included everything from a "chemistry day" for young students to research collaborations concerning the development of green products, logistics and other areas.

GoldKey in the US is making a major effort to attract young people to apply for jobs in the polymer industry. A large number of the staff are involved when the students come on study visits, and they hear the important message that "Team Work is what makes a Dream Work", in other words the importance of being able to collaborate and share one's knowledge. ELASTO in Åmål is participating actively in a project aimed at encouraging girls at upper secondary school to show an interest in technical professions. Similar activities are being implemented at Gislaved Gummi, where the company is a mentor for young entrepreneurs.

Sustainable development

RESPONSIBILITY FOR PEOPLE AND THE ENVIRONMENT

Group-wide objectives

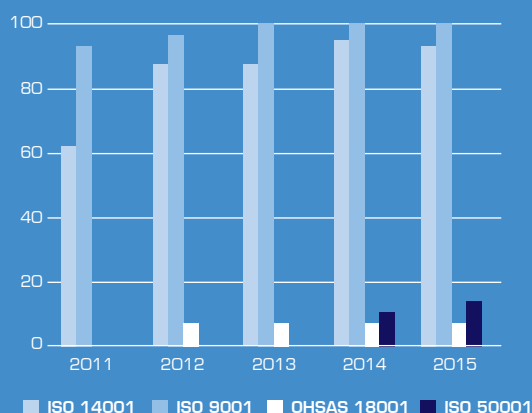
HEXPOL has long been pursuing Group-wide objectives for sustainable development. The objectives pertain to more efficient energy consumption, reduced climate impact, introduction of certified environmental management systems, the phase-out of particularly hazardous chemicals, a safe work environment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

DECENTRALISED RESPONSIBILITY AND SYSTEMATIC WORK METHODS

The responsibility for sustainable development efforts is decentralised and delegated in the Group. The heads of the companies and production facilities are responsible for managing and following up environmental, work environment and social responsibility activities. At Group level, matters related to strategy, risks, follow-up and sustainability reporting, as well as sustainability issues, are addressed in conjunction with corporate acquisitions.

The preventive environmental and occupational health and safety efforts include the use of raw materials, purification equipment and waste mana-

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



Area	Target	Status	Trend
Energy	Energy consumption (GWh/net sales) is to be reduced continuously.	Energy analyses and measures aimed at saving energy on a broad front. The results are favourable and energy is being used in an increasingly efficient manner. See diagram on page 68.	▲
Climate	Emissions of carbon dioxide (tonnes/net sales) are to be reduced by 15 percent by the end of 2018 compared with the average for 2010-2011.	Increased use of biofuels, purchases of green electricity and energy-optimisation measures reduce emissions of greenhouse gases. See diagram on page 69.	▲
Environmental management systems	All facilities should have certified environmental management systems (ISO 14001). Acquired facilities are to be certified within two years after the acquisition.	A unit was certified in 2015, which means that 93 percent of the subsidiaries are now certified. The introduction of other types of management systems is also increasing.	▲
Hazardous chemicals	The use of hazardous chemicals is to be identified and controlled. Wherever possible, chemicals that could have an adverse impact on the environment and/or human health should be phased out. HEXPOL should be viewed as a frontrunner in the polymer industry as a supplier of environmentally compatible products.	Within the Group, chemical products are used that are on the REACH list of particularly hazardous substances. Work aimed at restricting their use and reducing the risks are continuously under way and a handful of substances were replaced during the year. The development of environmentally compatible products continues. Read more on page 68.	▲
Safe workplaces	Our vision is that no accidents should occur at our workplaces. The number of accidents must be reduced.	The number of accidents leading to work absence and the number of lost working days increased compared with the preceding year. Systems for reporting near misses are in place at most of the units and are used in an increasingly efficient manner. Read more on page 73.	▶
Suppliers	HEXPOL Supplier Sustainability Guideline is to be introduced in the supply chain. As of 2015, these guidelines are to be included in agreements with suppliers.	A major initiative concerning examinations of the sustainability work of suppliers was implemented in 2015. The new guideline was communicated and more than 800 suppliers were evaluated. Read more on page 64	▲

▲ TARGET ALREADY ACHIEVED
▲ POSITIVE TREND, TARGET POSSIBLE TO ACHIEVE
▶ NO CHANGE
▼ NEGATIVE TREND, TARGET NOT ACHIEVED

gement, as well as activities that catch the attention of and educate the employees. The Group objectives include the introduction of certified environmental management systems and all companies apart from a number of newly acquired units are ISO 14001 certified. The experience from this is positive, with risks and costs diminishing, while confidence among stakeholders is rising. The environmental work is examined and improved through the regular internal and external environmental audits and 135 internal (107) and 37 external (37) environmental audits were implemented in 2014. The newly acquired company Vigar in Spain is ISO 14001 certified and another two of the acquired companies are scheduled to receive certification in the year ahead. The standard applied for the work environment (OHSAS 18001) has been introduced at two plants in Sri Lanka. Two companies in Germany and the companies in Sri Lanka are certified in accordance with the standard for energy management systems (ISO 50001). Preparations are under way for certification of another two units in Europe. All HEXPOL units are certified under the ISO 9001 quality standard.

Sustainability report

At Group level, HEXPOL monitors parameters involving the environment, occupational health and safety and social responsibility. The information is used to identify risks, formulate targets and establish long-term strategies. The Group's Sustainability Report is based on the guidelines stipulated in GRI G4 (Global Reporting Initiative) and HEXPOL participates in the annual reporting of the business community's climate impact in accordance with the guidelines in the CDP (Carbon Disclosure Project).



RISK ANALYSES

The Group's risk analyses include the consequences of developments in terms of legislation, stakeholder requirements and expectations and scientific advances in sustainability. Environmental risks in conjunction with the acquisition of other companies are a prioritised area. The issues involved could be soil pollution and breaches of environmental legislation. Read more about environmental risks on pages 64 and 70-72.



Board of Directors' Report

The Board of Directors and the President of HEXPOL AB (publ) registered in Malmö, Sweden, hereby present the annual report and consolidated financial statements for the 2015 financial year. The following income statements and balance sheets, statements of changes in shareholders' equity, cash flow statements, statements of comprehensive income and the presentation of the applied accounting policies and notes comprise HEXPOL's formal financial reporting.



OWNERS AND LEGAL STRUCTURE

HEXPOL AB (publ), Corporate Registration Number 556108-9631, is the Parent Company of the HEXPOL Group. HEXPOL's Class B shares are listed on the Stockholm Large Cap segment of the NASDAQ OMX Nordic exchange. HEXPOL had 11,696 shareholders on December 31, 2015. The largest shareholder is Melker Schörling AB with 26 percent of the share capital and 47 percent of the voting rights. The 20 largest shareholders own 62 percent of the share capital and 73 percent of the voting rights.

OPERATIONS AND STRUCTURE

HEXPOL is one of the world's leading polymer groups, with strong global market positions in advanced polymer compounds (Compounding), gaskets for plate heat exchangers (Gaskets) and wheels made of plastic and rubber materials for forklifts and castor wheel applications (Wheels). Customers are mainly systems suppliers to players in the global automotive and engineering industries, construction sector, the energy, oil and gas sectors, medical technology and OEM manufacturers of plate heat exchangers and forklifts. The Group is organised in two business areas: HEXPOL Compounding and HEXPOL Engineered Products, and had 3,867 employees in eleven countries at year-end 2015.

Financial year 2015

SALES AND OPERATING PROFIT

The HEXPOL Group's sales for the year increased 26 percent to 11,229 MSEK (8,919). Sales growth was strong primarily thanks to our (in 2014 and 2015) acquired units and positive currency effects. Currency effects had a positive impact of 1,352 MSEK on sales, primarily due to a strengthening of the USD. Sales growth (adjusted for currency effects) amounted to 11 percent. The organic sales growth (adjusted for currency effects and acquired units) amounted to negative 5 percent. Sales have been negatively affected by considerably lower sales prices due to considerably lower raw material prices than the previous year.

Operating profit rose 35 percent to 1,964 MSEK (1,456), which means the operating margin improved to 17.5 per cent (16.3). The operating profit improved mainly thanks to increased volumes, continued efficiency enhancements in the operations and positive exchange rate effects. Exchange rate fluctuations, primarily the strengthening of the USD, had a positive impact of 258 MSEK on operating profit during the year.

At the beginning of the year, the acquisition of RheTech Thermoplastic Compounding, a well-known provider within Thermoplastic Compounding, with four facilities in US (including manufacturing and laboratories) located in Whitmore Lake, Michigan, Fowlerville, Michigan, Sandusky, Ohio and in Blacksburg, South Carolina, was finalized.

The integration of the units acquired in 2014/2015 is successfully performed. Vigar Rubber Compounding's manufacturing facility in Germany is closed according to plan and the customers are served from other HEXPOL units.

The HEXPOL Compounding business area's sales increased 27 percent to 10,402 MSEK (8,198). Sales growth was strong primarily thanks to our (in 2014 and 2015) acquired units and positive currency effects. Sales have been negatively affected by considerably lower sales prices due to considerably lower raw material prices than the previous year. Operating profit rose 36 percent to 1,859 MSEK (1,364) and the operating margin increased to 17.9 percent (16.6). The operating profit improved mainly thanks to increased volumes and continued efficiency enhancements in the operations as well as positive exchange rate effects. Operating profit was negatively affected during 2014, 38 MSEK was recognised as acquisition, integration and restructuring costs (Vigar).

The HEXPOL Engineered Products business area's sales increased 15 percent to 827 MSEK (721). Operating profit rose 14 percent to 105 MSEK (92), which corresponded to an operating margin of 12.7 percent (12.8). During 2014, insurance compensation of 6 MSEK was recognised for rebuilding the,

in April 2013, fire damaged production line at HEXPOL Wheel's facility in Laxå, Sweden.

FINANCIAL INCOME AND EXPENSES

The Group's net financial items amounted to an expense of 21 MSEK (expense 20).

TAX EXPENSES

The Group's tax expenses amounted to 550 MSEK (388), corresponding to a tax rate of 28.3 percent (27.0).

NET PROFIT FOR THE YEAR

The Group's profit after tax rose to 1,393 MSEK (1,048), corresponding to earnings per share of 4.05 SEK (3.05), an increase with 33 percent.

INVESTMENTS, DEPRECIATION AND AMORTISATION

The Group's investments amounted to 159 MSEK (129). Investments are mainly attributable to maintenance investments (primarily in USA) and capacity investments (primarily within HEXPOL TPE Compounding). Depreciation and amortisation amounted to 209 MSEK (166).

PROFITABILITY

The return on average capital employed amounted to 28.6 percent (28.5). The average return on shareholders' equity amounted to 24.7 percent (24.2).

CASH FLOW

The operating cash flow rose to 2,185 MSEK (1,676), see calculation on page 87. Cash flow from operating activities increased to 1,760 MSEK (1,432).

FINANCIAL POSITION AND LIQUIDITY

The equity/assets ratio amounted to 72 percent (69). The Group's total assets amounted to 8,723 MSEK (7,284). The Group's net cash amounted to 454 MSEK (259).

The Group has the following major credit agreements with Nordic banks:

- A five-year credit agreement with a limit of 125 MUSD that will fall due in February 2020.
- A three-year credit agreement with a limit of 1,500 MSEK that will fall due in August 2018.

At year-end, the unutilised portion of the credit agreement amounted to 2,052 MSEK.

The goodwill value is tested at least once annually. Such testing was performed at year-end and did not reveal any need for impairment. At year-end, consolidated goodwill and intangible assets amounted to 4,151 MSEK (3,364). The principles applied in the analysis are presented on page 90 under the section accounting policies.

FINANCIAL TARGETS

The HEXPOL's financial targets have during the year been revised to the following:

- Equity/assets ratio is to exceed 30 percent.
- Yearly average over a business cycle:

- Sales growth (adjusted for exchange rate effects) is to exceed 10 percent.
- Operating margin (adjusted for items effecting comparability) is to exceed 17 percent.

PRINCIPLES FOR REMUNERATION OF SENIOR EXECUTIVES

The 2015 Annual General Meeting resolved on the following guidelines concerning the remuneration of senior executives: Remuneration of the President and CEO and other members of Group Management shall comprise basic salary, variable remuneration, various benefits and pension. The overall remuneration shall be on market terms and competitive to ensure that the Group can attract and retain competent executives. The variable portion of salary shall be linked to the earnings trend that people can influence and be based on the outcome in relation to individually set goals. Variable remuneration shall be capped in relation to fixed salary. Variable remuneration is not pensionable. Variable remuneration has a fixed cap and comprises a maximum of 130 percent of the fixed salary, with the exception of two senior executives where the upper limit this year is a maximum of 170 percent, including potential integration bonus. Pension benefits must be either defined-benefit or defined-contribution or a combination of both, subject to an individual pension age which must not be lower than 60 years.

The Board's Remuneration Committee deals with matters related to remuneration of Group Management as well as those for other management levels if the Committee so wishes. The Committee reports its proposals to the Board, which makes all decisions on such matters. The Board proposes to the 2016 Annual General Meeting that these guidelines remain unchanged. Variable remuneration is not pensionable. Variable remuneration is capped at 130 percent of the fixed salary.

PERSONNEL

The average number of employees during the year increased to 3,858 (3,493). During the year, the Group had employees in Sweden, Germany, the UK, Belgium, the Czech Republic, Spain, the US, Mexico, Luxembourg, Sri Lanka and China. Of the total workforce, 92 percent is outside Sweden. At year-end, the HEXPOL Group had 3,867 (3,666) employees, of whom HEXPOL Compounding accounted for 2,429 (2,212), HEXPOL Engineered Products for 1,433 (1,449), and the Parent Company for 5 (5) employees. For further information, refer to Note 3.

RESEARCH AND DEVELOPMENT

During the year, HEXPOL's research and development expenditure amounted to 78 MSEK (64), mainly comprising development expenses in close collaboration with customers. The Group currently has no significant research expenditure that meets the criteria for capitalisation.

EVENTS AFTER THE REPORTING PERIOD

No significant events have occurred after the balance sheet date.

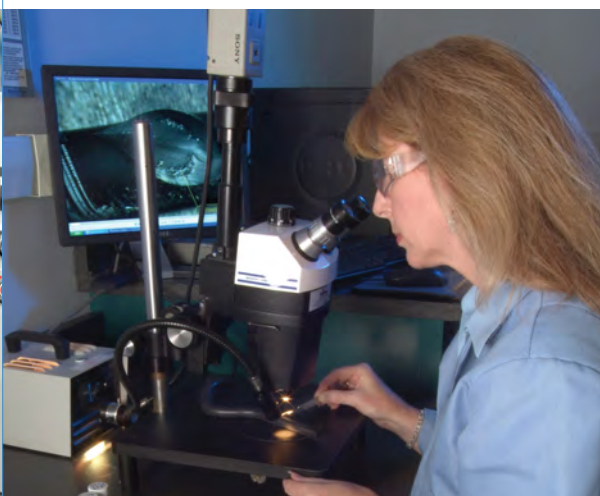
PROPOSED DISTRIBUTION OF UNAPPROPRIATED EARNINGS

The following unrestricted funds in the Parent Company are at the disposal of the Annual General Meeting (KSEK):

Profit brought forward	2,129,219
Share premium reserve	597,880
Profit for the year	363,347
Total unrestricted funds	3,090,446

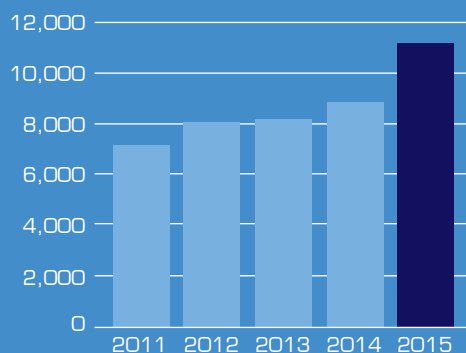
The Board proposes that the unappropriated funds be disposed of as follows: that the shareholders be paid a dividend of 1.70 SEK per share.

Total dividend from profit brought forward	585,142
To be carried forward	2,505,304
Total	3,090,446

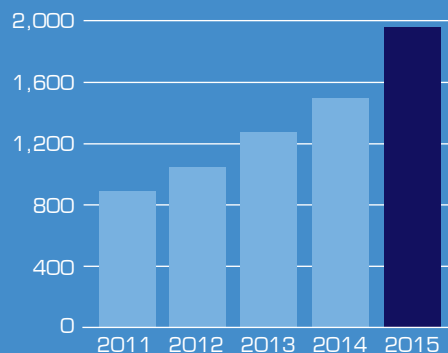


Five-year overview

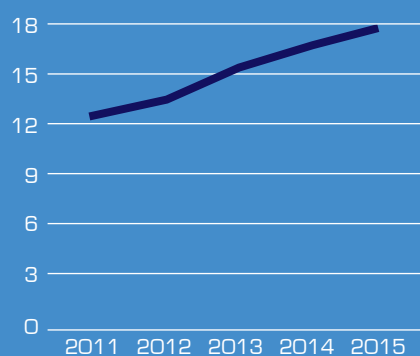
SALES, MSEK



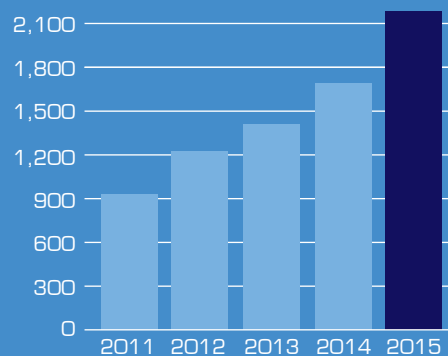
OPERATING PROFIT, MSEK



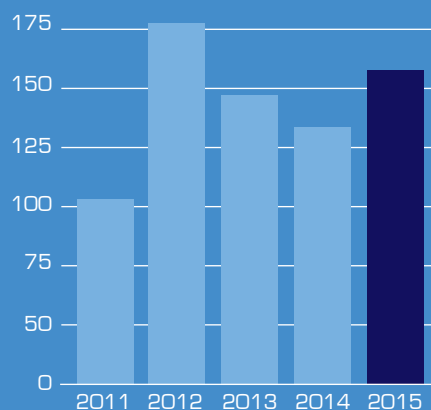
OPERATING MARGIN, %



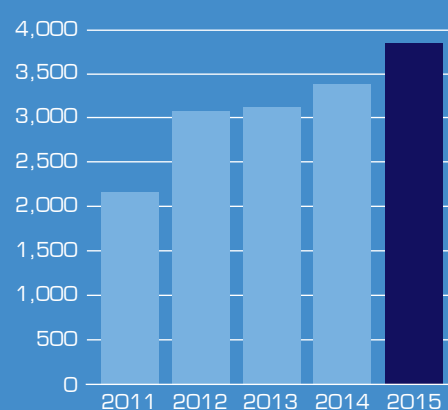
OPERATING CASH FLOW, MSEK



INVESTMENTS, MSEK



AVERAGE NUMBER OF EMPLOYEES



Risk factors

INDUSTRY AND MARKET RISKS

Sensitivity to economic trends

The Group is involved in worldwide operations that are primarily geared toward the market for polymer compounds, gaskets for plate heat exchangers and wheels for the forklift industry. These markets, and thus also HEXPOL, depend on both the general economic trend and the political situation in the world and conditions that are unique for certain countries or regions in which HEXPOL or HEXPOL's customers produce or sell their products.

As is the case for nearly all business operations, the general economic climate affects volumes among HEXPOL's existing and potential customers. Accordingly, a weak economic trend throughout or in parts of the world could entail lower-than-expected market growth. Developments in HEXPOL's customer segments constitute one of the principal risks related to the business environment. This results in stringent demands in terms of understanding the current and future demands, requirements and wishes of both direct and end customers. Although HEXPOL's operations have a broad geographic spread and an expansive overall customer base, there is a risk that a weak economic trend could have an adverse impact on HEXPOL's operations, financial position and earnings.

Competition and price pressure

HEXPOL's operations are conducted in sectors subject to competition and are thus affected by, for example, severe price pressure, which is in turn driving demand for cost-efficient solutions. Through improvements to their technology and production expertise, competing companies may begin to produce at low cost and thus increase competition with



HEXPOL's products. HEXPOL's future competitive capacity is dependent on its ability to utilise the Group's leading-edge expertise in polymer compounds and rubber and plastic products and to transform this know-how into attractive products and customised solutions at competitive prices. To ensure competitiveness, investments will be required to maintain the Group's prominent position in the area of product development. While constantly striving to adapt to changes in the competitive situation, HEXPOL may also be forced to implement costly restructuring measures to be able to retain the Group's market position and profitability. Increased competition and price pressure in the markets in which HEXPOL is active could have an adverse impact on the Group's operations, financial position and earnings.

STRATEGIC AND OPERATIONAL RISKS

Technological progress and market development

Since portions of HEXPOL's operations are conducted in industries subject to price pressure and rapid technological and material advances, maintaining HEXPOL's current operations and future growth is somewhat dependent on the Group's success in developing new and successful products, applications and manufacturing processes, while simultaneously reducing the costs of new and existing products. Research and development efforts are costly and there is no way of guaranteeing the commercial success of the products, applications or manufacturing processes that are developed.

