

Strong global positions
in advanced polymer
compounds

ANNUAL REPORT
2016

2016 in brief

- Sales amounted to 10,879 MSEK (11,229)
- Operating profit amounted to 1,921 MSEK (1,964)
- Operating margin increased to 17.7 percent (17.5)
- Profit after tax increased to 1,397 MSEK (1,393)
- Earnings per share rose to 4.06 SEK (4.05)
- Operating cash flow amounted to 2,057 MSEK (2,185)
- The Board of Directors proposes a dividend of 4.75 SEK per share, consisting of an ordinary dividend of 1.75 SEK per share (1.70) and a special dividend of 3.00 SEK per share

KEY FIGURES

	2016	2015
Sales, MSEK	10,879	11,229
Operating profit (EBIT), MSEK	1,921	1,964
Operating margin, %	17.7	17.5
Profit before tax, MSEK	1,913	1,943
Profit after tax, MSEK	1,397	1,393
Earnings per share, SEK	4.06	4.05
Equity/assets ratio, %	77	72
Return on capital employed, %	26.8	28.6
Operating cash flow, MSEK	2,057	2,185

Significant events per quarter

Q1 Positive volume development and continued strong result. Operations in acquired RheTech Thermoplastic Compounding continued to develop according to plan.

Q2 Continued strong margins. In the beginning of June, Berwin Group, a well-known leading Rubber Compounder in the UK market, with manufacturing facilities in Manchester, UK and in Gloucestershire, UK, was acquired.

Q3 Positive volume development and continued strong result during the quarter. The integration of acquired Berwin Group in to HEXPOL Compounding's European organisation proceeded according to plan.

Q4 Increased sales and improved result. HEXPOL's best fourth quarter to date. Acquired Berwin Group has been integrated in HEXPOL Compounding's European organisation.

10,879

SALES MSEK (11,229)

1,921 MSEK

OPERATING PROFIT (1,964)

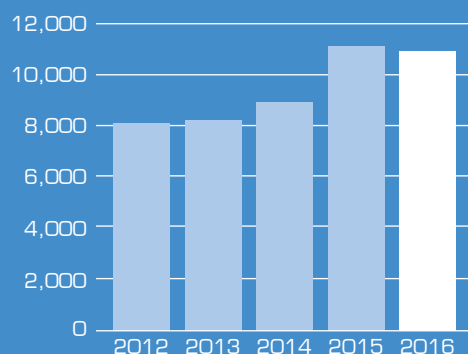
2,057 MSEK

OPERATING CASH FLOW (2,185)

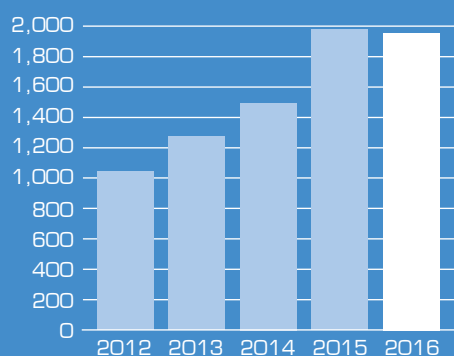
4.06 SEK

EARNINGS PER SHARE (4.05)

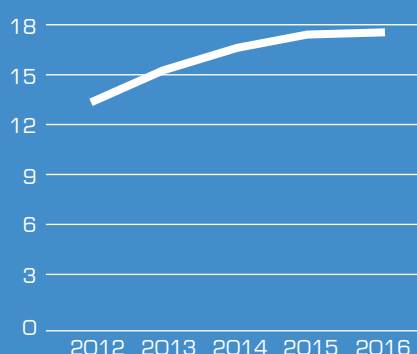
SALES, MSEK



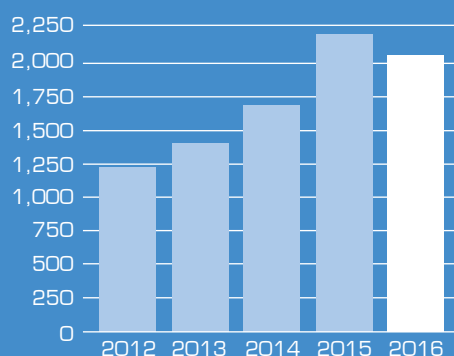
OPERATING PROFIT, MSEK



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
- Strong position within thermoplastic elastomer compounds (TPE) in Europe
- Strong position within reinforced polypropylene compounds in US
- 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 The HEXPOL Compounding business area is one of the world's leading suppliers in the development and manufacturing of high-quality advanced polymer compounds 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.