Materials and energy costs

HEXPOL depends on a significant number of raw materials, primarily plastics and rubber. Trends in many raw materials markets could result in higher purchasing prices for raw materials that are crucial for HEXPOL. To offset continued increases in raw materials prices and higher energy costs, HEXPOL strives to enhance production efficiency and to



develop more cost-effective processes. Given the competitive market situation, however, there is a risk that HEXPOL will not be able to increase prices sufficiently to fully offset higher costs, thus resulting in reduced margins. Higher purchasing prices for materials and energy could have an adverse impact on the Group's operations, financial position and earnings.

Production disruptions

Damage to production facilities caused, for example, by fires and stoppages or disruptions in some phase of the production process, such as breakdowns, weather conditions, geographic conditions, labour conflicts, terrorist activities or natural disasters could have adverse consequences in the form of direct property damages, and in the form of stoppages that impede the ability to fulfil customer under-takings. In turn, this could lead to customers selecting other suppliers. Such stoppages or disruptions could thus have an adverse impact on the Group's operations, financial position and earnings.

Suppliers

HEXPOL's products consist of many different raw materials and goods from several different suppliers. To be able to manufacture, sell and deliver products, HEXPOL depends on externally supplied goods meeting agreed requirements with respect to factors such as quantity, quality and delivery time. Incorrect, delayed or missing deliveries from the Group's suppliers could in turn mean that HEXPOL's deliveries are delayed, deficient or incorrect, which could result in reduced sales and thus negatively impact the Group's operations, financial position and earnings. Although HEXPOL does not believe the Group to be significantly dependent on any individual supplier, adaptation costs could arise and there could be some loss of efficiency in the operation if HEXPOL were to be forced to replace one or several suppliers.



Customers

HEXPOL conducts operations in a large number of geographic markets and offers products to a considerable number of customer categories. One major customer group comprises system suppliers to the automotive industry. A decline or weak trend in the automotive industry could have a negative impact on HEXPOL's operations. This customer group could thus entail certain risks for HEXPOL. If HEXPOL's customers fail to fulfil their obligations, or drastically reduce or cease their operations, the Group's sales, financial position and earnings could be adversely impacted.

Complaints or recalls could arise in the event that HEXPOL's products fail to function properly. In these cases, the Group must rectify or replace the defective products. There is also a risk that HEXPOL's customers demand that the suppliers, in addition to replacing the product, bear the costs of disassembly, assembly and other peripheral expenses. If a product causes harm to a person or property, the Group could be liable for damages. HEXPOL is insured against such product-damage liability.

Key personnel

HEXPOL's future success largely depends on its ability to recruit, retain and develop qualified managers and other key personnel. Being an attractive employer is thus an important success factor for HEXPOL. If key persons leave the company and successors cannot be recruited or if HEXPOL is unable to attract qualified personnel, this could have a negative impact on the company's operations, financial position and earnings.

Future acquisitions and financing of acquisitions

HEXPOL works on the basis of an active acquisition strategy, which has resulted in a series of successful acquisitions. Strategic acquisitions will also be a part of the growth strategy in the future. However, it cannot be guaranteed that HEXPOL will be able to find suitable acquisition targets; nor can it be guaranteed that the necessary financing for future acquisition targets can be obtained on terms that are acceptable for the Group. This could result in reduced or declining growth for HEXPOL. The completion of acquisitions also entails risks. In addition to the company-specific risks, the acquired company's relations with customers, suppliers and key individuals could be affected negatively.

There is also a risk that integration processes could prove more costly or take more time than estimated and that anticipated synergies in full or in part fail to materialise.

LEGAL RISKS

Legislation and regulation

HEXPOL's principal markets are subject to extensive regulation. HEXPOL complies in all respects with the applicable laws, regulations and ordinances in each market and works to quickly adapt the company and the Group to the identified future changes in the area. Amendments to the regulatory framework, customs regulations and other trade obstacles, anti-competition regulations, price and currency controls, as well as other public legal guidelines, ordinances and restriction in the countries in which HEXPOL is active could have an adverse impact on the Group's operations, financial position and earnings.

Health, safety and the environment

HEXPOL's assessment is that its operations, in all material respects, are conducted in accordance with the applicable laws and regulations concerning health, safety and the environment. A number of companies within the Group conduct operations that are subject to permits or mandatory declaration under applicable local environmental legislation. Accordingly, these operations are under the supervision of the appropriate authorities.

HEXPOL regularly ensures that it holds all of the necessary permits and that it fulfils all of the necessary applicable declaration obligations. Legislative amendments and changes in government regulations resulting in more stringent requirements or revised terms and conditions pertaining to health, safety and the environment, or a trend toward stricter application of laws and regulations by the authorities could require additional investments and lead to increased costs and other obligations for the companies within the Group that are subject to such regulations. Legislative amendments and changes in government regulations could also impede or limit HEXPOL's operations. HEXPOL conducts extensive production operations in a number of countries. The possibility of liabilities arising in conjunction with personal or property damage, as well as damage to air, water, land and biological processes having a negative impact on the Group's operations, financial position and earnings cannot be excluded. HEXPOL has an agreement concerning a health insurance system in the US, whereby the employees are offered compensation for health care. The Group's expenses are maximised to a fixed amount per individual per year. Further information concerning risks, primarily environmental risks, is available on pages 70-72.

SUSTAINABLE SUPPLIERS

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

- Environment and work environment – We require compliance with legislation and a documented and systematic approach to prevent environmental and health impacts.
- Human rights – Requirements regarding discrimination, equal opportunities, child labor and right to collective bargaining.
- Business Ethics – Requirements regarding anti-bribery, cartels and sound business and marketing practices.
- Supply Chain Practices – Requirements that the supplier shall take actions to ensure that its suppliers comply with the HEXPOL guidelines, or a comparable standard, as well as to assess their performance against it.

In the first implementation phase focus is on suppliers of raw materials and chemicals and new suppliers. Around 750 suppliers were identified by the purchasing department at HEXPOL Compounding. The suppliers were asked to review the Supplier Sustainability Guideline, to complete a self-assessment and in writing ensure that they will comply with HEXPOL's values. In addition to that, the Group companies have informed specific suppliers, distributed questionnaires and conducted audits. The result was that another one hundred suppliers were assessed, including 20 sustainability audits. In total around 800 suppliers have been assessed.

The objective is that the guidelines should reduce risks and contribute to sustainable development. At the same time we strive for elimination of all unnecessary bureaucracy. Our activities to support a sustainable supply chain will continue and so far the response to the guidelines has been positive. Some supplier have questioned the guidelines and chosen not to participate in the self-assessment. In one case the result was that the collaboration with the supplier was terminated.



Tax risks

HEXPOL conducts its operations through subsidiaries in a number of countries. Its business, including transactions between Group companies, is conducted in accordance with the Group's interpretation of prevailing tax legislation, tax agreements and regulations in the various countries and tax authorities in question. The Group has obtained advice on these matters from independent tax advisors. However, it cannot be generally ruled out that the Group's interpretation of applicable laws, tax agreements and regulations or their interpretation or administrative application by the authorities may be deemed incorrect or that such rules may change, possibly with retroactive effect. Decisions by the relevant authorities could thus change HEXPOL's tax situation and have an adverse impact on the Group's operations, financial position and earnings.

Disputes

HEXPOL is occasionally involved in disputes as part of its normal business operations. Major and complicated disputes could be costly in terms of time and resources and could interfere with normal business operations. It cannot be ruled out that the result of such disputes could have a negative impact on HEXPOL's earnings and financial position.

Intellectual property rights, etc.

HEXPOL sells its products under several well-known brands. It is of major commercial significance for the Group that these brands can be protected against unauthorised use by competitors and that the goodwill associated with the brands can be maintained.

HEXPOL must continuously develop new technological solutions and applications in order to meet market requirements. To secure a return on the resources that HEXPOL invests in research and development, it is vital that new technology can be protected against unauthorised use by competitors.

There is no guarantee that HEXPOL will not be considered to infringe upon the intellectual property rights of other companies, or that HEXPOL's rights will not be challenged or contested by others. In addition, HEXPOL's competitors could develop or acquire intellectual property rights that could prove essential for parts of HEXPOL's operations. HEXPOL is also dependent on technical know-how that falls outside the realm of protectable intellectual property rights. It cannot be ruled out that competitors could develop corresponding know-how, or that HEXPOL will not succeed in protecting its knowledge effectively.

If it should become apparent that HEXPOL's operations are considered to infringe on another party's valid intellectual property rights or entail impermissible use of another party's business secrets, it cannot be ruled out that the resulting claims could have a negative effect on HEXPOL's operations, earnings and financial position.

According to a licence agreement with Covestro AG, HEXPOL is entitled to use the Vulkollan brand and logotype in connection with the manufacture and marketing of wheels produced by HEXPOL Wheels. The licence agreement with Covestro AG extends for one-year periods and notice may be given three months prior to the end of the agreement. Notice of termination of the agreement by Covestro would have a negative impact, since Vulkollanwheels currently accounts for a major share of the sales of the subsidiary Stellana AB.

FINANCIAL RISKS**Currency risk**

In its operations, HEXPOL is exposed to various financial risks, of which currency risk is the dominant one. Exchange-rate fluctuations affect HEXPOL's earnings, in part when sales and purchases take place in different currencies (transaction exposure) and, in part when the income statements and balance sheets of foreign subsidiaries are translated to SEK (translation exposure).

HEXPOL's global operations give rise to extensive foreign-currency cash flows. The key currencies in the Group's payment flows are SEK, USD and EUR. Exchange-rate fluctuations have an impact on the Group's earnings in the translation of foreign Group companies' profit or loss to SEK. Since a considerable portion of the Group's earnings is generated outside Sweden, exchange-rate fluctuations could have a significant impact on the Group's profit or loss. In conjunction with the translation of the Group's investments in foreign subsidiaries to SEK, there is a risk that exchange-rate fluctuations could have an impact on the Group's balance sheet. Exchange-rate fluctuations could have an adverse impact on HEXPOL's sales, financial position and earnings. A sensitivity analysis shows that a shift of 10 percent in the SEK against all currencies would have an impact of 165 MSEK on operating profit.

Interest-rate and credit risks

HEXPOL is also affected by interest-rate fluctuations. Changes in interest rates affect the Group's net interest income and cash flow. Based on the average fixed interest period in the Group's total loan portfolio at December 31 2015, a simultaneous change of one percentage point in all of HEXPOL's loan currencies would have an effect on full-year earnings of about 5 MSEK before tax.

The financial risks to which HEXPOL is exposed also include credit risks, meaning that a customer or business partner will be unable to fulfil their payment obligations or to settle receivables that HEXPOL has invoiced or intends to invoice. There is no significant concentration of credit risks, either geographically or to any given customer segment. HEXPOL makes regular credit assessments of the customers. Financial credit risks are defined as the risk that counterparties with which the Group has invested cash and cash equivalents,

has current bank investments or has entered into financial instruments will be unable to fulfil their obligations.

If HEXPOL's actions to minimise its interest rate and credit risks prove insufficient, HEXPOL's financial position and earnings could be adversely impacted.

Financing and liquidity risk

To enable corporate acquisitions or otherwise achieve strategic objectives, HEXPOL's operations could ultimately require additional financial resources.

HEXPOL's ability to ensure future capital requirements depends to a great extent on successful sales of the Group's products and services. There are no guarantees that HEXPOL will be able to secure the necessary capital. In this regard, general developments in the share capital and credit markets are also of considerable significance. The liquidity risk is defined as the risk that the Group will be unable to entirely fulfil its payment undertakings when they fall due or will only be able to do so on highly unfavourable terms.

HEXPOL could also require additional financing to refinance loans that expire. HEXPOL's two major loan agreements form the basis for the Group's long-term financing requirements and include traditional financial covenants. It cannot be ruled out that HEXPOL could ultimately be forced to breach these covenants in the future due to, for example, the general economic trend or disruptions in the

share capital and credit markets. This could have a negative impact on HEXPOL's financial position and earnings.

EQUITY MARKET RISKS

Share price performance

There are no guarantees that HEXPOL's share price will perform positively. The price of the share will be impacted by variations in the company's earning and financial position, changes in the market's expectations regarding future profits, supply and demand for the shares, developments in the company's market segments and general economic trends. This means that the price at which the share trades will vary and that even if HEXPOL's business develops positively, investors may risk incurring a loss of capital when the shares are sold.

Future dividends

Future dividends will be proposed by HEXPOL's Board of Directors. In its assessment, the Board of Directors will take into consideration several factors, including business development, earnings, cash flow, financial position and expansion plans. See also the section "Dividend policy" on page 17. There are risks that could affect the Group's earnings negatively, and there are no guarantees that HEXPOL will be able to generate earnings that permit the payment of a dividend to shareholders for each financial year in the future.



Sustainability work

ENVIRONMENTAL RESPONSIBILITY

ENVIRONMENTAL ISSUES IN A GLOBAL PERSPECTIVE

Sustainability work is an integrated feature of HEXPOL's strategy for growth and value creation and a natural part of daily work. The aim is to create business opportunities, reduce costs and risks and to satisfy the requirements and expectations of internal and external stakeholders.

2015 will probably be regarded as a milestone for global sustainability development. A new treaty aimed at limiting climate impact was adopted by countries worldwide and the UN presented new development targets. Expectations regarding the input of business and industry remain high, in terms of both responsible behaviour and development of products and services that benefit man, society and the environment. HEXPOL's own objectives match a number of the global targets and the aim is to continue to further develop work on sustainable development.

Key environmental aspects that affect HEXPOL's operations include the use of resources in the form of polymer raw materials, chemical products, energy and water. Other significant aspects pertain to emissions into the atmosphere and waste generation. Indirect environmental aspects include supplier activities, transportation of raw materials and complete products, as well as customer use of the Group's products.

At Group level, a large number of the parameters involving the environment, occupational health and safety and social responsibility are regularly followed up. The information is used to identify risks, formulate targets and establish long-term strategies and communicate with various stakeholders. The annual Sustainability Report (available on www.hexpol.com) is based on the guidelines of GRI G4 (Global Reporting Initiative). HEXPOL also participates in the annual reporting of the business community's climate impact under the guidelines of the CDP (Carbon Disclosure Project). The 2015 Sustainability Report encompasses all plants in the Group apart from the units of the US company RheTech Thermoplastic Compounding, which was acquired during 2015.

ENVIRONMENTAL LEGISLATION

HEXPOL is subject to comprehensive national and international environmental legislation. The majority of the producing units require various types of permits and all the facilities in Sweden are subject to official approval or reporting pursuant to the Swedish Environmental Code. The units in the Czech Republic, Belgium, Spain, the US, Mexico, Sri Lanka and China have environmental licences that either cover all areas of their operations or that apply to specific environmental aspects, for example, emissions to the atmosphere. The operations in the UK and one facility in Germany are not subject to any specific environmental approval. Compliance with permits and emission conditions

is monitored through measurements and inspections, and in excess of 20 units submit specific environmental reports to supervisory authorities. About two thirds of the units are planning to apply for minor updates of applicable permits in the near future.

Environmental legislation in the form of EU directives (such as REACH, RoHS, CLP, WEEE and energy optimisation) and other national or international legislation affect many of the Group's operations and products. One third of the units are subject to producer responsibility legislation for packaging. The following events related to legislation and ordinances occurred during the year:

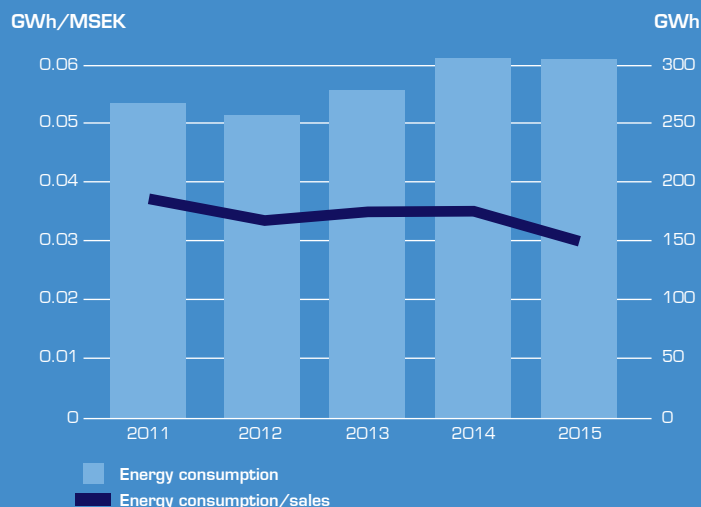
- The EU Energy Efficiency Directive was implemented in 2015 and, within the framework of the directive, HEXPOL's facilities in Europe are subject to requirements for energy surveys and reports to supervisory authorities. A summary of the Group's status has been submitted to the Swedish Energy Agency, and relevant actions have been or will be taken. An example of such an action was the introduction of the ISO 50001 energy management system at several facilities.
- The CLP Regulation, which was implemented in 2015, concerns the classification, labelling and packaging of chemical substances and mixtures placed on the market in the EU. At HEXPOL, one of the effects of this regulation is that many products have been reclassified, and labelling and safety data sheets have been updated.
- Supervisory authorities conducted inspections at about half of the plants. Some minor non-conformities were detected and corrective measures have been taken.
- Minor violations of environmental law in the form of discharges into the air and water occurred at a plant in Sweden and two plants in the US. Actions have been taken and the violations did not result in any legal consequences.

ENERGY CONSUMPTION

Since energy issues are important to HEXPOL from an environmental standpoint and in terms of cost considerations, one of the Group objectives concerns more efficient energy consumption. Mixing equipment, presses and other production equipment dominate energy usage, but compressed air, refrigeration, lighting, ventilation and moving of materials are also important in this connection. Our energy usage in 2015 was 309 GWh (313). Several energy projects focusing on processes and infrastructure contributed to this reduction in energy consumption. The key figure for energy (GWh/net sales) shows a downward trend over five years, and the Group's objective is to continue reducing energy usage.

About two thirds of the energy consisted of purchased electricity, nearly 20 percent of natural gas and the rest derived from other sources. The use of biofuel and "green" electricity rose during the year to 16 percent (9). The total energy cost in 2015 was about 193 MSEK (179).

ENERGY CONSUMPTION



FOCUS ON ENERGY ISSUES

Many energy-saving measures were implemented during the year, such as:

- Installation of more energy-efficient production equipment, including AC drives, which provide better control of the speed of the electric motors in the mixing equipment, thus reducing energy use.
- Detecting leaks in the compressed air systems in order to reduce unnecessary energy losses.
- Replacement of older fixtures with LED bulbs and better systems to control the lighting and that automatically turn it on and off. Use of daylight in premises where appropriate, for example in some warehouses.
- Installation of steam traps on presses and insulation of furnaces. Switching off equipment not in use.
- Better control of the processes for mixing rubber and shorter cycle times reduced energy consumption at several plants..
- Performing energy surveys and introduction of the ISO 50001 energy management system.
- Reducing energy consumption during peak periods on the electricity network.
- Surplus energy sold to the local district heating network in Gislaved.

POLYMERS AND OTHER CHEMICAL PRODUCTS

The manufacture of polymer compounds is based on polymers, softening agents, filler and various chemical substances. The recipe depends on the technical properties to be achieved and the compound includes many types of synthetic rubber, process oils as softening agents, carbon black and other fillers, as well as a large number of che-

micals and additives that give the compound the desired properties. Some compounds include natural rubber.

In addition to the above-mentioned group of substances, polyurethane plastics, thermoplastic elastomer (TPE), metals, solvents and dyes are used within HEXPOL. In terms of volumes, synthetic rubber polymers are predominant but TPE and polyurethane plastics are also used to a relatively great extent. The use of natural rubber accounts for about 8 percent (9) of total polymer consumption and recycled polymers for about 1 percent (3). The natural material, cork, is used in certain TPE applications

Safe chemical management

At HEXPOL, many different recipes and a large number of chemical substances are used. The Group objective for safe chemical management is that chemicals deemed as hazardous for humans and the environment are to be replaced with other substances or that relevant risk-limitation measures are to be taken. EU chemical legislation (REACH) and laws concerning labelling and risk information are crucial to the Group's chemical work, but equally important are the demands placed by customers. Customer requirements have intensified in recent years and are focusing on substances that have been identified as part of REACH and that are ultimately to be phased out.

Efforts to reduce the risks related to chemical products continued in 2015 and applied, for example, to finding replacements for certain phthalates, biocides and accelerators. This work is complicated since there is no global harmonised legislation and substances that are banned in one part of the world may be permissible in others. Regardless of this, we strive to offer customers options that are advantageous from an environmental and health perspective but without lowering technical performance.

EMISSIONS TO THE ATMOSPHERE

CLIMATE IMPACTING GASES

HEXPOL's aim is to reduce the emission of the climate-changing gas carbon dioxide from energy consumption. The emissions result from the use of fossil fuels (oil, natural gas and propane) and purchased electricity and totalled 117,000 tonnes (115,000) during the year. In a five-year perspective, the Group's KPI (tonnes of carbon dioxide/net sales) is showing a declining trend and that it is possible to achieve the Group objective.

The indirect emissions through purchases of electricity dominated and accounted for 87 percent (84) of the total amount of carbon dioxide. Here, purchases of "green" electricity in the Czech Republic, Sweden and Germany reduced emissions. Emissions from direct energy consumption were positively impacted by energy optimisation measures, and by biofuels (wood, saw dust) now being the predominant source of energy in Sri Lanka. As a result of the replacement of fossil-fuel based

forklifts with electrical forklifts at the US unit in Jonesborough, the local authority awarded the unit a prize within the framework of the "Energy Right Program".

OTHER EMISSIONS

Energy consumption caused 9 tonnes (29) of atmospheric emissions of sulphur dioxide and nitrogen oxide. The sharp reduction in recent years is a result of minimisation of the use of fuel oil at the units in Sri Lanka through investments in biofuel. Emissions of VOC (volatile organic compounds) from dyes and solvents totalled some 24 tonnes (24) and are caused by the manufacture of polyurethane wheels. No emissions of ozone-degrading gases (HCFC) occurred during the year and the total amount of installed cooling agents is less than one tonne.

searches, training and technical measures. The total cost of water was 3.7 MSEK (2.8)

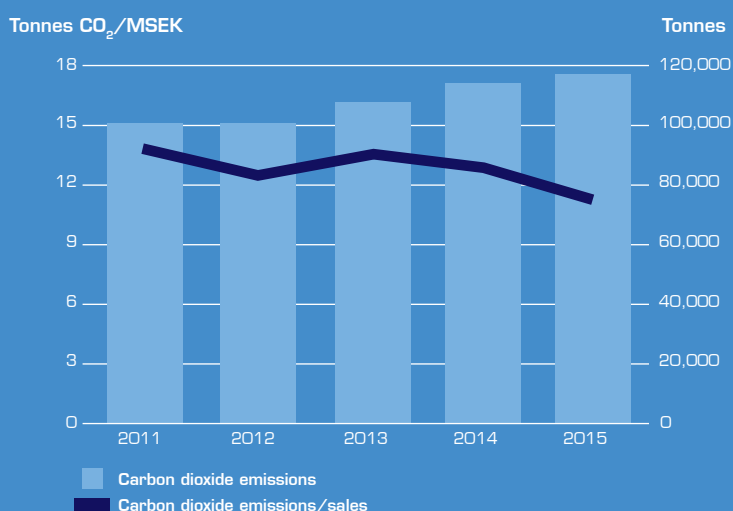
Emissions to wastewater from production processes are limited and premises are normally not fitted with draining gutters. Wastewater consists mainly of organic materials and nutrients from sanitary facilities and cleaning. Emissions of cooling water that has not been in contact with raw materials and products, as well as rainwater from roofs and land areas, also occur. Production plants are connected to municipal wastewater treatment plants or equivalent. Precautions in the form of oil separators, embankments and remediation equipment are in place at all plants. Measurements of the composition of the surface water and wastewater showed that emissions remained within permissible levels, with the exception of one unit in the Czech Republic and one in the US. Corrective actions have been taken..

RESOURCE-EFFICIENT USE OF MATERIALS

By minimising spoilage, improving waste sorting at source and reducing the amount of waste, the facilities are using raw materials more efficiently. Examples of actions taken to generate environmental and business value include internal recycling of process waste and the utilisation of purchased recycled polymers. During the year, purchased recycled material accounted for about 1 percent of total polymer raw materials. In the Enviroblack project conducted at our units in the US, a significant amount of carbon black has been recycled from dust filters in certain products.

The total volume of waste was 16,000 tonnes (14,800), of which hazardous waste accounted for 638 tonnes (527). Although the number of plants and the aggregate production volume have increased over the past five years, the Group's KPI for waste (tonnes/net sales) is showing a positive declining trend. The cost of waste management amounted to 13.3 MSEK (9.7).

CARBON DIOXIDE EMISSIONS

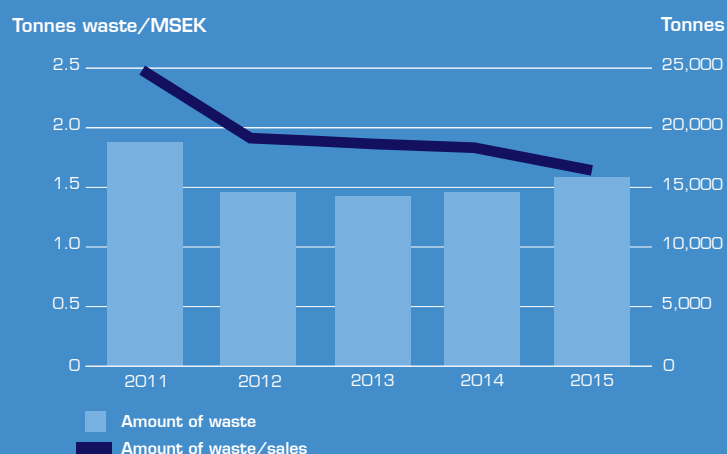


WATER CONSUMPTION

Water issues are important to society and the business community and access to high-quality water is a key issue in many parts of the world. The annual documentation of water-related matters in the Group shows that HEXPOL has no production facilities in areas suffering from water shortages or where the aquatic eco-system is threatened. One exception is a unit in California, USA, where the State has suffered a severe draught in recent years. From a natural resources perspective, there are many reasons to be economical with water and this applies to cooling, cleaning, irrigation and hygiene.

In 2015, some 250,000 m³ (226,000) of municipal water was consumed, 25,000 m³ (17,000) from proprietary wells and 428,000 m³ (441,000) from streams. Additional production, acquired companies and increased production contributed to the rise in water consumption compared with 2014. Most of the production facilities have cooling systems with recirculated water and various actions have been taken to reduce water consumption such as leak

AMOUNT OF WASTE



PRODUCTS CREATING ENVIRONMENTAL VALUE

Environmental adaptation of products often occurs in cooperation with customers. Minimising the risks associated with chemical substances is something that is important to many customers, particularly in industries that manufacture products directly for the consumer market. In the automotive industry, interest in reducing fuel consumption is high and here, weight-saving polymer products from HEXPOL can contribute to this. Within the Group, there are many examples of products that contribute environmental value:

- During the year, HEXPOL TPE Compounding launched a new product line – Dryflex Green – based on raw materials from renewable sources. Read more on page 74.
- The automotive industry has long been looking for EPDM rubber that is not electrically charged, for use in, for example, door strips. The risk of electrolytic corrosion increases when the use of light aluminium and magnesium alloys increase in cars. HEXPOL has developed a type of EPDM with low electrical conductivity that contributes to reducing corrosion. Read more on page 28.
- Recycled polymers are used in rubber compounds in mud flaps, mats and bumpers for the automotive industry.
- HEXPOL Engineered Products manufactures rubber gaskets that are used in plate heat exchangers worldwide. The gaskets also contribute to energy savings, less climate impact and secure handling of chemicals and food products.
- HEXPOL Compounding produces porous rubber material that contributes to reducing material consumption and reducing weight, thus helping to lower fuel consumption in vehicles.
- Thermoplastic elastomers (TPE) are easy to recycle and are used in many applications, such as the automotive industry. The TPE range also includes products that contain flame retardant substances that constitute environmentally compatible options to the use of traditional environmentally hazardous flame retardants.
- TPE, combined with natural material such as cork, produces technically interesting properties and reduces the use of fossil raw materials. In certain applications. TPEs can also replace PVC in certain applications, thus meeting the demands in the environmental policies of certain organisations in the health sector.
- HEXPOL Engineered Products manufactures polyurethane wheels with long service life, thus reducing the need for replacement wheels. This lowers the consumption of materials and the amount of waste. The development of polyurethane wheels for use in offshore wave power plants is another interesting application.

ENVIRONMENT-RELATED RISKS

Environmental legislation

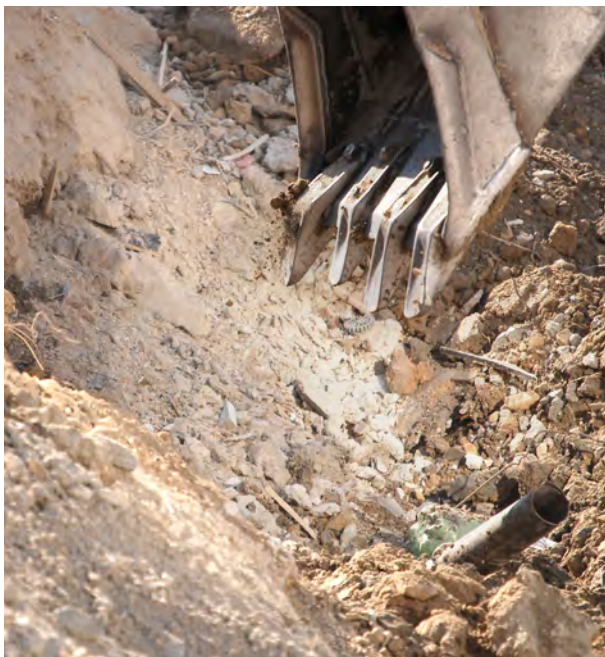
The development of environmental legislation and environmental policies impacts HEXPOL in both the short and long term. Climate change represents an area in which it is probable that addi-



tional legal and financial means of control will be introduced. A current example is the Energy Efficiency Directive introduced by the European Commission during 2015. The Group works systematically on this and other environmental issues and currently sees no unforeseen risks that will impact the business operations. For the individual production facilities, it is important to comply with existing emission conditions and be prepared for more stringent future environmental requirements. The facilities have valid environmental permits and only routine updating of conditions and permits is expected in the near future.

With respect to other environmental legislation, it is mainly the chemical legislation REACH that presents both challenges and opportunities for HEXPOL. The legislation consists of demands for the phase-out of certain hazardous substances or for limits on their use in certain applications. HEXPOL uses chemical substances that are registered on REACH's Candidate List of Substances of Very High Concern (SVHC). These are substances that have a specific function in the preparation of the Group's products, including certain phthalates (softening agents) and accelerators. The development departments have reformulated a number of recipes and the use of several substances has been terminated or reduced. Our opinion is that risk-limiting measures should be implemented as required by legislation, customers and the Group. Business opportunities will be generated by being able to offer environmentally compatible products.

HEXPOL is encompassed by the EU directive requiring compulsory sustainability reporting, which becomes effective in 2017. The assessment is that the Group, by issuing the Sustainability Report in accordance with GRI guidelines, probably fulfils the new requirements. No material changes in the reporting system are expected.



Contaminated soil

Most of the Group's facilities are built on land that was not previously used by contaminating operations. In connection with corporate acquisitions, assessments of the risk of soil pollutants and other environmental damage are regularly performed. No emissions or accidents of significance to the land and groundwater were registered in 2015.

Adjacent to a leased property in Gislaved, Sweden, there are signs of historical soil contamination from petroleum hydrocarbons. Another property in Gislaved, owned by Gislaved Gummi, was examined during the year with respect to contaminations according to the Method for Inventories of Contaminated Sites in Sweden. The property was classified as Risk Class 2 and the assessment was based on the previous presence of the solvent trichloroethylene in the facility. No emissions of this solvent have been registered and it is unknown whether the authorities will demand further

SUSTAINABILITY AUDIT FOR NATURAL RUBBER PRODUCTION

The rubber tree (*Hevea Brasiliensis*) grows in tropical climates. Today more than 90 percent of all natural rubber comes from Southeast Asia, but rubber plantations can be found in many other places, such as Africa and South America. Many of the plantations are old and small and use traditional production methods. Natural rubber is used in many different products - including shoe soles - but about 70 percent is used for the production of rubber tyres. About 8 percent of the total polymers used at HEXPOL is made from natural rubber.

It takes four to seven years before the sap (latex) from a rubber tree can be tapped. A tree produces about two kilos of latex per year over twenty years. The yield depends on the growing conditions, as well as the use of fertilisers and biocides. Once a rubber tree's latex production diminishes, it is chopped down and used to make furniture or as fuel. Environmental conditions and the social situation at the rubber plantations have attracted attention. The discussion has centred on issues including chopping down tropical forests to create rubber tree monocultures, the use of chemical pesticides and the workers' social situation.

In the summer of 2015 sustainability audits were performed at four rubber plantations and factories that produce natural rubber from latex, as part of the HEXPOL Supplier Sustainability Program. The audits were performed in Sri Lanka, and the audit group

consisted of Kasun Desilva (Environment and Quality Manager), Asoka Jayaratne (Purchasing Manager) and Ilmalee Lahada-singhe (assistant to the Managing Director) from Gislaved Gummi Lanka, as well as the Group's Sustainability Manager Torbjörn Brorson.

The audits covered the environment, working environment, social responsibility and ethics, and a number of issues were discussed with the managers of the rubber plantations and factories.

The larger plantations had well-developed policies and systems to protect the environment, and were able to produce both ISO 14001 and FSC (Forest Stewardship Council) certificates. They also had positive initiatives that improved the situations of their employees, such as saving for a house, convenience shops with reasonable prices and a school for infants. On the whole, the audits showed that the rubber plantations and factories mainly fulfilled the requirements of the Supplier Sustainability Guideline, but that health and safety initiatives should be implemented at some of the smaller production facilities.



examinations. One of the plants in the US is exposed to the risk of limited site contamination caused by earlier operations. Although remediation of the site is said to have been performed by the former owner, this has not been fully confirmed. However, there are no legal requirements for remediation of this land that affect the Group.

Hazardous substances in buildings and installations

The roofs of certain buildings comprise Eternit tiles containing asbestos. The risks are considered minor and do not require actions to be taken until the roofs are to be replaced. According to legislation in Sweden, the Group performed an inventory of the properties with respect to PCB (polychlorinated biphenyls). Some small amounts of PCB were found in window seams in a number of buildings and the caulking compound will be remediated as the windows are gradually replaced. The risks to humans and the environment are very low.

Accidents and uncontrolled emissions to the environment

Systematic and preventive work is conducted to reduce the risk of fires, leakage and other accidents that could harm people and the environment. The preventive effort includes risk analyses and other forms of inspections and audits, and the "Blue Grading System," which identifies strong and weak aspects, is applied within the Group. The procedures applied in the units are based on requirements from legislation, insurance companies, ISO 14001 and the Group's internal regulations. Apart from a number of minor fire incidents, no accidents or uncontrolled emissions to the environment occurred during the year.

Climate-related risks

Three of our plants have identified flooding as a climate-related risk and certain precautions have already been taken. Three facilities are located in areas that could be exposed to extreme windy conditions. The Group keeps itself informed of risk analyses on climate changes that are performed in countries in which it has operations. Climate-related risks are taken into account in conjunction with corporate acquisitions and supplier assessments.

Environmental adaptation of products

Many customers are focusing on environmentally adapting their products. The Group is monitoring the trend in the area and offers expertise to contribute to environmentally compatible product development. Accordingly, the risk of losing business is deemed small.

INVESTMENTS, COSTS AND SAVINGS

During the year, production facilities invested 19.1 MSEK (16.7) in the environmental and occupational health and safety area. The investments were primarily targeted at energy optimisation measures (38 percent), air-purification (26 percent) and improved work environment (17 percent). Environmental and work-related costs were higher than in 2014 and amounted to 22.7 MSEK (16.7). The costs include administration, running the purification plant and fees to authorities and certification bodies. The main cost item pertained to fees for the management of waste and accounted for 60 percent (59) of the total costs.

Environmental and work-environment-related measures resulted in savings of 14.1 MSEK (11.5). Measures involving energy optimisation and waste management made the main contribution to the savings. Savings were also made that are the long-term results of efforts in prior years.

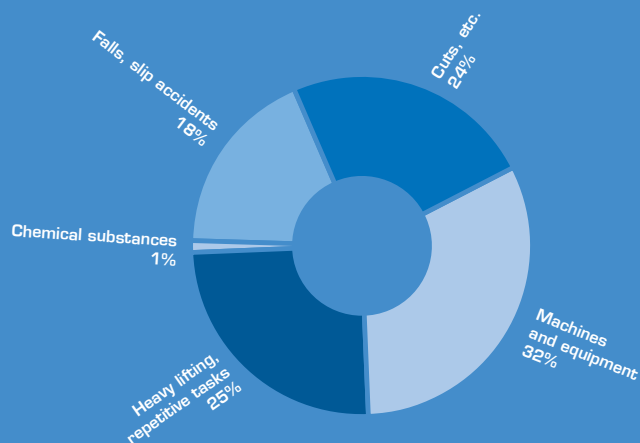


RHETECH SCHOLARSHIP

RheTech LLC and RheTech Colors made their annual Janice Pearson Memorial Scholarship awards in early May. The scholarship fund is named after RheTech long time Vice President of Human Resources Janice Pearson who passed away unexpectedly in July 2013. The scholarships are awarded to children and grandchildren of RheTech employees. This year the fund awarded \$21,000 to 12 students!



CAUSES OF OCCUPATIONAL ACCIDENTS 2015



SOCIAL RESPONSIBILITY

PREVENTIVE MEASURES FOR OCCUPATIONAL HEALTH AND SAFETY

During the year, there were 111 occupational accidents (104) resulting in more than one day's absence from work. Total absence due to occupational accidents amounted to 2,058 days (1,875) days. One third of the units were completely injury-free during the year, but the total number injuries and lost workdays was higher than in previous years. A higher number of production plants is one of several factors affecting the accident statistics. Over five years, the average accident rate for absence per employee is 0.03 accidents, with some annual variation. The causes of the occupational accidents have not changed much over the years, consisting of falls, equipment, manual work and heavy lifting. One occupational accident involving a contractor was reported and 8 (18) work-related illnesses were confirmed. Impaired hearing, allergies and injury to muscles and skeleton are examples of illnesses that occurred during the year.

The long-term goal is to completely avoid accidents and illnesses, and efforts have been directed at preventive activities, training and a systematic approach. One example is the OHSAS 18001 occupational health and safety system which was introduced in the facilities in Sri Lanka. Many of the plants work in a similar way within the legal frameworks of their respective countries. The safety committees are important, and such organisations exist in 86 percent (89) of the facilities. Risk analyses, occupational health and safety measurements, technical measures, training, health checks and safety rounds were implemented during the year. The measurements included exposure to dust and noise. Special health checks of the workforce are conducted at units handling isocyanates. Other types of recurring health checks are common in the Group.

The systems for registering near misses, meaning events that could potentially cause an occupational accident, were further developed in 2015. Such systems have been introduced in 86 percent (89) of the units and are being used in an increasingly efficient manner. A total of 365 near misses (438) were registered, resulting in preventive and remedial measures to reduce the risk of accidents..

EMPLOYEE DEVELOPMENT

Training and competency development occur continuously in Group companies and totalled 88,600 hours (76,000) in 2015. This corresponds to more than 23 hours (20) per employee. About 2,400 employees participated in developmental discussions or some other form of performance reviews. Surveys of employee views of occupational health and safety and the company are conducted regularly at several of the units and 13 such surveys were conducted during the year. The results indicated many satisfied employees but also items that can be improved; for example, personal development opportunities. HEXPOL GoldKey and Burton Rubber received the Best Workplace award in an independent evaluation based on employee assessments.

HEXPOL WHEELS FOCUSES ON TRAINING AND LEADERSHIP

In January 2015, the first class of eight Stellana employees began internal leadership training. The programme consisted of nine months of introduction to all aspects of a manufacturing business. There was a twelve week Leadership and Microsoft Office session followed by four to six weeks of training in sales, engineering, quality, problem solving, and finance. At the end of the programme the trainees developed a comprehensive summary on the cost of quality to present to the management team. In March 2015 the second class began meeting and a third group is planned to start mid-2016.

The goals of the programme are to develop the future leaders of our organisation at the production, supervision and administrative levels. As the sessions were facilitated by the management team new lines of communication were opened with the class. To date, two class members have been promoted to administrative positions, quality technician, and inventory control technician, and a third has been promoted to the lead shipping role.

HEXPOL TPE COMPOUNDING LAUNCH TPE COMPOUNDS BASED ON HIGH LEVELS OF RENEWABLE CONTENT

At this year's Fakuma exhibition the HEXPOL TPE Compounding Group (which brings together the ELASTO and Müller Kunststoffe businesses) launched a new range of TPE compounds based on raw materials from renewable resources. The range, which is called Dryflex Green, is a family of thermoplastic elastomer compounds based on raw materials from plant and vegetable crops from renewable resources. The range includes several series with varying amounts of renewable content, from 20% to over 75% (ASTM D 6866) with hardnesses from 50 to 80 Shore A.

Klas Dannäs, Global R&D coordinator for HEXPOL TPE commented, "We are excited to introduce low hardness TPE products with such high levels of renewable content to the market. We are seeing increasing demands for the polymer industry to look at how we can work with biobased materials



and bring new opportunities for sustainability. Our R&D teams are constantly engineering new polymer combinations and we have been working closely with suppliers to develop sustainable and ethical alternatives to fossil-based raw materials."

Dryflex Green TPE compounds display mechanical and physical properties comparable to TPE from fossil based raw materials. They offer excellent flexibility and tensile properties with a soft-touch feel. They can be processed using traditional polymer technologies such as injection moulding and extrusion. Dryflex green TPE compounds give adhesion to biobased PE for 2K and multi-component applications. Dryflex Green TPE compounds are also fully recyclable and can be easily coloured.

Dannäs concluded "Dryflex Green TPE compounds could open up sustainability options in the consumer, automotive, packaging, medical and construction markets. Our global teams will work with our customers and supply partners to further test the possibilities of our Dryflex Green TPE compounds, as we continue to engineer progressive solutions to meet new and emerging market demands".

Training programmes involving the environment, occupational health and safety were conducted regularly during the year and included an average of 8.1 hours (6.8) per person. The training programmes pertained to protection against fire and accidents, evacuation exercises, management of chemical products, use of personal protective equipment and much more. A key target group for this type of training programme is new employees. Information activities about "Materializing Our Values" continued and now include all employees.