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 sector. The largest customer segments in TPE compounding are the general industry, consumer and medical technology industries. The largest customer segments in TP compounding are the automotive industry and consumer.

CUSTOMERS The customers consist of manufacturers of polymer products and components who impose rigorous demands on performance and global delivery capacity.

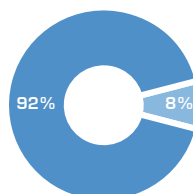
SALES 10,028 MSEK (10,402)

OPERATING PROFIT 1,806 MSEK (1,859)

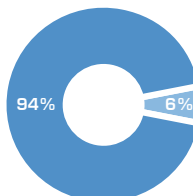
NUMBER OF EMPLOYEES AT DECEMBER 31
2,679 (2,429)

THE BUSINESS AREA'S SHARE OF THE HEXPOL GROUP (2016):

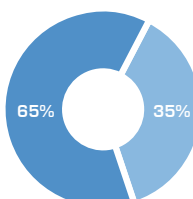
SALES



OPERATING PROFIT



NUMBER OF EMPLOYEES



Business area HEXPOL Engineered Products

OPERATIONS HEXPOL Engineered Products has operations 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. The operations are organised into two product areas, HEXPOL Gaskets and HEXPOL Wheels.

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 a leading supplier of rubber gaskets for plate heat exchangers, and for polyurethane wheels for forklifts. Within these areas, HEXPOL is one of a few major companies with global presence.

CUSTOMERS HEXPOL Engineered Products' customers are usually major 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 cooperations are of major importance for both parties. HEXPOL Engineered Products want to develop and innovate together with their customers to jointly strengthen both competitiveness and profitability for all parties.

SALES 851 MSEK (827)

OPERATING PROFIT 115 MSEK (105)

NUMBER OF EMPLOYEES AT DECEMBER 31
1,456 (1,433)

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.

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 manufacturers 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. At HEXPOL Wheels, the largest customers are in materials handling equipment. 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 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 the business operation. 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 10,879 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 result to date



Georg Brunstam
President and CEO
HEXPOL AB

2016 was another good year for the HEXPOL Group. Our best result to date! We continued to improve our market positions in all of our principal markets and we further improved our earnings. Our strategy of both organic 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 2016 we have successfully integrated three acquired Rubber Compounding operations.

All of the acquired operations are well-known in the market and we have 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 in known areas.

Our recent acquisitions within Rubber Compounding (Berwin Group with production units in Manchester, UK and in Gloucestershire, UK) have been quickly and wisely integrated into our present organisation. With the acquisition of Berwin, we have significantly improved our market position in the UK market.

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. It is therefore gratifying that we in 2016 had a positive development in Europe and in NAFTA. Our development was also

favourable in HEXPOL TPE Compounding, thanks to marketing efforts and capacity expansion.

During 2016, we increased our volumes in our principal markets. However, sales decreased slightly to 10,879 MSEK (11,229) but sales were impacted by substantially lower sales prices due to substantially lower prices for our principal raw materials, compared with the preceding year.

In 2016, we yet again improved our earnings per share, which amounted to SEK 4.06 (4.05). Our constant focus on the efficient management of working capital also generated results in the form of a very strong operating cash flow, 2,057 MSEK, and a healthy return on capital employed of 26.8 percent.