RIGHT TO REPRESENTATION

HEXPOL's values recognise the employee's right to be represented by trade unions or other employee representatives, as well as the right to collective bargaining and agreements. The extent of coverage by collective agreements varies depending on local political and cultural conditions in the countries in which we are active. All employees are covered by collective agreements at about 25 percent of the plants and this applies in Sweden and China. For other units, the affiliation to trade unions is between 0 and 75 percent.

EQUAL OPPORTUNITIES AND EQUAL RIGHTS

Issues pertaining to equality, discrimination and social conditions in the workplace are important to

HEXPOL. The same view applies in the Group's relationships with suppliers. No infringements were reported during the year. More information about HEXPOL's social responsibility work is available in the section entitled "Corporate responsibility" on pages 50-57 and in the Sustainability Report.

TWO HEXPOL CAMPUSES LISTED AMONG 2015 TOP WORKPLACES IN NORTH-EAST OHIO

Two HEXPOL Compounding campuses were honored in the Cleveland Plain Dealer's 2015 Top Workplaces. HEXPOL Compounding, a leading global provider of elastomer compounds, was among 150 companies cited in the newspaper's sixth annual list.

HEXPOL Compounding LLC (Burton Rubber Processing), located in Burton, Ohio, made the list for the first time, checking in at ninth place among 50 Northeast Ohio mid-size companies. Burton Rubber Processing was founded in 1957 and currently has 204 associates working at the campus. Gold Key Processing Inc., a HEXPOL Company located in Middlefield, Ohio, made the list for the third consecutive year among Northeast Ohio mid-size companies. Gold Key was founded in 1997 and currently has 178 associates working at the campus.

The 2015 Top 150 Workplaces list was published in the Plain Dealer on June 21st. Associates responded to a detailed survey conducted by independent workplace consultant, Workplace Dynamics. The survey standings were based solely on associate responses of "My Job" and "Organization Health" factors.

Survey results indicated that both HEXPOL campuses are comprised of individuals who feel comfortable with HEXPOL through meaningful work, a vibrant connection with the company, and a strong belief that HEXPOL Compounding is moving in the right direction. HEXPOL leadership provides a clear vision, rigorous daily associate development, and an intentional effort to make sure each associate feels valued.

Associates surveyed indicated their appreciation for the recognition, rewards, and opportunities provided by HEXPOL Compounding. The survey respondents cited a connection to HEXPOL because of the positive culture and the company's intentional support based in personal and leadership development programs.

"We are very proud to have our organizations recognized along with so many other well respected businesses in our region", said John Gorrell, General Manager, Burton Rubber Processing. "Congratulations to our outstanding associates for receiving this notable and well-deserved honor. We are very grateful for their extraordinary contributions that make HEXPOL the industry leader. Building a great work environment on the inside creates a great reputation in how we value our associates, customers, and community."

"It is humbling to be recognized in the Top Workplaces listing for the third consecutive year in a row", said Jerry Saxion, Managing Director of Gold Key Processing. "Our associates, at all levels of the organization, are vital to Gold Key's success and directly responsible for creating such a positive culture and family oriented work environment. Everyone's focus on safety, personal growth, customers, quality, community and hard work are truly appreciated. Thank you to all our associates and their families."

In addition to the above honor, both campuses were featured on the Fox Business Network's Manufacturing Marvels® series.

Associates at HEXPOL Compounding's Burton facility celebrate their ninth place ranking in The Cleveland Plain Dealer's 2015 Top 150 Workplaces listing.



HEXPOL IN CLOSE COMMUNITY COOPERATION

GoldKey Processing, located in Middlefield, Ohio, is committed to growing by growing its people. That includes strengthening tomorrow's workforce today. On October 22, 2015, GoldKey Processing hosted the 8th grade classes from Middlefield Cardinal and Hershey Montessori Farm Jr/Sr High Schools for tours to learn about HEXPOL Compounding and careers in the rubber industry.

Following an energetic welcome from the entire GoldKey Processing staff, the event was kicked off by GoldKey's HR team consisting of Lori Smith and Megan Clarke, who are essential in coordinating these educational programs. After completing a safety review, each student was provided with his or her own personal PPE – including safety glasses, ear plugs and shoe covers – to ensure their safety during the visit to our campus.

Jerry Saxion, Managing Director, provided an overview of HEXPOL Compounding that addressed campus capabilities, global locations, markets serviced, HEXPOL culture, people development, and a leadership lesson on ATTITUDE. Students were very interactive with great questions and were excited to learn more about our process and people. Then it was off to tour the GoldKey campus. Divided into small groups, the students met with production associates, a development chemist, lab technicians, process chemists and office staff. Each had a station at which they explained the many steps in the process of manufacturing advanced, high-quality rubber compounds. Students observed how a product is conceived – from development to the final product – including the procurement of raw materials, the manufacturing process, and testing to meet the customer's requirements. They got to see and examine examples of customer parts.

While learning about each step of the process, students got to know the background of our associates and the career paths they took to reach their current positions. Each associate explained his or her role, highlighted the different jobs they perform, and detailed the importance of working as a team because, as we know: Teamwork is what makes the Dream Work!

GoldKey mentors who made student presentations included Jason Yauger, Mervin Detweiler, Rich Gierlach, Brad Bond and Kevin Dominic. The entire GoldKey team, including our current cooperative education students from Youngstown State University, supported this event. They helped with event preparation and assisted participating students throughout the day.

GoldKey Processing, as part of its mission, is dedicated to helping "Build Tomorrow's Workforce Today" through intentional active participation to pay it forward through programs such as:

- Career Readiness Days for Sophomores, Juniors and Seniors
- Cooperative Education Experiences with Local Universities
- Internships with Local High Schools
- Educational Days with Local Amish Schools
- Career Fairs and mentoring programs with ISTEM students from the Auburn Career Center

By hosting the Career Awareness Day for 8th graders, we are helping students plan for their futures. As part of their curriculum, they are required to make determinations about their general career path and course of study in high school.



Melvin Cedillos, Victor Rosales, Alex Posada, Darrel Goins, Randy Simpson, Marcel Ramirez, Jose Funes, Mardo Segovia

Thank you for opening your doors to our school and showing us the many careers that are possible. We appreciate all the time and effort that you put into our visit. We welcome you at our school anytime.



HEXPOL TPE COMPOUNDING GROWS IN GERMANY

The Müller Kunststoffe success story began 50 years ago when the Müller family set up a business recycling chocolate packaging in Lichtenfels in the heart of Bavaria, Germany. They quickly established themselves in the footwear industry when they began to develop flexible PVC compounds before starting TPE production in 1975. Half a century since they were established and the company has gone from strength to strength and continues to deliver market leading TPE and flexible polymer solutions.

One of the founding principles of Müller Kunststoffe was to 'be different' from the competition and find ways of solving the impossible. The reputation has been built on creating unique formulations and polymer combinations that are customised to meet application requirements. Müller have established long-term partnerships with customers due to their ability to solve any challenge put before them.

This spirit of ingenuity has been driven by managing director Georg Ender, who has worked with the company for 27 years. Ender was instrumental in developing their TPE compounding capabilities. Further investment in production capacities came in 1990 as the market for TPE began to establish itself. This was followed by era of rapid growth and continual investment in production, people and technology. Whilst taking the 360 degree approach to management and working closely with all aspects of the business; be it suppliers, production, customers and operations, Ender can most often be found in the laboratory testing the latest polymers, additives and raw materials to create a personalized solution for a customer or even something original for the market. As Müller Kunststoffe welcomed Dr Peter Ryzko as managing director in August 2015, Ender will be continue to push the possibilities of flexible polymer compounding as he moves to an R&D Director role for the HEXPOL TPE group.

The latest chapter in Müller Kunststoffe's story began in 2012 when the company was acquired by HEXPOL. Here they joined the ELASTO businesses in Sweden, UK and China to form the HEXPOL TPE family. Since joining HEXPOL, to support a growing customer base Müller Kunststoffe has invested in operations with two additional production lines and the construction of a new technical centre at their Lichtenfels site.

To celebrate this important mile-stone in their history and look forward to the next 50 years, Müller Kunststoffe invited customers, employees, local dignitaries, industry leaders to the official opening of their new technical centre in September. Dr Peter Ryzko commented "Müller Kunststoffe is proud of our history in this dynamic and challenging industry. Our growth has only been possible thanks to our dedicated and knowledgeable teams. As we move into our next half century, we will continue this legacy of intelligent and unique polymer solutions which help our customers become more successful."



Official opening of Müller Kunststoffe's technical centre (pictured left to right) Dr Peter Ryzko – Managing Director Müller Kunststoffe, Carsten Rüter – President HEXPOL Compounding Europe & Asia, Ralph Volkener – President HEXPOL Compounding Europe & Asia, Sabine Rießner – Deputy Mayor, Christian Meißner – Head of the district authority.

Corporate Governance Report



HEXPOL applies a transparent approach to the communication of information to shareholders and capital markets. The company is governed in accordance with HEXPOL's Articles of Association, the Swedish Companies Act, the Swedish Code of Corporate Governance, NASDAQ OMX Nordic's rules for issuers and other applicable Swedish and foreign legislation and regulations.

GROUP GOVERNANCE AND APPLICATION OF THE SWEDISH CODE OF CORPORATE GOVERNANCE

The governance of the HEXPOL Group proceeds on the basis of the Swedish Companies Act and other relevant legislation, the Articles of Association, NASDAQ OMX Nordic's rules for issuers and the Swedish Code of Corporate Governance (the Code). HEXPOL applies the Code as of the listing date of June 9, 2008. Any deviations from the code are noted in the table below.

SHAREHOLDERS

Refer to pages 16-17 for information on the ownership structure and the major shareholders.

ARTICLES OF ASSOCIATION

HEXPOL's current Articles of Association were adopted on May 4, 2015. The Articles of Association state that the objective of the company's operations is to acquire, own and actively manage shares mainly in industrial, trading and service companies. The company shall also own and manage securities, sell services in the administrative area and pursue other operations compatible therewith. The Articles of Association formalise issues such as shareholders' rights, the number of Board Members and auditors; that the Annual General Meeting (AGM) is to be held annually within six months of the end of the financial year; how the notice convening the AGM is to be sent; and that the company's Board has its registered office in Malmö, Sweden. The current Articles of Association are available on the company's website.

GENERAL SHAREHOLDER MEETINGS

The Annual General Meeting (AGM) or, whenever applicable, an Extraordinary General Meeting, is HEXPOL's highest decision-making body, which all shareholders are entitled to attend. Shareholders unable to attend personally may participate by

proxy. At the AGM, the Board presents the annual report, the consolidated financial statements and the auditors' report.

HEXPOL issues the official notification at least four weeks prior to the AGM, which is usually held in Malmö, but may also be held in Stockholm in line with the Articles of Association, usually held in May. Among other matters, the AGM passes resolutions such as the adoption of the income statement and balance sheet, the dividend to be paid, amendments to the company's Articles of Association, discharge from liability for the Board and President, election of Board members and auditors, and the setting of remuneration for the Board members and auditors. The company's auditor attends the AGM. HEXPOL's most recent AGM was held on May 4, 2015.

NOMINATION COMMITTEE

HEXPOL's AGM determines the composition of the company's Nomination Committee. The Nomination Committee's task is to submit proposals regarding the Chairman of the AGM and other Board members, as well as in respect of the fees and other remuneration for Board assignments to each of the Board members. The Nomination Committee is also to submit proposals regarding the election and fees to be paid to auditors.

The 2015 AGM passed a resolution to the effect that HEXPOL's Nomination Committee should comprise four members representing the largest shareholders in terms of voting rights and that Mikael Ekdahl (Chairman), representing Melker Schörling AB, Åsa Nisell representing Swedbank Robur fonder, Henrik Didner representing Didner & Gerge Fonder and Elisabeth Jamal Bergström representing Handelsbanken Fonder should be members of the Nomination Committee ahead of the 2016 AGM. Should a shareholder who is represented by one of the members of the Remuneration Committee cease being one of the largest shareholders in HEXPOL, or should a member of the committee no longer be employed by such a shareholder or for any other reason leave the committee prior to the AGM 2016, the committee is entitled to appoint another representative from among the major shareholders to replace such a member.

During the year, the Nomination Committee held two minuted meetings during which the Chairman presented an account of its evaluation work. The Committee discussed the desired changes and decided on proposals to be submitted ahead of the 2016 AGM.

COMPLIANCE WITH SWEDISH CODE OF CORPORATE GOVERNANCE (THE CODE)

As a Swedish public limited liability company whose shares are registered for trading on NASDAQ OMX Stockholm, HEXPOL applies the Swedish Code of Corporate Governance apart from one deviation:

Code Rule 7.2 Audit Committees must include at least three Board members.

Comment: To create a vigorous and effective Board, HEXPOL has decided to have a limited number of Board members. As a result, the Audit Committee has fewer than three members.

BOARD OF DIRECTORS HEXPOL AB

	Year of birth	Nationality	Elected	Audit committee	Remuneration committee	Independent in relation to the company and management	Independent in relation to major shareholders	Holdings Number of Class A shares	Holdings Number of Class B shares
Melker Schörling Chairman	1947	Swedish	2007	No	Yes	Yes	No	14,765,620	74,533,159
Georg Brunstam President and CEO	1957	Swedish	2007	No	No	No	No	–	1,000,000
Alf Göransson	1957	Swedish	2007	No	No	Yes	No	–	–
Malin Persson	1968	Swedish	2007	Yes	No	Yes	Yes	–	–
Ulrik Svensson	1961	Swedish	2007	Yes	Yes	Yes	No	–	–
Jan-Anders E. Månson	1952	Swedish	2008	No	No	Yes	Yes	–	–
Mårta Schörling	1984	Swedish	2014	No	No	Yes	No	–	–

The term Holdings refers both to shares held by the person indicated and shares held by related parties, as well as via companies at December 31 2015.

BOARD OF DIRECTORS

Composition of the Board and independence

According to the Articles of Association, HEXPOL's Board is to consist of at least five and no more than ten members, with no more than two deputies. The Board is elected annually at the AGM for the period up until the next AGM. HEXPOL's AGM on May 4, 2015 resolved to elect a Board consisting of seven persons, including the President and CEO. Refer to the table above for the Board's composition. The Board was elected for the period up to the 2016 AGM. HEXPOL's CFO participates in Board meetings. On request, other HEXPOL employees attend Board meetings to present certain specific issues.

The Board's assessment of its members' independence in relation to the company, its management and major shareholders, which is shared with that of the Nomination Committee, is presented in the table above. According to the requirements presented in the Code, the majority of the Board members elected by the AGM shall be independent in relation to the company and its management, and at least two of the Board members shall also be independent in relation to the company's major shareholders. As shown in the table, HEXPOL meets these requirements. Members can be reached at the address of HEXPOL's head office.

Responsibilities of the Board of Directors

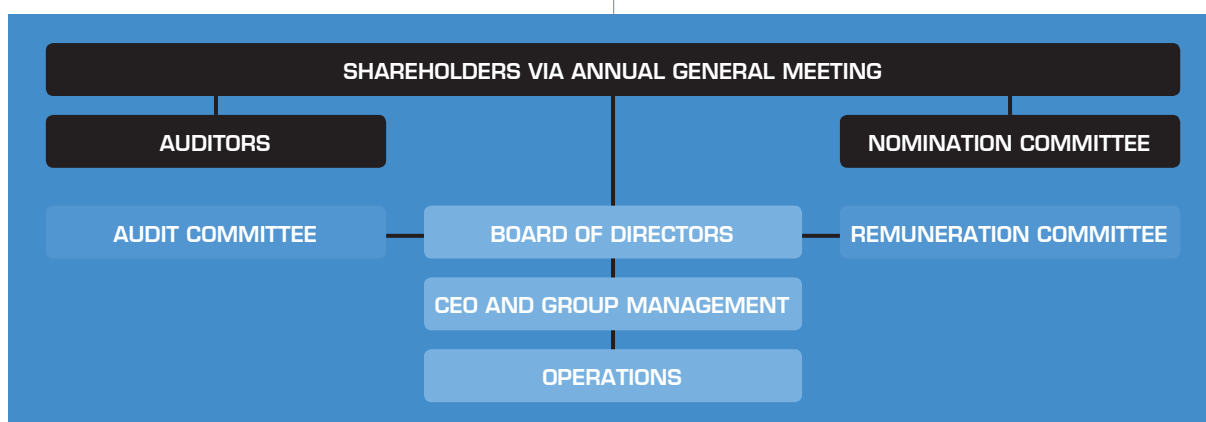
The Board is responsible for determining the Group's overall objectives, developing and monitoring the

general strategy, decisions on major acquisitions, divestments and investments and ongoing monitoring of operations during the year. The Board is also responsible for ongoing evaluation of management and for ensuring that there are effective systems for monitoring and internal control of the company's operations and its financial position, and for the Group's organisation and management pursuant to the Swedish Companies Act. The Board also appoints the President and CEO, the Audit Committee and Remuneration Committee, as well as deciding on matters involving the salary and other remuneration of the President and CEO. The activities of the Board and division of responsibility between the Board and executive management are governed by the Board's work procedures.

Work procedures include instructions for the President and CEO in respect of financial reporting as well as instructions for the Audit Committee and Remuneration Committee. These are reviewed and set annually.

Board committees

The Board has established two committees from among its members: the Audit Committee and Remuneration Committee. The Board's Audit Committee, which, on behalf of the Board, has the task of preparing matters involving the procurement of auditing services and auditing fees, monitoring the work of the auditors and the company's internal control system, as well as the current risk profile, following up external auditing and the



company's financial information and other issues that the Board assigns the committee to prepare. The Audit Committee is to meet regularly with HEXPOL's auditors and report back to the Board. The committee has no authority to make decisions but instead presents its findings and proposals to the Board for decisions. The Board appoints the members of HEXPOL's Audit Committee annually. At least one member of the Committee must possess accounting and auditing qualifications. According to the Code, the Board must establish an Audit Committee consisting of at least three Board members. To create a vigorous and effective Board, HEXPOL has decided to have a limited number of Board members. As a result, the Audit Committee consists of fewer number of members. The Audit Committee for 2015 comprised Ulrik Svensson (Chairman) and Malin Persson. During the period, the Audit Committee held three minuted meetings, each attended by both of the members.

The task of the Board's Remuneration Committee is to deal with matters involving remuneration guidelines, salaries, bonus payments, options, pensions and other forms of remuneration for Group executive management. The Remuneration Committee may also address issues related to other management levels, should the Board decide in this respect, as well as other similar issues that the Board assigns the committee to prepare. The committee has no authority to make decisions, but instead presents its findings and proposals to the Board for a decision. The Board appoints the members of HEXPOL's Remuneration Committee annually. For 2015, the committee consisted of Melker Schörling (Chairman) and Ulrik Svensson. The Remuneration Committee held one minuted meeting during the year, attended by both of the members.

BOARD ACTIVITIES IN 2015

The Board held a total of six minuted meetings during the year, where of one statutory meeting, at which the following items, among others, were addressed:

Date	Activity
February 6	Year-end report for 2014 and debriefing with the auditors.
May 4	Interim report January-March 2015. Sustainability report and statutory Board meeting after the 2015 AGM.
July 20	Half-year report January-June 2015
October 23	Interim report January-September 2015 and strategic plan for 2016-2018.
December 9	Budget 2016

During 2015, all AGM-elected Board members attended all Board meetings.

AUDITORS

The auditors are elected at the AGM and, on behalf of the shareholders, are responsible for examining the Annual Report and accounting records, as well as the administration of the Board and President. HEXPOL's auditors normally attend at least one Board meeting annually at which they report their observations from the Group's internal control



procedures and the annual financial statements. The auditors also report to and meet the Audit Committee. Moreover, the auditors participate in the AGM to present the auditors' report, which describes the audit conducted and the observations made.

The 2015 AGM re-elected the registered auditing firm, Ernst & Young AB, for the term of one year up to the end of the next AGM, with Authorised Public Accountant Johan Thuresson as auditor-in-charge. The auditor can be reached at Ernst & Young AB, Torggatan 4, SE-211 40 Malmö, Sweden.

The auditors for the forthcoming term will be elected at the 2016 AGM.

CEO AND GROUP MANAGEMENT

The President and CEO is responsible for leading and controlling HEXPOL's operations pursuant to the Swedish Companies Act, other legislation and ordinances, applicable rules for listed companies, including the Code, the company's Articles of Association and the instructions and strategies established by the Board. The President/CEO shall ensure that the Board receives unbiased, detailed and relevant information required to enable the Board to make well-founded decisions. In addition, the President and CEO is responsible for keeping the Board informed of the company's development between Board meetings.

The President and CEO has appointed a Group Management consisting of the Chief Financial Officer (CFO) and the company's business and product area managers. Group Management has overriding responsibility for the Group's operations and the allocation of financial resources among business operations and for the financing and capital structure. Regular Group Management and Steering Committee meetings serve as the forum for the implementation of the Group Management's overall governance down to each business and product area, and, in turn, down to the subsidiary level. The organisation is structured to facilitate short and prompt decision-making processes, with clear, decentralised responsibility. Group Management is presented on page 108, in terms of descriptions of their employment period at HEXPOL, educational background, year of birth, shareholding, etc.

INFORMATION ON REMUNERATION

Refer to Note 3 on pages 92-93 for information on remuneration, pensions and other benefits for the Board, President and other senior executives.

FINANCIAL REPORTING

HEXPOL provides continuous market information concerning the company's progress and financial position. HEXPOL aims to be open, factual and provide a high degree of service in terms of financial reporting in an effort to build market confidence in the company and enhance interest in the HEXPOL share among current and potential investors.

The company's prevailing information policy is reviewed annually. The policy complies with the information requirements imposed by the stock market and is designed to conform to the recommendations of the NASDAQ OMX Nordic exchange as a supplement to the rules for issuers. The information policy deals with such issues as who should represent the company as spokesperson; who should decide what is price-sensitive information; how share price-sensitive information should be managed; and the information content and communications methods in relation to players in the financial market. HEXPOL regularly discloses



financial information in Swedish and English in the form of interim reports, annual reports, press releases and news and share price-sensitive events. The company's website provides information on HEXPOL's progress, other information for the stock market as well as other key data.

The company's systems for internal control pertaining to financial reporting for the 2015 financial year

In accordance with the Swedish Companies Act and the Swedish Code of Corporate Governance, the Board of Directors is responsible for internal control. The Annual Accounts Act stipulates that the Corporate Governance Report must contain information concerning the principal aspects of the company's internal control and risk management systems in conjunction with the financial reporting. Internal control and risk management in terms of financial reporting is a process that involves HEXPOL's Board, corporate management and personnel. The process has been designed so that it provides reasonable assurance of the reliability of external reporting. According to a generally accepted framework that has been established for this purpose, the most important aspects of HEXPOL's internal control and risk management systems are usually described from five perspectives. These five perspectives serve as subheadings below.

CONTROL ENVIRONMENT

Since HEXPOL's organisation is designed to facilitate rapid decision-making, operational decisions are taken at the business area, product area or subsidiary level, while decisions concerning strategies, acquisitions and divestments and overall financial matters are taken by the company's Board and Group Management. The organisation is characterised by well-defined allocation of responsibility and well-functioning and well-established governance and control systems, which apply to all HEXPOL units. The basis for the internal controls and risk management pertaining to financial reporting comprises an overall control environment in which the organisation,



decision-making routes, authorities and responsibilities have been documented and communicated in control documents, such as in HEXPOL's finance policy and financial reporting instructions and in accordance with the authorisation arrangements established by the CEO.

HEXPOL's financial control functions are integrated by means of a Group-wide reporting system. All of HEXPOL's subsidiaries report complete financial statements on a monthly basis. This reporting provides the basis for the Group's consolidated financial reporting. Each legal entity has a controller responsible for the business area's financial control and for ensuring that the financial reports are correct, complete and delivered in time for consolidated financial reporting. The Group's financial control unit engages in close and well-functioning cooperation with the subsidiaries' controllers in terms of the financial statements and the reporting process. The Board's monitoring of the company's assessment of its internal control includes contacts with the company's auditors.

RISK MANAGEMENT

The significant risks affecting the internal control of financial reporting are identified and managed at Group, business area, subsidiary and unit level. Within the Board, the Audit Committee is responsible for ensuring that significant financial risks and the risk of error in financial reporting are identified and managed in a manner that ensures correct financial reporting.

Special priority has been assigned to identifying processes that, relatively speaking, give rise to a higher risk of significant error due to the complexity of the process or of the contexts in which major values are involved.

CONTROL ACTIVITIES

The risks identified with respect to the financial reporting process are managed via the company's control activities, which are designed to prevent, uncover and rectify errors and non-conformities. Their management is conducted by means of manual controls in the form of, for example, reconciliations and audits and automatic controls using IT systems. Detailed analyses of financial

results and follow-ups in relation to budget and forecasts supplement the business-specific controls and provide general confirmation of the quality of financial reporting.

INFORMATION AND COMMUNICATION

To ensure the completeness and correctness of financial reporting, the Group has formulated information and communication guidelines designed to ensure that relevant and significant information is exchanged within the business, in the particular unit and to and from management and the Board. Guidelines, handbooks and job descriptions pertaining to the financial process are communicated between management and personnel and are accessible electronically and/or in a printed format. Via the Audit Committee, the Board receives regular feedback in respect of the internal control process. To ensure that the external communication of information is correct and complete, HEXPOL complies with a Board-approved information policy that stipulates what may be communicated, by whom and in what manner.

FOLLOW-UP

The efficiency of the process for risk assessment and the implementation of control activities are followed up continuously. The follow-up pertains to both formal and informal procedures used by the officers responsible at each level. The procedures incorporate the follow-up of financial results in relation to budget and plans, analyses and key figures. The Board obtains ongoing reports on the Group's financial position and performance. At each scheduled Board meeting, the Group's financial position is addressed and, on a monthly basis, management analyses the company's financial reporting at a detailed level. The Audit Committee follows up the financial reporting at its meetings and receives reports from the auditors describing their observations.



Financial reports



Group

CONSOLIDATED INCOME STATEMENTS

MSEK	Note	2015	2014
Sales	1	11,229	8,919
Cost of goods sold		-8,660	-6,984
Gross profit		2,569	1,935
Sales costs		-167	-118
Administration costs		-376	-330
Research and development costs		-78	-64
Other income and expenses		16	33
Operating profit	1,3,4,8,9	1,964	1,456
Financial income	6	15	9
Financial expenses	6	-36	-29
Profit before tax		1,943	1,436
Tax	7	-550	-388
Profit after tax		1,393	1,048
of which, attributable to Parent Company's shareholders		1,393	1,048
		2015	2014
Earnings per share, SEK*		4.05	3.05
Average number of shares before and after dilution, thousands*		344,201	344,201

*Adjusted for share split 10:1 May 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MSEK	2015	2014
Profit after tax	1,393	1,048
Items that will not be re-classified to the income statement		
Re-measurement of defined benefit pension plans	1	0
Income tax relating to items that will not be re-classified to the income statement	0	0
Items that may be re-classified to the income statement		
Hedge of net investment	-19	-143
Income tax relating to items that may be re-classified to the income statement	4	32
Translation difference	218	805
Comprehensive income	1,597	1,742
of which, attributable to Parent Company's shareholders	1,597	1,742

CONSOLIDATED BALANCE SHEETS

MSEK	Note	2015	2014
ASSETS			
Fixed assets			
Intangible fixed assets	8	4,151	3,364
Tangible fixed assets	9	1,646	1,427
Financial fixed assets		0	1
Deferred tax assets	7	71	40
Total fixed assets		5,868	4,832
Current assets			
Inventories	10	702	580
Accounts receivable	11	1,045	945
Current tax receivables		54	55
Other current receivables		47	21
Prepaid expenses and accrued income		29	25
Cash and cash equivalents		978	826
Total current assets		2,855	2,452
TOTAL ASSETS		8,723	7,284
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		69	69
Other capital contributions		598	598
Reserves		790	586
Profit brought forward		3,383	2,748
Profit for the year		1,393	1,048
Total equity attributable to parent company's shareholders	12	6,233	5,049
Attributable to non-controlling interests		0	0
Total shareholders' equity		6,233	5,049
Non-current liabilities			
Interest-bearing liabilities	13	492	219
Deferred tax liabilities	7	349	240
Pension provisions	14	19	20
Total non-current liabilities		860	479
Current liabilities			
Interest-bearing current liabilities	13	32	348
Accounts payable		1,210	1,017
Current tax liabilities		38	32
Other current liabilities		25	28
Other provisions	15	13	29
Accrued expenses and deferred income	16	312	302
Total current liabilities		1,630	1,756
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		8,723	7,284
Pledged assets	17	2	5
Contingent liabilities	17	0	0

CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY

MSEK	Attributable to Parent Company's shareholders				Total
	Share capital	Other capital contributions	Reserves	Profit brought forward	
December 31, 2013	69	598	-108	3,058	3,617
2014					
Total comprehensive income					
Profit after tax	-	-	-	1,048	1,048
Other comprehensive income	-	-	694	-	694
Total comprehensive income	-	-	694	1,048	1,742
Transactions with shareholders					
Dividend	-	-	-	-310	-310
December 31, 2014	69	598	586	3,796	5,049
2015					
Total comprehensive income					
Profit after tax	-	-	-	1,393	1,393
Other comprehensive income	-	-	204	-	204
Total comprehensive income	-	-	204	1,393	1,597
Transactions with shareholders					
Dividend	-	-	-	-413	-413
December 31, 2015	69	598	790	4,776	6,233

CONSOLIDATED CASH FLOW STATEMENTS

MSEK	Note	2015	2014
Cash flow from operating activities	18		
Operating profit		1,964	1,456
Adjustment for non-cash items		209	166
Net financial items		-28	-21
Tax paid		-515	-341
Cash flow from operations before changes in working capital		1,630	1,260
Cash flow from changes in operating capital			
Changes in operating receivables		78	28
Changes in operating liabilities		52	144
Cash flow from operations		1,760	1,432
Investing operations			
Investments in tangible fixed assets		-156	-127
Sales of tangible fixed assets		41	11
Investments in intangible fixed assets		-3	-2
Acquisition of business combinations	21	-1,043	-413
Cash flow from investing activities		-1,161	-531
Financing activities			
Loans raised		1,295	105
Amortisation of liabilities		-1,361	-572
Dividend		-413	-310
Cash flow from financing activities		-479	-777
Cash flow for the year		120	124
Cash and cash equivalents at January 1		826	597
Exchange-rate differences in cash and cash equivalents		32	105
Cash and cash equivalents at December 31		978	826

OPERATING CASH FLOW, GROUP

MSEK	2015	2014
Operating profit	1,964	1,456
Depreciation/amortisation/impairment	209	166
Change in working capital	130	172
Sales of tangible fixed assets	41	11
Investments	-159	-129
Operating cash flow	2,185	1,676

Accounting policies

HEXPOL's consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the EU. The Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups, was also applied. The Parent Company applies the Annual Accounts Act and RFR 2, Accounting for legal entities, as issued by the Swedish Financial Reporting Board. This means that the Parent Company applies the same accounting policies as the Group, except as outlined on page 91.

The applied accounting policies correspond to those applied in the preceding year. None of the amendments and interpretations of existing standards that are to be applied as of financial years commencing January 1, 2015 had any material effect on the consolidated or Parent Company's financial statements.

A number of new or revised IFRSs have not yet come into effect and have not been applied prospectively in preparing the consolidated or Parent Company's financial statements. The IFRSs that could impact the consolidated or Parent Company's financial statements are presented below. None of the other new standards, amended standards or IFRIC interpretations that have been published are expected to have any impact on the consolidated or Parent Company's financial statements.

IFRS 9 – Financial Instruments addresses the classification, measurement and recognition of financial assets and liabilities. The standard is to be applied for financial years beginning on or after January 1, 2018. IFRS 9 is not yet approved by the EU. During the year, the Group started evaluating the impact of the introduction of the standard.

IFRS 15 – Revenue from Contracts with Customers regulates the manner in which revenue is recognised. The principles on which IFRS 15 is based aim to provide users of financial reports with more useful information on the company's revenues. IFRS 15 comes into effect on January 1, 2018. IFRS 15 is not yet approved by the EU. During the year, the Group started evaluating the impact of the introduction of the standard.

IFRS 16 – Leases. Since there is currently no information about when the EU is expected to approve the standard, no decision has been made about when and how the standard is to be applied. IFRS 16 comes into effect on January 1, 2019. An assessment of the effects of the standard has yet to be initiated.

CONSOLIDATED FINANCIAL STATEMENTS

The Parent Company and the other companies over which the Parent Company has a direct or indirect controlling influence are included in the consolidated financial statements. Subsidiaries are included in the consolidated finan-

cial statements as of the day upon which controlling influence is attained and divested companies up to the time when a controlling interest over them ceases. The consolidated financial statements have been prepared in accordance with the cost method, with the exception of certain financial instruments that have been measured at fair value.

The purchase method is used to recognise the Group's business combinations. The consideration for the acquisition of a subsidiary comprises the fair value of transferred assets and liabilities that the Group assumes from previous owners of the acquired company. The consideration also includes the fair value of all assets and liabilities resulting from an agreement concerning a contingent consideration. Each contingent consideration is recognised at fair value on the acquisition date. Subsequent changes to the fair value of a contingent consideration are recognised in profit or loss. Identifiable acquired assets and assumed liabilities in a business combination are initially measured at fair value on the date of acquisition. Acquisition-related costs are expensed as they arise. Goodwill is measured as the amount by which the total consideration exceeds the fair value of identifiable acquired assets and assumed liabilities. If the purchase consideration is lower than the fair value of identifiable acquired assets and assumed liabilities, the difference is recognised directly in profit or loss. Intra-Group transactions, balance-sheet items and unrealised gains and losses on transactions between Group companies are eliminated.

TRANSLATION OF FOREIGN CURRENCIES

Functional currency and reporting currency

The functional currency of the Parent Company is Swedish kronor (SEK), as is the reporting currency for the Parent Company and the Group.

Transactions and balance-sheet items

Transactions in foreign currency are translated to the functional currency based on the exchange rates prevailing on the transaction date. Foreign-currency receivables and liabilities are recognised at the exchange rates prevailing on the balance-sheet date. Exchange-rate gains and losses that arise are recognised in profit or loss. When transactions constitute hedging that meets the requirements for hedge accounting of net investments, exchange-rate differences are recognised directly in other comprehensive income after adjustment for deferred taxes. Exchange-rate differences on operating receivables and operating liabilities are included in operating profit, while exchange-rate differences on financial receivables and liabilities are recognised in net financial items.

SUBSIDIARIES

The earnings and financial position of subsidiaries are prepared in the functional currency of each company. In the consolidated financial statements, the subsidiaries' earnings and financial position are translated into Swedish kronor (SEK) in the following manner:

- Revenues and expenses in income statements are translated at the average exchange rate for

the applicable year, while assets and liabilities in the balance sheets are translated at the exchange rate prevailing on the balance-sheet date. Exchange-rate differences arising from translation are recognised as a separate item in other comprehensive income.

- Goodwill and adjustments of fair value arising in connection with an acquisition are treated as assets and liabilities of the acquired operation, and are translated at the exchange rate prevailing on the balance-sheet date.
- The value of the net assets of foreign subsidiaries, including goodwill and other adjustments of fair value, is partly hedged through foreign-currency loans. These exchange-rate differences are recognised in other comprehensive income. The Group has lending in foreign currency to certain subsidiaries, in which the loans represent an enduring portion of the Parent Company's financing of these companies. These loans are recognised at the exchange rate prevailing on the balance-sheet date, whereby the exchange-rate differences on the loans are recognised in other comprehensive income.

The equity method is applied for one minor associated company.

SEGMENT REPORTING

An operating segment is a part of the Group that conducts operations from which it can generate revenues and incur costs and for which independent financial information is available. For the HEXPOL Group, lines of business (business areas) represent the basis of division into operating segments. The Group is organised in two business areas: HEXPOL Compounding and HEXPOL Engineered Products. Included in the segments' earnings, assets and liabilities are directly attributable items as well as items that can be allocated to the segments in a reasonable and reliable manner. Segment reporting for the operating segments comprises earnings up to operating revenues, and capital employed. Items in the income statement that are not allocated comprise financial income and financial expenses, and tax expenses. Assets and liabilities that have not been allocated to the segments are tax assets and tax liabilities and financial assets and financial liabilities. Internal billings between business areas occur at market value. In the presentation of the Group's geographical markets, the operations have been subdivided into the Group's key geographical markets, which are Europe, NAFTA and Asia. Sales are recognised according to customer location, while assets are recognised according to the actual physical location of these assets.

OTHERS CLASSIFICATIONS

Fixed assets and long-term liabilities consist of amounts expected to be recovered or paid after more than twelve months. Current assets and current liabilities consist only of amounts expected to be recovered or paid within twelve months.

REVENUES

HEXPOL applies the following principles for revenue recognition:

Sale of goods

Revenues from sales of goods are recognised when all the following conditions are satisfied: The Group has transferred the essential risks and benefits associated with the ownership of the goods to the buyer. The Group does not retain any commitment in ongoing management usually associated with ownership; nor does the company exert any actual control over the goods that have been sold.

Revenues can be reliably calculated. It is probable that the financial benefits for the seller that are associated with the transaction will accrue to the seller. The expenditure that has arisen or is expected to arise as a consequence of the transaction can be reliably calculated. Sales are recognised after deduction of VAT and any discounts.

Interest income

Interest income is recognised following accrual over the maturity periods, applying the effective-interest-rate method.

RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure for research is expensed as incurred, while expenditure for development is capitalised as follows: Capitalisation of development expenditures in the Group occurs only in exceptional cases and is only applied to new products where significant development costs are involved, where the products have a probable earnings potential that could accrue to the Group and the costs are clearly distinguishable from ongoing product development expenditure. Capitalised development expenditures are amortised according to plan.

INCOME TAX

Income tax expenses for the year consist of current and deferred tax. Tax is recognised in profit or loss, apart from when the tax pertains to items recognised in other comprehensive income or directly in shareholders' equity. In such cases, the tax is also recognised in other comprehensive income or shareholders' equity.

Income taxes comprise: Current tax, meaning the tax calculated on taxable earnings for the period, and adjustments regarding prior periods. Deferred taxes comprise: Tax on temporary differences arising between the value of assets and liabilities for tax purposes and their carrying amount in the consolidated financial statements, deductible loss carry-forwards and other tax deductions. Deferred tax is also recognised for transactions included in other comprehensive income and shareholders' equity. Deferred tax is calculated applying tax rates that have been decided or announced on the balance-sheet date. Temporary differences on shares in subsidiaries are not recognised because it is not probable that these will be utilised in the foreseeable future. Deferred tax assets are recognised insofar as it is probable that future taxable surpluses will be available to offset them against.

LEASING

The Group has entered into both capital and operational leases. The agreements are classified in accordance with their financial implication when they were entered into. Capital leases are

not material. Expenditure for operating lease agreements is accrued in accordance with the main rule over the contractual period. For capital leases, the leased asset is carried on the balance sheet with a corresponding liability for future lease payments. The leased asset is depreciated over the same period as for assets of the same kind owned by the Group. Interest expense on the liability is recognised as a financial expense.

GOODWILL

Goodwill comprises the difference between the acquisition cost and the fair value of the identified net assets of the acquired company on the date of acquisition. Acquisitions of less than 100 percent of an operation are considered on a case-by-case basis to determine whether full goodwill or partial goodwill is to be applied. Goodwill is tested at least annually to identify any impairment need and is measured at cost less any impairment losses.

TANGIBLE AND OTHER INTANGIBLE FIXED ASSETS

Tangible and other intangible fixed assets are recognised at acquisition value less accumulated depreciation/amortisation according to plan and any impairment losses.

DEPRECIATION/AMORTISATION ACCORDING TO PLAN

Depreciation/amortisation according to plan is performed on a straight-line basis, or alternatively on the basis of the utilisation rate in connection with the start-up of new facilities, and is calculated on the depreciable amount (acquisition cost less estimated residual value) and is based on the useful life of the asset. Useful life and residual value are revised on a continuous basis.

DEPRECIATION OF COMPONENTS

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The following depreciation/amortisation according to plan is applied:

Development work	3-10 years
Patents and trademarks	20 years
Other intangible assets	3-15 years
IT equipment	3-8 years
Machinery and equipment	3-15 years
Office buildings	20-50 years
Industrial buildings	20-50 years
Other buildings	25 years
Land improvements	5-30 years

IMPAIRMENT LOSSES

Goodwill is analysed on an annual basis with regard to any impairment requirements. Other assets are analysed for indications of impairment requirements, meaning whether the recognised value of an asset exceeds its recoverable amount.

The recoverable value is the higher of the asset's net realisable value and the value in use, meaning the discounted present value of future cash flows. Previous impairment losses are reversed insofar as impairment is no longer warranted, although goodwill impairments are never reversed.

INVENTORIES

Inventories are valued according to the lowest-value principle, meaning at the lower of acquisition value and net realisable value at the balance-sheet date. The acquisition value is measured in accordance with the first-in first-out principle. For manufactured goods, the acquisition value comprises the cost of raw materials, direct payroll costs, other direct costs and a portion of indirect manufacturing costs. Net realisable value comprises the selling price less variable selling costs. Deductions are made for internal gains generated through intra-Group sales.

FINANCIAL INSTRUMENTS

Financial instruments that are recognised in the balance sheet include cash and cash equivalents, accounts receivable, other financial receivables, accounts payable, loans payable and derivatives. A financial asset or financial liability is derecognised from the balance sheet when all benefits and risks associated with ownership have been transferred. Financial instruments are initially recognised at fair value and, subsequently, at fair value or accumulated amortised cost, depending on their classification. Financial derivatives are recognised continuously at fair value. Financial assets and liabilities are recognised in, and deducted from, the balance sheet applying settlement-date accounting. Classification of financial instruments:

Financial instruments are classified in the following categories:

Financial assets and liabilities measured at fair value through profit or loss, loan receivables, accounts receivable and other financial liabilities. The classification depends on the purpose for which the instrument was acquired and is determined on initial recognition.

Calculation of fair value

The fair value of listed financial instruments is based on the appropriate market quotation on the balance-sheet date. For unlisted financial instruments, the value is determined by applying recognised measurement techniques, whereby the Group makes assumptions that are based on the market conditions prevailing on the balance-sheet date. Market rates form the basis for the calculation of fair value of long-term loans.

Financial assets and liabilities recognised at fair value through profit or loss.

Financial derivative instruments are recognised at fair value with changes in value in profit or loss, except when the derivative fulfils all the criteria for cash-flow hedging, in which case the change in value is recognised in other comprehensive income on the date that the hedged item is recognised. The Group had no cash-flow hedges during 2015. When establishing fair value, official market lis-

tings on the balance-sheet date are used, and valuations in accordance with Level 2.