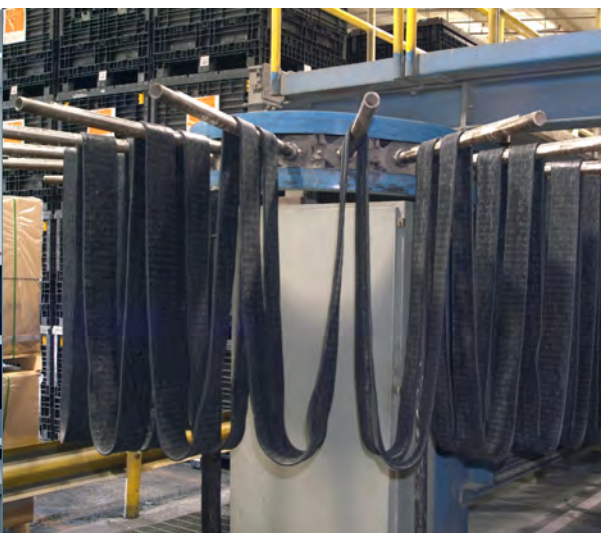
The HEXPOL Group has a strong financial position as a result of its healthy earnings and efficient management of working capital. At year-end, the HEXPOL Group had no net debt but a net cash of entire 1,268 MSEK and the equity/assets ratio was high at 77 percent. All of this provides a solid platform 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 10,879 MSEK in 2016. 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 Berwin Group, summer of 2016, gives us a strong position in the UK market. The acquisition of RheTech, beginning of 2015, gave us a new interesting and exciting platform in specialised Thermoplastic Compounding and during 2016, we have further developed RheTech on this platform.

COMPETENCE DEVELOPMENT AND INTERNAL RECRUITMENT - THE BASE FOR OUR DEVELOPMENT

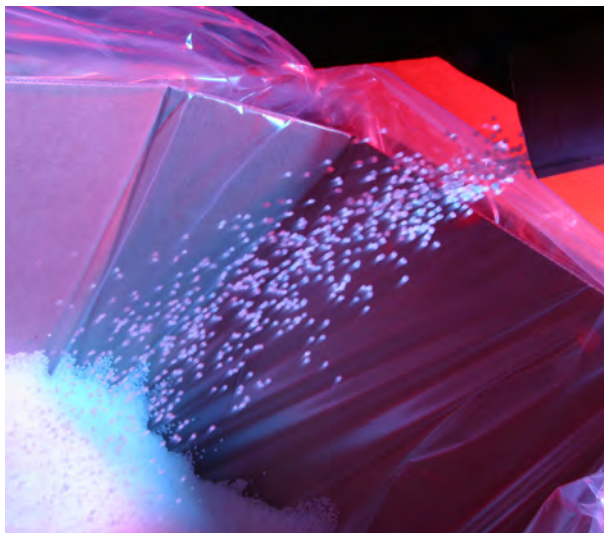
Our strategy is based on wide-ranging and in-depth polymer and applications expertise coupled with good commercial and ethical competencies. Our corporate culture is strong, guided by the watchwords of “DECENTRALISED BUT EXTREMELY COORDINATED”. I believe that coordination and cooperation combined with 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 the year. 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 organizational changes.

LONG-TERM GROWTH IN OUR CUSTOMER SEGMENTS

We have customers who are growing and we are present in geographic markets that are growing. We see growth in many segments but with variations during 2016 where, among others, 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 66 percent and Europe for 29 percent, mainly concentrated to Central Europe (primarily Germany) and Eastern Europe. Volumes in Asia grew in the second half of the year after a turbulent start of the year.

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. Our strong operating cash flow and our net cash of 1,268 MSEK provides scope for continued acquisition-driven expansion and a dividend of 4.75 SEK/share including a special dividend of 3.00 SEK/share.

PRIORITIES FOR 2017

In the previous annual report, I promised to focus on growth through continued targeted market and development initiatives. My general assessment is that, in a cautious market, we have advanced 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 2016, we have completed the acquisition of three units – all in Rubber 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 2017, we will continue with the previously adopted strategy of maintaining a focus on competence development and developing our employees. The acquisition orientation stands firm and our proactive sustainability and social responsibility efforts will continue at an unabated pace. We will also, as previous, continue our focus on growth through increased and targeted market and development initiatives.