Loans and accounts receivable

Receivables are recognised at the amount expected to be received on a case-by-case basis. The credit risk is assessed on a case-by-case basis based on the particular customer's payment capacity. Impairment losses for accounts receivable are recognised in operating expenses.

Cash and cash equivalents

Cash and cash equivalents comprise liquid funds and credit balances at banks and similar institutions, within a maturity date of three months from the date of acquisition.

Accounts payable and other financial liabilities

Financial liabilities are measured at accrued cost, applying the effective-interest-rate method. Accounts payable are recognised at cost.

HEDGE ACCOUNTING

Hedge accounting is applied if the hedging actions taken have the stated objective of constituting a hedge, have a direct correlation to the hedged item and effectively hedge the item. An effective hedge generates financial effects that offset those that arise through the hedged position. When hedging fair value, the change in the fair value of the hedging instrument is recognised in profit or loss together with the change in the value of the liability or asset to which the risk hedging applies. The value of the net assets of foreign subsidiaries, including goodwill and other adjustments of fair value, is partly hedged through foreign-currency loans. The resulting exchange-rate differences are recognised in other comprehensive income. The Group has lending in foreign currency to certain subsidiaries, in which the loans represent an enduring portion of the Parent Company's financing of these companies. These loans are recognised at the exchange rate prevailing on the balance-sheet date, whereby the exchange-rate differences on the loans are recognised in other comprehensive income.

PENSION AND SIMILAR COMMITMENTS

The Group predominantly has defined-contribution pension obligations. In addition, a few employees have defined-benefit pensions.

A defined contribution pension plan is a plan in which the Group pays fixed fees to a separate legal entity and the cost of defined-contribution pension obligations is expensed as incurred. In a defined benefit pension plan, the amount of the post-service pension benefit an employee will receive is based on factors such as age, period of service and salary. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of obligation less the fair value of plan assets on the balance-sheet date. The calculation is made in accordance with actuarial models. Actuarial gains and losses are recognised in other comprehensive income.

Defined-benefit plans are items for which the insurer (Alecta in Sweden) cannot specify the Group's share of the total plan assets and, pending this information becoming available, pension obligations are recognised as defined contribution plans. At December 31, 2015, Alecta's surplus in the form of the collective consolidation level was 155 percent (143).

PROVISIONS

The Group recognises provisions when the Group has a legal or informal undertaking as a result of the occurrence of an event and it is likely that an outflow of resources will be required to settle the undertaking and a reliable estimate can be made of the amount. A provision for restructuring is recognised when a detailed formal action plan has been established and expectations have been created among those who will be affected by the actions.

RELATED-PARTY TRANSACTIONS

The Group's transactions with related parties primarily pertain to purchasing from associated companies. All transactions are priced in accordance with market terms and prices; refer to Note 2 for further information. In addition, compensation is paid to the Board of Directors and senior executives; refer to Note 3.

IMPORTANT ASSESSMENTS AND ASSUMPTIONS

The Board of Directors makes accounting estimates and assumptions that affect the application of the accounting policies and the recognised figures for assets, liabilities, revenues and expenses. These estimates are based on historical experience and on various assumptions considered reasonable under the prevailing conditions. The actual outcome could deviate from these accounting estimates. The areas including such assessments and assumptions and that could have a material impact on consolidated profit and the Group's financial position include assessments of the present value of forecast cash flows when testing possible goodwill impairment and calculations of deferred tax assets and liabilities.

ACCOUNTING POLICIES IN THE PARENT COMPANY

The Parent Company applies the same accounting policies as the Group with the following exceptions:

- The Parent Company apply IAS 39, however hedge accounting applies in accordance with RFR2, in terms of loans in foreign currencies intended to effectively hedge assets in subsidiaries denominated in corresponding currencies. Accordingly, exchange-rate differences are not recognised pertaining to these loans.
- In the Parent Company, in accordance with RFR 2, Group contributions received are recognised as financial income, in accordance with the main rule.
- In the Parent Company, shares in Group companies are recognised at acquisition value before any impairment losses.

Notes of the Group

NOTE 1 SEGMENT REPORTING

Information about operating segments

The Group's operations are reported in two business areas: HEXPOL Compounding and HEXPOL Engineered Products.

HEXPOL Compounding manufactures advanced polymer compounds. HEXPOL Engineered Products manufactures gaskets for plate heat exchangers, forklift wheels and castor wheel applications.

Assets and liabilities included in each business area pertain to operating assets, such as accounts receivable, inventories, other receivables, tangible and intangible fixed assets, as well as accrued income and operating liabilities, such as accounts payable, other liabilities, other provisions and accrued expenses. Unallocated assets and liabilities relates to cash and cash equivalents, taxes and loans and are not reported by business area. No individual customer accounts for more than 10 percent of the Group's sales.

MSEK	HEXPOL Compounding		HEXPOL Engineered Products		Group	
	2015	2014	2015	2014	2015	2014
Sales, external	10,402	8,198	827	721	11,229	8,919
Operating profit	1,859	1,364	105	92	1,964	1,456
Operating margin, %	17.9	16.6	12.7	12.8	17.5	16.3
Net financial items					-21	-20
Tax					-550	-388
Profit for the year					1,393	1,048
Operating assets	7,175	5,918	445	444	7,620	6,362
Unallocated assets	-	-	-	-	1,103	922
Group Total	7,175	5,918	445	444	8,723	7,284
Operating liabilities	1,462	1,279	98	98	1,560	1,377
Unallocated liabilities	-	-	-	-	930	858
Group Total	1,462	1,279	98	98	2,490	2,235
Investments	139	101	20	28	159	129
Depreciation/ amortisation	183	125	26	25	209	150

Geographic markets MSEK	Sales per recipient country		Fixed assets	
	2015	2014	2015	2014
Sweden	342	303	309	318
Europe excluding Sweden	2,794	2,428	1,326	1,196
NAFTA	7,538	5,677	3,864	2,937
Asia	555	511	369	381
Total	11,229	8,919	5,868	4,832

NOTE 2 RELATED-PARTY TRANSACTIONS

Transactions between Group companies occur on market-based conditions.

In 2015, the Group purchased energy for 10 MSEK (11) from the associated company, Megufo AB, in Sweden. On December 31, 2015, the Group had a liability of 1 MSEK (1) to this associated company.

During 2015, the President and CEO and his wife acquired a residential property from HEXPOL AB for 24 MSEK. The property was sold at a market price based on independent market valuations.

NOTE 3 EMPLOYEES AND PERSONNEL COSTS

Costs for remuneration of employees MSEK		2015	2014
Salaries and remuneration, etc.		1,200	882
Total		1,200	882
To the Board and Presidents, of which bonus and similar items		112	87
		43	33
Pension costs		23	17
Social-security costs		162	126
Total		185	143

Average number of employees	2015	of whom men	2014	of whom men
Sweden	316	63%	310	63%
Belgium	63	81%	65	83%
Czech Republic	117	93%	102	94%
Germany	197	91%	183	91%
Mexico	254	90%	218	87%
Luxembourg	3	67%	3	67%
USA	1,421	88%	1,173	89%
China	287	67%	293	62%
Sri Lanka	1,010	96%	1,034	95%
UK	103	84%	97	85%
Spain	87	93%	15	93%
Total	3,858	87%	3,493	86%

Personnel costs per country MSEK		2015	2014
Sweden		230	220
Belgium		41	42
Czech Republic		23	20
Germany		96	79
Mexico		30	29
Luxembourg		18	11
USA		783	517
China		39	32
Sri Lanka		42	33
UK		43	37
Spain		40	5
Total		1,385	1,025

Remuneration of the Board of Directors		Board fee		Committee fee		Total	
TSEK		2015	2014	2015	2014	2015	2014
	Melker Schörling, chairman	600	575	75	75	675	650
	Alf Göransson	300	285			300	285
	Jan-Anders E. Månson	300	285			300	285
	Malin Persson	300	285	100	100	400	385
	Mårta Schörling	300	285			300	285
	Ulrik Svensson	300	285	250	250	550	535
Total		2,100	2,000	425	425	2,525	2,425

Remuneration of senior executives

TSEK	Basic salary		Variable salary		Pension costs		Car, housing and other benefits		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Georg Brunstam, President and CEO	8,479	7,700	9,174	6,664	3,392	3,024	722	1,275	21,767	18,663
Other members of Group management, 5,5 (6) persons	18,555	16,708	20,705	12,614	1,388	2,049	792	860	41,440	32,231
Total	27,034	24,408	29,879	19,278	4,780	5,073	1,514	2,135	63,207	50,894

Principles for remuneration of the Board of Directors and senior executives

Remuneration is paid to the Board of Directors in accordance with resolutions from the Annual General Meeting

The Remuneration Committee submits proposals to the Board of Directors for remuneration of the President and other senior executives.

Remuneration of the President and other senior executives comprises basic salary, variable remuneration, other benefits and pension. The variable remuneration is based on earnings, earnings per share and the return on capital employed. Between the company and President, the President is entitled to employment termination notice of six months. If employment termination is initiated by the company, the period of notice is 24 months.

For other senior executives, the period of notice is six months and from the company the norm is 12 months. There are no agreements concerning severance pay and there are no outstanding pension obligations.

NOTE 4 FEES AND COST REMUNERATION PAID TO AUDITORS

MSEK	2015	2014
EY		
Audit assignment	5	4
Audit activities in addition to audit assignment	1	1
Tax consultancy	1	1
Other services	0	0
Total	7	6

NOTE 5 BREAKDOWN OF EXPENSES BY NATURE

MSEK	2015	2014
Employee benefits expenses	-1,385	-1,025
Depreciation/amortisation/impairment	-209	-166
Input costs and other external expenses	-7,687	-6,305
Other operating income	21	62
Other operating expenses	-5	-29
Total	-9,265	-7,463

No development expenditures were capitalised during 2015.

NOTE 6 FINANCIAL INCOME AND EXPENSES

MSEK	2015	2014
Interest income	2	2
Exchange rate gains	13	7
Other financial income	0	0
Financial income	15	9
Interest expenses	-18	-20
Exchange rate loss	-14	-4
Other financial expenses	-4	-5
Financial expense	-36	-29
Net financial expense	-21	-20

NOTE 7 TAXES

MSEK	2015	2014
Current tax expense		
Tax expense on profit for the year	-533	-347
Total	-533	-347
Deferred tax expense		
Deferred tax pertaining to temporary differences	-17	-38
Utilised/revaluation of loss carry forwards	0	-3
Total	-17	-41
Total recognised tax expense	-550	-388

At December 31, 2015, the Group had loss carryforwards of 58 MSEK (76) that had not been capitalised due to uncertainty concerning their value for tax purposes. Of the total, 47 MSEK (61) expires within five years.

Reconciliation of effective tax MSEK	2015		2014	
		%		%
Profit before tax	1,943		1,436	
Tax according to applicable tax rate for the Parent Company	-428	-22	-316	-22
Effect of other tax rates for foreign subsidiaries	-130	-6	-70	-5
Non-deductible expenses	-9	0	-2	0
Non-taxable income	4	0	3	0
Deductible goodwill amortisation	8	0	6	0
Revaluation of tax-loss carryforwards/temporary differences	7	0	-9	-1
Tax attributable to prior years	-2	0	0	0
Total reported tax expense	-550	-28	-388	-27

Deferred tax assets/liabilities

MSEK	Opening balance		Recognised in profit/loss		Acquisitions		Recognised directly in comprehensive income		Translation differences		Closing balance	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Intangible assets	-138	-90	-23	-26	-52	-	-	-	-9	-22	-222	-138
Tangible assets	-103	-92	-5	-3	-	-	-	-	-6	-8	-114	-103
Current assets	6	17	7	-10	-	-	-	-	1	-1	14	6
Operating liabilities	9	6	4	1	-	-	-	-	0	2	13	9
Loss carryforwards	0	3	0	-3	-	-	-	-	0	0	0	0
Liabilities	26	-5	0	0	-	-	5	32	0	-1	31	26
Total	-200	-161	-17	-41	-52	-	5	32	-14	-30	-278	-200

NOTE 8 INTANGIBLE FIXED ASSETS

Accumulated acquisition value MSEK	Goodwill		Other intangible assets		Total	
	2015	2014	2015	2014	2015	2014
Opening balance, January 1	3,253	2,633	194	159	3,447	2,792
Acquisitions	526	213	137	6	663	219
Investments	-	-	3	2	3	2
Translation difference	130	407	10	27	140	434
Closing balance, December 31	3,909	3,253	344	194	4,253	3,447
Accumulated amortisation						
Opening balance, January 1	-11	-11	-72	-51	-83	-62
Acquisitions	-	-	-	-1	-	-1
Amortisation according to plan for the year	-	-	-17	-11	-17	-11
Translation difference	-	-	-2	-9	-2	-9
Closing balance, December 31	-11	-11	-91	-72	-102	-83
Carrying amount, December 31	3,898	3,242	253	122	4,151	3,364

Other intangible assets pertain to mainly acquired customer relations and remaining amortisation period is between 10 and 14 years.

Goodwill distributed by operating segment MSEK		
	2015	2014
HEXPOL Compounding	3,870	3,215
HEXPOL Engineered Products	28	27
Closing balance, December 31	3,898	3,242

Goodwill and other assets are impairment tested annually or more frequently if there is an indication of a value decline. Such testing is based on the Group's cash generating units, which are the Group's two business areas. The recoverable value is the higher of the asset's net realisable value and the value in use, meaning the discounted present value of future cash flows.

When calculating the present value of future cash flows, a cost of capital (WACC) of 10.0 percent before tax (10.5) has been used for both operating segments, since the risk profile is considered to be similar. In the calculation of WACC, the fact that the operations are financed by means of loans and shareholders' equity has been taken into account. The cost of shareholders' equity is based on expectations regarding a certain return on invested capital in the financial market. The cost of borrowed capital is based on borrowing costs in the financial market. Specific risks are included in the calculation by applying individual beta values and these are updated annually based on available market data. The calculation is based on the three-year strategic plan, approved by the Board of Directors, followed by assumed annual growth of 2 percent (2). The most important assessment involves sales growth and development of operating margin, and are based on experience and current information on market development. According to the calculations, there is no impairment requirement. A sensitivity analysis shows that a 50-percent decrease in sustainable growth, an increase in WACC by 2 percentage points and a decline in sustainable profitability (operating profit before depreciation, amortisation and impairment) by 2 percentage points would still not result in the need for impairment in any operating segment.

NOTE 9 TANGIBLE FIXED ASSETS AND OPERATIONAL LEASING

Operational leasing			Tangible fixed assets MSEK						
Non-cancellable leasing payments amount to			Land and buildings		Machinery and equipment		Total		
MSEK	2015	2014	Accumulated acquisition value	2015	2014	2015	2014	2015	2014
Within one year	41	31	Opening balance, January 1	754	644	2,619	2,020	3,373	2,664
Between one and five years	69	50	Investments	18	12	138	115	156	127
Longer than five years	23	15	Acquisitions	190	22	489	216	679	238
Total	133	96	Divestments, disposals	-25	-7	-21	-37	-46	-44
Leasing expenses			Reclassification	9	0	-9	0	0	0
MSEK	2015	2014	Translation difference	12	83	67	305	79	388
Minimum leasing fees	51	33	Closing balance, December 31	958	754	3,283	2,619	4,241	3,373
Total	51	33	Accumulated depreciation value						
The Group's operational leasing agreement primarily includes facilities, cars, forklifts and office equipment.			Opening balance, January 1	-256	-210	-1,674	-1,268	-1,930	-1,478
Distribution of depreciation/amortisation of tangible and intangible assets for the year			Acquisitions	-67	0	-366	-138	-433	-138
MSEK	2015	2014	Depreciation according to plan for the year	-32	-24	-161	-115	-193	-139
Costs of goods sold	196	140	Divestments, disposals	3	2	4	31	7	33
Selling costs	1	0	Translation difference	-2	-24	-29	-184	-31	-208
Administration costs	10	8	Closing balance, December 31	-354	-256	-2,226	-1,674	-2,580	-1,930
Product development costs	2	2	Accumulated impairment						
Other	0	16	Opening balance, January 1	-4	0	-12	0	-16	0
Total	209	166	Impairment	-	-4	-	-12	-	-16
			Reversed impairment	-	-	1	-	1	-
			Translation difference	0	0	0	0	0	0
			Closing balance, December 31	-4	-4	-11	-12	-15	-16
			Carrying amount, December 31	600	494	1,046	933	1,646	1,427

The Group's operational leasing agreement primarily includes facilities, cars, forklifts and office equipment.

NOTE 10 INVENTORIES

MSEK	2015	2014
Raw materials	468	372
Goods in production	36	29
Finished goods	198	179
Total	702	580

No significant impairments have been made during the year.

NOTE 11 ACCOUNTS RECEIVABLE

Age distribution of accounts receivable		
MSEK	2015	2014
Not due	894	885
Past due, 1-30 days	135	49
Past due, 31-60 days	12	11
Past due, more than 60 days	4	0
Accounts receivable	1,045	945

Provisions for bad debt losses		
MSEK	2015	2014
Opening balance	-53	-52
Provision for the year	-1	-2
Acquisitions	6	0
Actual losses	1	1
Reversal	11	0
Translation difference	-2	0
Closing balance	-38	-53

NOTE 12 SHAREHOLDERS' EQUITY

Changes in the number of shares	Class A shares		Class B shares		Total	
	2015	2014	2015	2014	2015	2014
Opening balance, January 1	1,476,562	1,476,562	32,943,566	32,943,566	34,420,128	34,420,128
Share split 10:1	13,289,058	-	296,492,094	-	309,781,152	-
Closing balance, December 31	14,765,620	1,476,562	329,435,660	32,943,566	344,201,280	34,420,128

	2015*	2014
Average number of shares	344,201,280	34,420,128

*Adjusted for share split 10:1 May 2015

	Class A shares	Class B shares	Total
Number of votes	147,656,200	329,435,660	477,091,860

Each Class A share entitles the holder to ten votes and each Class B share to one vote.

The Groups financial targets in respect to shareholders' equity is that the equity/asset ratio is to exceed 30 percent. The equity/asset ratio amounted to 72 percent in December 31.

NOTE 13 INTEREST-BEARING LIABILITIES

Non-current liabilities		
MSEK	2015	2014
Liabilities to credit institutions	492	219
Non-current liabilities	492	219

Current liabilities		
MSEK	2015	2014
Liabilities to credit institutions	32	348
Current liabilities	32	348

Loans	2015		2014	
	Utilised	Unutilised	Utilised	Unutilised
MSEK				
Bilateral loan, 750 MSEK	-	-	219	531
Bilateral loan, 125 MUSD	-	1,044	-	976
Bilateral loan, 1,500 MSEK	492	1,008	-	-
Total non-current liabilities	492		219	
Bilateral loan, 100 MUSD	-	-	312	469
Other	32	0	36	0
Total current liabilities	32		348	

The Group has the following major credit agreements with Nordic banks:

- A five-year credit agreement with a limit of 125 MUSD that will fall due in February 2020.
- A three-year credit agreement with a limit of 1,500 MSEK that will fall due in August 2018. The loan is raised in SEK and USD.

The five-year credit agreement with a limit of 125 MUSD was extended to fall due in February 2020.

The five-year credit agreement with a limit of 100 MUSD that fell due in October 2015 and the three-year credit agreement with a limit of 750 MSEK that fell due in February 2016 were replaced with a three-year credit agreement with a limit of 1,500 MSEK that will fall due in August 2018.

All loans are amortisation free and carry floating interest at three-month period.

All bilateral credit agreements include financial covenants, all of which were fulfilled at December 31, 2015.

HEXPOL had no interest-bearing or currency derivatives at December 31, 2015, involving external borrowing.

NOTE 14 PENSION PROVISIONS

MSEK	2015	2014
Provisions for pensions	19	20
Total	19	20

Change in provisions		
MSEK	2015	2014
Opening balance, January 1	20	17
Provisions for the year	-1	3
Closing balance, December 31	19	20

The Group has pension provisions in a Swedish subsidiary and in subsidiaries in Sri Lanka.

NOTE 15 OTHER PROVISIONS

MSEK	2015	2014
Opening balance	29	0
Provisions for the year	2	27
Utilised during the year	-18	0
Translation difference	0	2
Closing balance	13	29

Other provisions relate to, among others, integration and restructuring costs related to the acquisition of Vigar including costs for the closure of the German factory in Viersen.

NOTE 16 ACCRUED EXPENSES AND DEFERRED INCOME

MSEK	2015	2014
Personnel-related expenses	218	205
Accrued expenses for goods and services	31	20
Other	63	77
Total	312	302

NOTE 17 PLEDGED ASSETS AND CONTINGENT LIABILITIES

Pledged assets MSEK	2015	2014
Fixed assets	0	0
Current assets	2	5
Total	2	5
Contingent liabilities		
Guarantee for the benefit of associated companies	0	0
Total	0	0

NOTE 18 CASH FLOW STATEMENT

Financial items received and paid

MSEK	2015	2014
Financial income received	15	9
Financial expenses paid	-43	-30

Adjustments for non-cash items

MSEK	2015	2014
Depreciation/amortisation/impairment	209	166
Total	209	166

NOTE 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments per category and measurement level

December 31, 2015		Financial assets measured at fair value through profit or loss		
MSEK	Loans and accounts receivable	Carrying value	Measurement level	Total
Assets in the balance sheet				
Derivative instruments	-	0	2	0
Non-current financial assets	0	-		0
Accounts receivable	1,045	-		1,045
Cash and cash equivalents	978	-		978
Total	2,023	0		2,023

		Financial liabilities measured at fair value through profit or loss		
MSEK	Other financial liabilities	Carrying value	Measurement level	Total
Liabilities in the balance sheet				
Derivative instruments	-	3	2	3
Interest-bearing non-current liabilities	492	-		492
Interest-bearing current liabilities	32	-		32
Accounts payable	1,210	-		1,210
Total	1,734	3		1,737

December 31, 2014		Financial assets measured at fair value through profit or loss		
MSEK	Loans and accounts receivable	Carrying value	Measurement level	Total
Assets in the balance sheet				
Derivative instruments	-	0	2	0
Non-current financial assets	1	-		1
Accounts receivable	945	-		945
Cash and cash equivalents	826	-		826
Total	1,772	0		1,772

		Financial liabilities measured at fair value through profit or loss		
MSEK	Other financial liabilities	Carrying value	Measurement level	Total
Liabilities in the balance sheet				
Derivative instruments	-	0	2	0
Interest-bearing non-current liabilities	219	-		219
Interest-bearing current liabilities	348	-		348
Accounts payable	1,017	-		1,017
Total	1,584	0		1,584

Fair value is consistent in all material respects with the carrying value in the balance sheet.

Derivative instruments outstanding for managing currency risks is related to financial assets and liabilities.

The Parent Company's applies hedge accounting with forward exchange contracts to protect exposure of intra-Group loans and receivables in foreign currencies. The revaluation is recognised in the income statement. All forward contracts fall due within one year and are measured at level 2 in the fair value hierarchy.

Forward contracts outstanding, December 31		2015		2014	
MSEK		Nominal value		Nominal value	
Currency forward contracts		144		85	
Currency distribution		Nominal value	Average hedging rate	Nominal value	Average hedging rate
CZK/SEK		144	0.34	85	0.35
Sell forward contracts outstanding, December 31		2015		2014	
MSEK		Nominal value		Nominal value	
Currency forward contracts		89		94	
Currency distribution		Nominal value	Average hedging rate	Nominal value	Average hedging rate
GBP/SEK		89	12.35	94	12.12

Financial liabilities, December 31, 2015	Total amount		Fall due within 1 year		Fall due within 1-2 years		Fall due within 2-5 years	
	2015	2014	2015	2014	2015	2014	2015	2014
Non-current liabilities								
Liabilities to banks and credit institutions	492	219	-	-	-	219	492	-
Total non-current liabilities	492	219	-	-	-	219	492	-
Current liabilities								
Liabilities to banks and credit institutions	32	348	32	348	-	-	-	-
Accounts payable	1,210	1,017	1,210	1,017	-	-	-	-
Accrued expenses	312	302	312	302	-	-	-	-
Other current liabilities	25	28	25	28	-	-	-	-
Total current liabilities	1,579	1,695	1,579	1,695	-	-	-	-

NOTE 20 QUARTERLY DATA

MSEK	2015					2014			
	Q4	Q3	Q2	Q1		Q3	Q2	Q1	
Sales	2,596	2,772	2,910	2,951	2,331	2,312	2,145	2,131	
Operating profit	456	505	508	495	344	388	360	364	
Profit after tax	326	358	357	352	248	280	258	262	

NOTE 21 ACQUISITIONS

Acquisitions during 2015

Acquisition within TP Compounding

In January 2015, the HEXPOL Group acquired 100% of RheTech Group. RheTech has more than 50 years' experience of polymercompounding and is a leading provider of polyolefin compounding and dyes and additives on the North American market.

The acquisition price for the RheTech Group amounted to 112 MUSD on a cash and debt free basis. The business was consolidated as of January 2015. The sales during 2015 amounted to 114 MUSD.

Acquisition of European consulting companies

At the end of the year, two smaller consulting companies within rubber technology with excellence within rubber compounding, were acquired. The acquisition price amounted to 6 MEUR. The purchase price allocation is preliminary since the acquisition took place at the end of the 2015.

Transaction cost for the above acquisitions amounted to 3 MSEK and has been taken as a cost in the income statement.

Below are details of net assets acquired and goodwill for the above acquisitions:

MSEK

Purchase consideration	1,008
Fair value of acquired net assets	474
Goodwill	534

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition generates synergy effects in the short and medium-terms, in the areas of purchasing, product development, sales and administration. The fair value of the acquired net assets includes 137 MSEK for the estimated value of acquired intangible assets. The following assets and liabilities were included as follows:

MSEK

Cash and cash equivalents	29
Accounts receivable	123
Current assets	154
Tangible assets	194
Intangible assets	137
Deferred tax assets	4
Current liabilities	-111
Financial liabilities	0
Deferred tax liabilities	-56
Acquired net assets	474
Goodwill	534
Purchase consideration	1,008
Cash and cash equivalents in acquired operations	29
Change in the Group's cash and cash equivalents	979

Acquisition of Vigar Group 2014

In November 2014, the HEXPOL Group acquired the business of Vigar Rubber Compounding. The company has more than 50 years' experience of rubber compounding and is today a well-known rubber compounder in the Spanish and German markets.

The acquisition price amounted to 17.3 MEUR on a cash and debt free basis, of which 11.9 MEUR at the acquisition date and the remaining 5.4 MEUR when the property in Spain was acquired in May 2015. The business was consolidated as of November 2014. The acquired net assets and goodwill are presented below.

MSEK

Purchase considerations	160
Fair value of acquired net assets	130

Goodwill	30
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Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition generates synergy effects in the short and medium-terms in the areas of purchasing, product development, sales and administration. The fair value of the acquired net assets includes 5 MSEK for the estimated value of acquired customer relations.

The following assets and liabilities were included in the acquisition:

MSEK

Accounts receivable	0
Current assets	42
Tangible assets	89
Intangible assets	5
Current liabilities	-6
Acquired net assets	130

Goodwill	30
Purchase considerations	160

Cash and cash equivalents in acquired operations	0
Change in the Group's cash and cash equivalents	160

Acquisition of Portage Precision Polymers 2014

In December 2014, the HEXPOL Group acquired the business in Portage Precision Polymers. The company is today a well-known producer of rubber compounds in the US markets.

The acquisition price amounted to 13.2 MUSD on a cash and debt free basis of which 11.2 MUSD was paid at the time of the acquisition. During 2015 0.6 MUSD has been paid as adjusted purchase consideration and 1.4 MUSD as contingent consideration. Transaction costs amounted to 1 MSEK. The business was consolidated from December 2014.

The acquired net assets and goodwill are presented below:

MSEK

Purchase considerations	98
Fair value of acquired net assets	28

Goodwill	70
-----------------	-----------

Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition generates synergy effects in the short and medium-terms in the areas of purchasing, product development, sales and administration.

The following assets and liabilities were included in the acquisition:

MSEK

Accounts receivable	25
Current assets	11
Tangible assets	4
Current liabilities	-12
Acquired net assets	28

Goodwill	70
Purchase considerations	98

Cash and cash equivalents in acquired operations	0
Change in the Group's cash and cash equivalents	98

Acquisition of Kardoes Rubber 2014

In August 2014, the HEXPOL Group acquired the business in Kardoes Rubber Co. Frank Kardoes founded Kardoes Rubber in 1988 and the company is today a well-known producer of rubber compounds in the US markets.

The acquisition price amounted to 31.8 MUSD on a cash and debt free basis. The business was consolidated as of August 2014.

The acquired net assets and goodwill are presented below.

MSEK

Purchase consideration	217
Fair value of acquired net assets	111

Goodwill	106
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Goodwill is attributable to the strategic importance of the acquisition in terms of the increased breadth it adds to the HEXPOL Group's existing product offering. The acquisition generates synergy effects in the short and medium-terms in the areas of purchasing, product development, sales and administration.

The following assets and liabilities were included in the acquisition:

MSEK

Accounts receivable	30
Current assets	37
Tangible assets	58
Current liabilities	-14
Financial liabilities	0
Acquired net assets	111

Goodwill	106
Purchase consideration	217

Cash and cash equivalents in acquired operations	0
Change in the Group's cash and cash equivalents	217

Parent Company

PARENT COMPANY'S INCOME STATEMENTS

MSEK	Note	2015	2014
Sales	22	46	35
Administration costs		-63	-59
Operating profit	23, 24	-17	-24
Financial income	25	452	354
Financial expenses	25	-69	-51
Profit after financial items		366	279
Appropriations		0	0
Profit before tax		366	279
Tax	26	-3	1
Profit after tax		363	280

Comprehensive income matches profit after tax.

PARENT COMPANY'S BALANCE SHEETS

MSEK	Note	2015	2014
ASSETS			
Fixed assets			
Tangible fixed assets	27	0	23
Interest-bearing intra-Group receivables		671	644
Financial fixed assets	31	4,322	4,322
Deferred tax assets		1	1
Total fixed assets		4,994	4,990
Current assets			
Intra-Group operating receivables		51	48
Interest-bearing intra-Group receivables		1,385	728
Prepaid expenses and accrued income		9	5
Cash and cash equivalents		680	580
Total current assets		2,125	1,361
TOTAL ASSETS		7,119	6,351
SHAREHOLDERS' EQUITY AND LIABILITIES			
Restricted shareholders' equity			
Share capital		69	69
Total restricted shareholders' equity		69	69
Non-restricted shareholders' equity			
Share premium reserve		598	598
Accumulated earnings		2,129	2,262
Profit after tax		363	280
Total non-restricted shareholders' equity		3,090	3,140
Total shareholders' equity		3,159	3,209
Non-current liabilities			
Liabilities to credit institutions	29	434	219
Total non-current liabilities		434	219
Current liabilities			
Accounts payable		1	1
Current tax liabilities		3	0
Interest-bearing intra-Group liabilities		3,476	2,615
Interest-bearing liabilities to credit institutions	29	0	267
Accrued expenses and prepaid revenues	28	46	40
Total current liabilities		3,526	2,923
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		7,119	6,351
Pledged assets	31	114	146
Contingent liabilities		-	-

CHANGES IN THE PARENT COMPANY'S SHAREHOLDERS' EQUITY

MSEK	Share capital	Share premium reserve	Accumulated earnings	Total shareholders' equity
December 31, 2013	69	598	2,572	3,239
2014				
Total comprehensive income				
Profit after tax	-	-	280	280
Transaction with shareholders				
Dividend	-	-	-310	-310
December 31, 2014	69	598	2,542	3,209
2015				
Total comprehensive income				
Profit after tax	-	-	363	363
Transactions with shareholders				
Dividend	-	-	-413	-413
December 31, 2015	69	598	2,492	3,159

PARENT COMPANY'S CASH FLOW STATEMENTS

MSEK	2015	2014
Cash flow from operations		
Operating profit	-17	-24
Adjustment for non-cash items, depreciations	1	1
Financial income received	43	26
Financial expenses paid	-68	-51
Tax paid	0	-6
Cash flow from operations before changes in working capital	-41	-54
Cash flow from changes in working capital		
Changes in current receivables	-4	5
Changes in current liabilities	6	11
Cash flow from operations	-39	-38
Investing operations		
Sales of tangible fixed assets	22	0
Dividends from subsidiaries	359	282
Shareholders' contribution	0	-14
Group contributions received	50	46
Cash flow from investing activities	431	314
Financing operations		
Change in interest-bearing receivables	-687	-176
Change in interest-bearing liabilities	808	427
Dividend	-413	-310
Cash flow from financing operations	-292	-59
Cash flow for the year	100	217
Cash and cash equivalents, January 1	580	363
Cash and cash equivalents, December 31	680	580

Notes of the Parent Company

NOTE 22

Of the Parent Company's net sales, 100 percent pertains to sales to other Group companies and of the Parent Company's purchases, no part pertains to purchases from other Group companies.

NOTE 23 EMPLOYEES AND PERSONNEL EXPENSES

Average number of employees	2015	2014
Women	3	2
Men	2	3
Total	5	5

Salaries, other remunerations and social-security costs MSEK	2015	2014
Board of Directors	3	2
CEO	18	18
Other employees	8	6
Social security costs, pension costs and payroll tax	14	14
Total	43	40

NOTE 24 FEES AND EXPENSE REIMBURSEMENT TO AUDITORS

TSEK	2015	2014
EY		
Audit assignment	746	646
Tax consultancy	0	220
Other services	100	297
Total	846	1,163

NOTE 27 TANGIBLE FIXED ASSETS

Accumulated acquisition value MSEK	Land and buildings		Machinery and equipment		Total	
	2015	2014	2015	2014	2015	2014
Opening balance, January 1	25	25	0	2	25	27
Divestments, disposals	-25	-	0	-2	-25	-2
Closing balance, December 31	0	25	0	0	0	25

Accumulated depreciations MSEK	Land and buildings		Machinery and equipment		Total	
	2015	2014	2015	2014	2015	2014
Opening balance, January 1	-2	-1	0	-2	-2	-3
Depreciations for the year	-1	-1	0	0	-1	-1
Divestments, disposals	3	-	0	2	3	2
Closing balance, December 31	0	-2	0	0	0	-2
Carrying amount, December 31	0	23	0	0	0	23

NOTE 28 ACCRUED EXPENSES AND DEFERRED INCOME

MSEK	2015	2014
Personnel-related expenses	41	35
Other	5	5
Total	46	40

NOTE 25 FINANCIAL INCOME AND EXPENSES

MSEK	2015	2014
Dividend	359	282
Group contributions	50	46
Interest income	0	1
Interest income from Group receivables	43	25
Exchange-rate gains	0	0
Other financial income	0	0
Financial income	452	354
Interest expense	-16	-17
Interest expense from Group liabilities	-5	-4
Exchange-rate loss	-45	-28
Other financial expense	-3	-2
Financial expenses	-69	-51

NOTE 26 TAXES

MSEK	2015	2014
Current tax expense		
Tax expense for the year	-3	0
Deferred tax expense		
Deferred tax pertaining to temporary differences	0	1
Total reported tax expense	-3	1

NOTE 29 INTEREST-BEARING LIABILITIES TO CREDIT INSTITUTIONS

MSEK	2015	2014
Non-current liabilities		
Liabilities to credit institutions	434	219
Non-current liabilities	434	219
Current liabilities		
Liabilities to credit institutions	-	267
Current liabilities	-	267
Bilateral loan 750 MSEK	-	219
Bilateral loan 1,500 MSEK	434	-
Total non-current liabilities	434	219
Bilateral loan 100 MUSD	-	267
Total current liabilities	-	267

The Parent Company applies hedge accounting in accordance with RFR 2 in terms of the loans in foreign currencies that are designed to effectively protect the assets of the subsidiary in the corresponding currencies. Some exchange differences are therefore not recognized in respect of these loans.

NOTE 30 THE PARENT COMPANY'S HOLDINGS OF SHARES AND PARTICIPATIONS IN GROUP COMPANIES

Subsidiaries	Corp. Reg. No.	Registered office	2015		2014	
			Proportion of equity %	Carrying amount, MSEK	Proportion of equity %	Carrying amount, MSEK
Gislaved Gummi AB	556112-2382	Gislaved, Sweden	100	101	100	101
Megufo AB	556421-2453	Gislaved, Sweden	50		50	
Stellana AB	556084-8870	Laxå, Sweden	100	29	100	29
Elastomeric Engineering Co., Ltd. ¹⁾		Sri Lanka	99.6	58	99.6	58
Gislaved Gummi Lanka (Pvt) Ltd.		Sri Lanka	100		100	
Elastomeric Tools & Dies (Pvt) Ltd. ²⁾		Sri Lanka	100		100	
HEXPOL Compounding HQ SA		Belgium	100	469	100	469
HEXPOL Compounding Sprl		Belgium	100		100	
Socofin Sprl-u		Belgium	100		-	
Corvus bvba		Belgium	100		-	
HEXPOL Compounding s.r.o		Czech Republic	100	435	100	435
HEXPOL Compounding (Qingdao) Co., Ltd.		China	100	56	100	56
HEXPOL Compounding S.A de C.V. ⁴⁾		Mexico	100		100	
HEXPOL Services Compounding S.A de C.V. ⁴⁾		Mexico	100		100	
Gislaved Gummi (Qingdao) Co., Ltd.		China	100	33	100	33
Stellana (Qingdao) Co., Ltd.		China	100	7	100	7
Thona Canada BV		The Netherlands	-		100	
HEXPOL Compounding GmbH		Germany	100	70	100	70
Müller Kunststoffe GmbH		Germany	100		100	
HEXPOL Compounding Viersen CoKG		Germany	100		100	
HEXPOL Compounding Viersen Verwaltungs GmbH		Germany	100		-	
Stellana Deutschland GmbH		Germany	100		-	
ELASTO Sweden AB	556191-5777	Åmål, Sweden	100	261	100	261
ELASTO UK Ltd.		Great Britain	100	23	100	23
HEXPOL sàrl		Luxembourg	100	0	100	0
HEXPOL Compounding S.L.U		Spain	100	14	100	14
HEXPOL Holding Inc.		USA	100	231	100	231
Rheteck LLC		USA	100		-	
Rheteck Engineered Plastics LLC		USA	100		-	
Rheteck Thermocolor LLC		USA	100		-	
Robbins Holding Inc.		USA	100		100	
Robbins LLC		USA	100		100	
HEXPOL UK Ltd		Great Britain	100		100	
Stellana U.S. Inc.		USA	100		100	
GoldKey Processing Inc.		USA	100		100	
HEXPOL Compounding NC Inc.		USA	100		100	
HEXPOL Compounding LLC ³⁾		USA	100		100	
HEXPOL Compounding (UK) Ltd		Great Britain	100		100	
Chase Elastomer (UK) Ltd.		Great Britain	100		100	
HEXPOL Compounding Services Queretaro S.A. de C.V. ⁵⁾		Mexico	100		100	
HEXPOL Compounding Queretaro S.A. de C.V. ⁶⁾		Mexico	100		100	
HEXPOL H.K Co., Ltd.		USA	100		100	
HEXPOL Asia LLC		USA	100		100	
HEXPOL Compounding (Foshan) Co., Ltd.		China	100		100	
HEXPOL Finance UK Ltd		Great Britain	100	2,535	100	2,535
Total carrying amount in the Parent Company				4,322		4,322

1) Gislaved Gummi AB owns 200 shares included in this holding. The remaining 0.4% of the shares is owned by external parties.

2) Gislaved Gummi Lanka (Pvt) Ltd. owns 69.6% and Elastomeric Engineering Company Ltd 30.4% of the shares.

3) HEXPOL UK Ltd owns 60% and HEXPOL Holding Inc owns 40% of the shares.

4) HEXPOL AB owns 99% and HEXPOL Compounding HQ Sprl owns 1% of the shares.

5) HEXPOL Compounding LLC owns 99% och HEXPOL Compounding Queretaro S.A. de C.V. owns 1% of the shares.

6) HEXPOL Compounding LLC owns 99% och HEXPOL Compounding Services Queretaro S.A. de C.V. owns 1% of the shares.

Holdings of shares in Group companies
MSEK

	2015	2014
Opening balance	4,322	4,308
Shareholder contributions	-	14
Incorporation of subsidiaries	-	0
Carrying amount	4,322	4,322

NOTE 31 ASSETS PLEDGED

MSEK	2015	2014
Sureties for subsidiaries	114	146
Total	114	146

The undersigned give their assurances that the consolidated financial statements and the Annual Report were prepared in accordance with international accounting standards, IFRS, as adopted by the EU, and generally accepted accounting principles and provide a fair view of the Group's and the Parent Company's position and earnings, and that the Administration Report gives a fair impression of the development of the Group's and the Parent Company's operations, position and earnings, while also describing the material risks and uncertainties facing the companies included in the Group.

Malmö March 14, 2016

Melker Schörling
Chairman of the Board

Alf Göransson
Board Member

Malin Persson
Board Member

Märta Schörling
Board Member

Ulrik Svensson
Board Member

Jan-Anders E. Månson
Board Member

Georg Brunstam
President and CEO

As shown above, the Annual Report and the consolidated financial statements were approved for issue by the Board of Directors on March 14, 2016. The consolidated income statement and balance sheet and the Parent Company's income statement and balance sheet will be presented to the Annual General Meeting on April 29, 2016 for adoption.

Our audit report was submitted on March 14, 2016

ERNST & YOUNG AB

Johan Thuresson
Authorized Public Accountant, Auditor-in-charge

Auditor's report

To the annual meeting of the shareholders of HEXPOL AB (publ), corporate identity number 556108-9631

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of HEXPOL AB (publ) for the year 2015, except for the corporate governance statement on pages 78-83. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 58-103.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the

purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2015 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 78-83. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of HEXPOL AB (publ) for the year 2015. We have also conducted a statutory examination of the corporate governance statement.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. The Board of Directors and the Managing Director are responsible for administration under the Companies Act and that the corporate governance statement on pages 78-83 has been prepared in accordance with the Annual Accounts Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that the audit evidence which we have obtained is sufficient and appropriate in order to provide a basis for our opinions.

Furthermore, we have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have obtained a sufficient basis for our opinion. This means that our statutory examination of the corporate governance statement 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.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year. A corporate governance statement has been prepared, and its statutory content is consistent with the other parts of the annual accounts and the consolidated accounts.

Malmö March 14, 2016
Ernst & Young AB

Johan Thuresson
Authorized Public Accountant

Board of Directors, Auditor and Group Management

The term Holdings refers both to shares held by the person indicated and shares held by related parties, as well as via companies at December 31 2015.

Board of Directors

	Year of birth	Nationality	Elected	Audit committee	Remuneration committee	Independent in relation to the company and management	Independent in relation to major shareholders	Holdings Number of Class A shares	Holdings Number of Class B shares
Melker Schörling Chairman	1947	Swedish	2007	No	Yes	Yes	No	14,765,620	74,533,159
Georg Brunstam President and CEO	1957	Swedish	2007	No	No	No	No	–	1,000,000
Alf Göransson	1957	Swedish	2007	No	No	Yes	No	–	–
Malin Persson	1968	Swedish	2007	Yes	No	Yes	Yes	–	–
Ulrik Svensson	1961	Swedish	2007	Yes	Yes	Yes	No	–	–
Jan-Anders E. Månson	1952	Swedish	2008	No	No	Yes	Yes	–	–
Mårta Schörling	1984	Swedish	2014	No	No	Yes	No	–	–



Melker Schörling

Born in 1947, B.Sc. (Econ.)
Chairman and Member of the Board since 2007.
Chairman of the Remuneration Committee.

Other assignments: Chairman of the Board of Melker Schörling AB (MSAB), Hexagon AB, AAK AB and Securitas AB. Member of the Board of H&M Hennes & Mauritz AB.

HEXPOL shareholding: 14,765,620 Class A shares and 74,533,159 Class B shares, through Melker Schörling AB.

Georg Brunstam

Born in 1957, M.Sc. (Eng.)
President and Chief Executive Officer.
Member of the Board, since 2007.

Other assignments: Member of the Board of Nibe Industrier AB and Beckers Industrial Coatings Holding AB.

HEXPOL shareholding: 1,000,000 Class B shares.



Alf Göransson

Born in 1957, International B.Sc. (Econ.).
Member of the Board since 2007.

Other assignments: Member of the Board and President and CEO of Securitas AB. Member of the Board and Chairman of Loomis AB. Member of the Board of Axel Johnson Inc., USA.

HEXPOL shareholding: –

Malin Persson

Born in 1968, M.Sc. (Eng.)
Member of the Board since 2007.
Member of the Audit Committee.

Other assignments: Member of the Board of Konecranes Plc., Beckers Industrial Coatings Holding AB, Kongsberg Automotive and Mobile Climate Control.

HEXPOL shareholding: –



Ulrik Svensson

Born in 1961, B.Sc. (Econ)
Member of the Board since 2007. Chairman of the Audit Committee and member of the Remuneration Committee.

Other assignments: President of Melker Schörling AB (MSAB). Member of the Board of AAK AB, Loomis AB, Hexagon AB, ASSA ABLOY AB, Absolent Group AB and Flughafen Zürich AG.

HEXPOL shareholding: –



Jan-Anders E. Månson

Born in 1952, M.Sc. (Eng.) and Doctor of Technology.
Member of the Board since 2008.

Other assignments: Professor at École Polytechnique Fédérale de Lausanne. Chairman of the Board of AISTS. Member of the Board of EELCEE Ltd., QEESTAR Co. Ltd and the Royal Swedish Institute of Technology (KTH).

HEXPOL shareholding: –



Märta Schörling

Born in 1984, B.Sc. (Econ.)
Member of the Board since 2014.

Other assignments: Member of the Board of Melker Schörling AB (MSAB) and AAK AB.

HEXPOL shareholding: –



Auditor

Johan Thuresson

Born in 1964. Authorised Public Accountant and member of FAR SRS.

Other audit assignments: Precise Biometrics AB, Glycorex Transplantation AB and AB Tetra Pak.



Group Management

Georg Brunstam

Born in 1957, M.Sc. (Eng.)
President and Chief Executive Officer.
Member of the Board, since 2007.

Other assignments: Member of the Board of Nibe Industrier AB and Beckers Industrial Coatings Holding AB.

HEXPOL shareholding: 1,000,000 Class B shares.



Karin Gunnarsson

Born in 1962, B.Sc. (Econ.)
Chief Financial Officer and Investor Relations Manager, employed in 2008.

Other assignments:
–

HEXPOL shareholding:
123,250 Class B shares.



Jan Wikström

Born in 1972, M.Sc. (Eng.)
President of HEXPOL Wheels and HEXPOL Gaskets, employed in 2009.

Other assignments:
–

HEXPOL shareholding:
800,000 Class B shares.



Tracy Garrison

Born in 1967, Engineer.
President of HEXPOL Compounding NAFTA, employed in 2002.

Other assignments:
–

HEXPOL shareholding:
1,054,500 Class B shares.



Ralph Wolkener

Born 1971, B.Sc. (Econ.)
President of HEXPOL Compounding Europe/Asia and President of HEXPOL TPE Compounding, employed in 1997.

Other assignments:
–

HEXPOL shareholding:
88,500 Class B shares.



Carsten Rüter

Born in 1971, M.Sc. (Eng.)
President of HEXPOL Compounding Europe/Asia, HEXPOL Compounding, Global Purchasing/Technology and President of HEXPOL TPE Compounding, employed in 1997.

Other assignments:
–

HEXPOL shareholding:
100,000 Class B shares.



Shareholder information

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on April 29, 2016, at 3:00 p.m. CET in Malmö, Sweden (Börshuset, Skeppsbron 2). The Annual Report for 2015 will be available on HEXPOL's website and at the head office no later than April 8, 2016 and will be distributed to shareholders no later than the week beginning Monday, April 4. Shareholders who wish to participate in the AGM must be registered in the shareholders' register maintained by Euroclear Sweden AB not later than April 23, 2016, and notify their intention to participate to HEXPOL's head office not later than April 25, 2016. Shareholders whose shares are registered with a trustee must temporarily re-register the shares in their own name not later than April 23 to be entitled to participate in the AGM. Since Saturday April 23, 2016 is a bank holiday, Euroclear Sweden AB will issue the share register for the AGM the immediately preceding business day, Friday April 22, 2016. This means that shareholders who wish to participate in the AGM must be registered in the shareholders' register maintained by Euroclear Sweden AB no later than April 22, 2016. The trustee should therefore be notified in due time before said date.

PROPOSAL FOR DIVIDEND

The Board proposes to the Annual General Meeting on April 29 to approve a dividend of SEK 1.70 (1.20), an increase by 42 percent.

CALENDAR FOR FINANCIAL INFORMATION

HEXPOL AB will publish financial information on the following dates:

Activity	Date
2015 Annual Report, published	April 8, 2016
Interim report January-March 2016	April 29, 2016
Annual General Meeting	April 29, 2016
Half year report January-June 2016	July 20, 2016
Interim report January-September 2016	Oct. 27, 2016
Year-end report 2016	Feb. 2017

Financial information is also available in Swedish and English on HEXPOL AB's website www.hexpol.com.

Shareholders who do not wish to receive printed annual reports, please submit complete information (name, address and civil registration number/corporate registration number) to ir@hexpol.com.

For more information, contact:

- Georg Brunstam,
President and Chief Executive Officer
Tel: +46 70 855 12 51
- Karin Gunnarsson,
Chief Financial Officer, Investor Relations
Tel: +46 70 555 47 32

Eight-year summary

MSEK	2015	2014	2013	2012	2011	2010	2009	2008
INCOME STATEMENTS, condensed								
Sales	11,229	8,919	8,036	8,007	7,197	3,798	2,608	3,190
Operating expenses	-9,265	-7,463	-6,781	-6,938	-6,302	-3,402	-2,445	-2,880
Operating profit	1,964	1,456	1,255	1,069	895	396	163	310
Net financial items	-21	-20	-19	-22	-23	-26	-23	-52
Profit before tax	1,943	1,436	1,236	1,047	872	370	140	258
Tax	-550	-388	-306	-294	-253	-97	-38	-75
Profit after tax	1,393	1,048	930	753	619	273	102	183
BALANCE SHEETS, condensed								
Assets								
Fixed assets	5,868	4,832	3,946	3,971	3,365	3,438	1,977	2,167
Current assets	1,877	1,626	1,335	1,372	1,286	1,155	494	692
Cash and cash equivalents	978	826	597	564	557	318	317	342
Total assets	8,723	7,284	5,878	5,907	5,208	4,911	2,788	3,201
Shareholders' equity and liabilities								
Shareholders' equity	6,233	5,049	3,617	2,909	2,473	1,327	1,217	1,157
Interest-bearing liabilities	524	567	962	1,809	1,698	2,592	1,128	1,535
Other liabilities and provisions	1,966	1,668	1,299	1,189	1,037	992	443	509
Total shareholders' equity and liabilities	8,723	7,284	5,878	5,907	5,208	4,911	2,788	3,201
CASH FLOW STATEMENT								
Cash flow from operating activities	1,760	1,432	1,223	1,115	726	387	359	393
Net investments in tangible and intangible fixed assets	-118	-118	-136	-177	-103	-32	-23	-105
Acquisitions of operations	-1,043	-413	-3	-926	1	-1,827	0	0
Cash flow from financing activities	-479	-777	-1,060	33	-390	1,498	-358	-194
Cash flow for the year	120	124	24	45	234	26	-22	94
Cash and cash equivalents, January 1	826	597	564	557	318	317	342	228
Exchange rate difference in cash flow	32	105	9	-38	5	-25	-3	20
Cash and cash equivalents, December 31	978	826	597	564	557	318	317	342

MSEK	2015	2014	2013	2012	2011	2010	2009	2008
Key figures								
Average shareholders' equity, MSEK	5,641	4,333	3,263	2,691	2,038	1,268	1,187	1,091
Average capital employed, MSEK	6,861	5,116	4,664	4,458	4,057	2,780	2,530	2,562
Return on shareholders' equity, %	24.7	24.2	28.5	28.0	30.4	21.5	8.6	16.8
Return on capital employed, %	28.6	28.5	27.0	24.0	22.3	13.9	6.4	13.2
Net sales growth, %	25.9	11.0	0.4	11.3	89.5	45.6	-18.2	16.8
Operating margin, %	17.5	16.3	15.6	13.4	12.4	10.4	6.3	9.7
Profit margin before tax, %	17.3	16.1	15.4	13.1	12.1	9.7	5.4	8.1
Earnings per share, SEK*, **	4.05	3.05	2.70	2.19	1.87	0.93	0.35	0.62
Net cash, MSEK	454	259	-312	-1,215	-1,096	-2,239	-760	-1,193
Net debt/equity ratio, multiple	0.0	0.0	0.1	0.4	0.4	1.7	0.6	1.0
Equity/assets ratio, %	72	69	62	49	48	27	44	36
Shareholders' equity per share, SEK*, **	18.11	14.67	10.51	8.45	7.19	4.49	4.14	3.94
Dividend, MSEK	413	310	207	172	103	27	-	-
Dividend per share, SEK**	1.20	0.90	0.60	0.50	0.30	0.10	-	-
Operating Cash Flow, MSEK	2,185	1,676	1,418	1,209	911	506	462	411
Cash flow from operating activities, MSEK	1,760	1,432	1,223	1,115	726	387	359	393
Cash flow from operating activities per share, SEK*, **	5.11	4.16	3.55	3.24	2.19	1.32	1.22	1.34
Average number of employees	3,858	3,493	3,411	3,112	3,041	2,133	1,809	2,315
Number of employees at year-end	3,867	3,666	3,433	3,332	3,020	3,037	1,827	2,230
Sales per employee, MSEK	2.91	2.55	2.36	2.57	2.37	1.78	1.44	1.38
Key figures adjusted for items affecting comparability								
Operating profit, MSEK	1,964	1,456	1,255	1,069	895	460	261	310
Operating margin, %	17.5	16.3	15.6	13.4	12.4	12.1	10.0	9.7
Profit before tax, MSEK	1,943	1,436	1,236	1,047	872	434	238	258
Profit after tax, MSEK	1,393	1,048	930	753	619	318	172	183
Earnings per share, SEK*, **	4.05	3.05	2.70	2.19	1.87	1.08	0.59	0.62
Return on shareholders' equity, %	24.7	24.2	28.5	28.0	30.4	25.1	14.5	16.8
Return on capital employed, %	28.6	28.5	27.0	24.0	22.3	16.2	10.3	13.2

* After the implemented rights issue in 2011, the historical share data was adjusted to take into account a bonus issue element.

** Data per share is adjusted for share split 10:1 May 2015

Financial definitions

CAPITAL EMPLOYED Total assets less non-interest-bearing liabilities.

CASH FLOW Cash flow from operating activities after changes in working capital.

CASH FLOW PER SHARE Cash flow from operating activities after changes in working capital divided by the average number of shares.

EARNINGS PER SHARE Profit after tax, attributable to Parent Company shareholders, divided by the average number of shares.

EARNINGS PER SHARE AFTER DILUTION Net profit after tax attributable to Parent Company shareholders divided by average number of shares adjusted for the dilution effect of warrants.

EBIT Operating profit after depreciation, amortisation and impairment.

EBITDA Operating profit before depreciation, amortisation and impairment.

EQUITY/ASSETS RATIO Shareholders' equity as a percentage of total assets.

EQUITY PER SHARE Shareholders' equity attributable to Parent Company shareholders divided by the number of shares at the end of the period.

INTEREST COVERAGE RATIO Profit before tax plus interest expenses divided by interest expenses.

INVESTMENTS Purchases less sales of intangible and tangible fixed assets, excluding those included in acquisitions and divestments of subsidiaries.

NET DEBT/EQUITY RATIO Interest-bearing liabilities less cash and cash equivalents and interest-bearing assets divided by shareholders' equity.

NET INDEBTEDNESS Interest-bearing liabilities less cash and cash equivalents and interest-bearing assets.

OPERATING CASH FLOW Operating profit excluding items affecting comparability less depreciation/amortisation and investments, and after change in working capital.

OPERATING MARGIN Operating profit as a percentage of sales for the year.

PROFIT MARGIN before tax Profit before tax as a percentage of sales for the year.

RETURN ON EQUITY Net profit attributable to Parent Company shareholders as a percentage of average shareholders' equity, excluding minority interests.

RETURN ON CAPITAL employed Profit before tax plus interest expenses as a percentage of average capital employed.

Business definitions

ABS Acrylonitrile butadiene styrene plastic.

CARBON DIOXIDE (CO₂) Carbon dioxide is formed in all processes involving the combustion of carbon-containing material, such as from the combustion of fossil fuels. It is very probable that carbon dioxide increases global warming (the greenhouse effect). Nolato reports carbon dioxide emissions from direct and indirect consumption.

CDP Carbon Disclosure Project, an organization that provides information to global investors and financial institutions about how climate change affects business. The information is gathered by voluntary submissions of greenhouse emission data, actions taken to reduce emissions and the result of the measures.

CLP Regulation on Classification, Labelling and Packaging is EU legislation addressing the danger of chemical substances and mixtures, and the manner in which users should be informed about them. The regulation was introduced for a transitional period that ended in 2015.

CODE OF CONDUCT Guidelines for HEXPOL's employees and suppliers concerning business ethics, environment, health, safety and social responsibility. The Group's code of conduct is called Materializing Our Values.

CONFLICT MINERALS Tantalum, tin, gold and tungsten are known as conflict minerals and they derive from the Democratic Republic of the Congo and neighbouring countries. The term originates from the armed conflicts in the region, where mining operations frequently contribute to conflicts and lead to violations of human rights.

COMPRESSION MOULDING Moulding and vulcanization of the rubber product by means of injection whereby the rubber is forced into a closed mould (injection), alternatively, is placed directly in the cavity in the mould before the mould is closed and the product is thus formed (compression).

CSR Corporate social responsibility.

ENERGY CONSUMPTION HEXPOL reports both its direct energy consumption (use of fuels in its own energy facilities) and its indirect consumption (purchased electricity and district heating).

ENVIRONMENTAL ASPECTS Those features of an organisation's activities, products or services that interact with the environment.

ENVIRONMENT-RELATED COSTS Costs that can be attributed to actions taken to prevent, reduce or rectify the environmental impact of an organisation's operations. The equivalent applies to costs in the health and safety area. The costs include administration, purchases of external services, fees paid to public authorities, maintenance of environmental management systems, the cost of waste and costs for external inspections and audits.

ENVIRONMENT-RELATED INVESTMENTS Investments for preventing and reducing the environmental impact of an organisation's operations. The equivalent applies to investments in improving health and safety.

EVA Ethylene-vinyl acetate is a polymer that approaches elastomeric materials in softness and flexibility that simultaneously can be processed like other thermoplastics.

EXTRUSION Continuous vulcanization whereby a profile is created by having the rubber fed via a screw and pressed through a matrix. Vulcanization occurs directly after the matrix in a continuous process (furnaces with conveyor belt).

FLNG Floating liquefied natural gas (FLNG) refers to water-based liquefied natural gas (LNG).

GLOBAL COMPACT A UN initiative concerning corporate responsibility. The participating organisations undertake to support ten fundamental principles in respect of human rights, labour conditions, environmental considerations and anti-corruption.

GRI Global Reporting Initiative is a set of guidelines for corporate reporting of issues regarding sustainable development.

HCFCs Hydrochlorofluorocarbons, also known as freons, are used as coolants. Substances that deplete the ozone layer.

IBERIA The Iberian Peninsula – Portugal and Spain.

INJECTION MOULDING Injection moulding is a common manufacturing method for various polymer products. The equipment comprises an injection unit and a mould-locking unit, as well as form or tool that is unique for each product. The injection unit is fed with granulated polymer in a funnel that leads down into a heated cylinder. The polymer is propelled by a screw, which also functions as a piston. The form, which is frequently two-part, opens and fills with the melted polymer, which is cooled.

ISO 14001 International standard concerning environmental management systems, which was introduced in 1996. In excess of 300,000 organisations worldwide are currently ISO 14001 certified. An updated version of the standard was introduced during 2015 (ISO 14001:2015).

ISO 26000 International standard that provides guidance concerning how organisations are to address social responsibility matters. The standard was introduced in 2010 and encompasses all aspects of sustainability.

ISO 50001 International standard governing energy management systems.

MIFO The model developed by the Swedish Environmental Protection Agency for the charting and risk classification of polluted land.

NAFTA NAFTA North American Free Trade Agreement is a free-trade agreement between Mexico, Canada and the US. In the text of the annual report, NAFTA refers to the region comprising Mexico, Canada and the US.

OEM Original Equipment Manufacturer is a term for companies that manufacture the end-product to be sold on the open market. The product may consist exclusively of proprietary components or, most commonly, a combination of proprietary components and components purchased from sub-suppliers that are assembled by the OEM company for the end product. Outsourcing means that a company lets another company handle one or more processes.

OHSAS 18001 Standard concerning health and safety at the workplace. It will be replaced by the ISO 45001 standard.

OUTSOURCING means that a company lets another company handle one or more processes.

PA Polyamide, a commonly used thermoplastic.

PAH Polycyclic aromatic hydrocarbons are a group of environmentally health hazardous substances arising from such products as black coal and petroleum. The substances are spread to the environment via combustion.

PCB Polychlorinated biphenyls are a group of industrial chemicals that are hazardous to health and the environment. Use of PCBs was prohibited in Sweden in 1972, but they are still present in the environment due to their long decomposition time.

PE Polyethylene is a thermoplastic resin with high elasticity.

PHE Plate Heat Exchanger.

PP Polypropylene, a low-density, high-tensile thermoplastic made of propylene.

PU Polyurethane, a polymer that is highly resistant to heat and abrasion, and possesses excellent electrical-insulation properties.

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

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

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

SH Shore scale for measuring the hardness of different materials.

SO₂ (sulfur dioxide) Sulfur dioxide is formed when petroleum products are burned. SO₂ contributes to the acidification of lakes, streams and soil. Large concentrations in the environment are harmful to human health.

SUSTAINABLE DEVELOPMENT The concept pertains to a development that "satisfies the needs of today without compromising the ability of future generations to meet their own needs". Sustainable development encompasses ecological, social and financial sustainability.

TIER 1 The tier structure is a traditional description of the relationship between vehicle manufacturers and suppliers. A tier 1 supplier (first-line supplier) develops, manufactures and delivers what are often complex modules directly to the OEM. Tier 1 suppliers in turn purchase from tier 2 suppliers that purchase from tier 3 suppliers and so on.

TP A thermoplastic (TP) is a plastic material, typically a polymer, that becomes pliable or moldable above a specific temperature and solidifies upon cooling.

TPE Thermoplastic elastomers are rubber-like materials that combine the properties of vulcanised rubber with the process benefits of thermoplastics.

TPO Polyolefin blends.

TPS Styrenic block copolymers.

TPU Thermoplastic polyurethanes.

USP Reference Standards used in testing by pharmaceutical and related industries to help ensure the identity, strength, quality, and purity of medicines (drugs, biologics, and excipients), dietary supplements, and food ingredients.

VOC Volatile Organic Compounds A group of organic compounds that easily vaporize at room temperature. The content of the volatile hydrocarbons in the atmosphere has an adverse impact on health and the environment, including formation of ground-level ozone.

WEEE Waste Electrical and Electronic Equipment Directive. EU legislation regarding the management of electronic waste.

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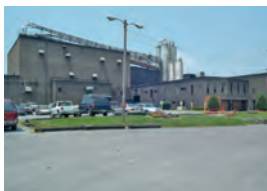
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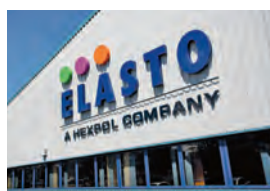
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