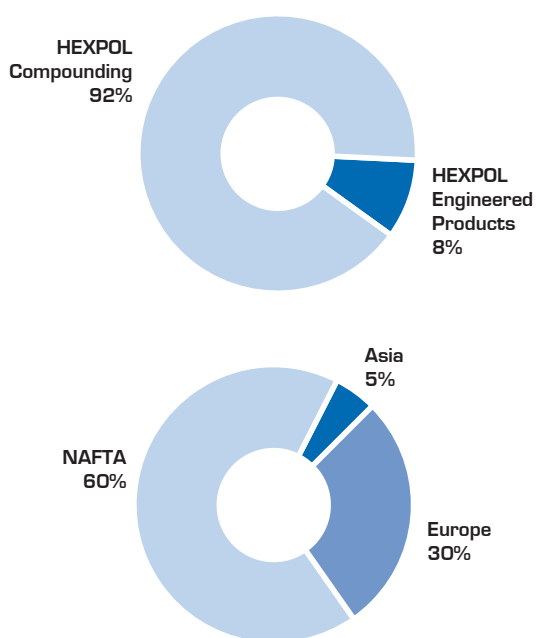
In October 2016, Melker Schörling unfortunately announced that he, because of deteriorating health, will leave his position as Chairman of the Board in HEXPOL AB at the Annual General Meeting in April 2017. Melker has been Chairman of the Board of HEXPOL since our start and listing in 2008. I am convinced that Melker will continue as support and advisor to us even after the AGM. In December 2016, HEXPOL's Nomination committee announced that Georg Brunstam will be proposed as new Chairman of the Board in HEXPOL at the Annual General Meeting April 28, 2017, which I am proud and honored of. I will of course remain until a new CEO is in place.

Finally, I would like to thank customers, suppliers and shareholders for your confidence and excellent cooperation during 2016. 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.

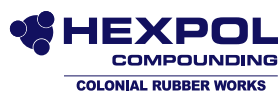
*Malmö, Sweden, March 2017
Georg Brunstam
President and CEO*

About the HEXPOL Group

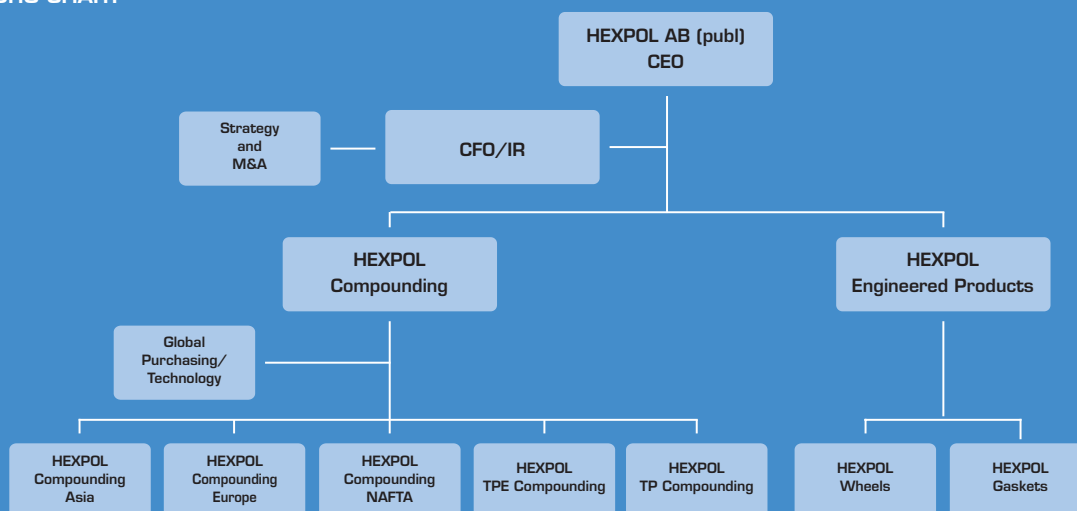
SALES FOR 2016 DISTRIBUTED BY BUSINESS AREA AND GEOGRAPHICALLY



THE GROUP'S BRANDS



ORG CHART



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 Compounding, 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 decentralized 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 technology, as well as OEM manufacturers of plate heat exchangers and forklifts.

HEXPOL has 42 production units and the workforce totals around 4,100 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.

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 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 most of the products 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 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, HEXPOL 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 this will benefit society, our employees, the shareholders and the business operation. 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 regarding environmental and social responsibility.

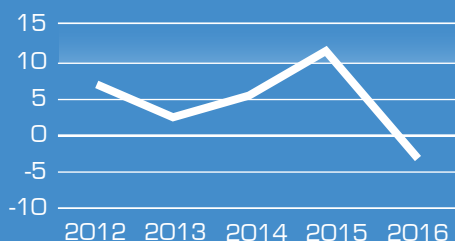
GROWTH STRATEGY

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.

ORGANIC GROWTH

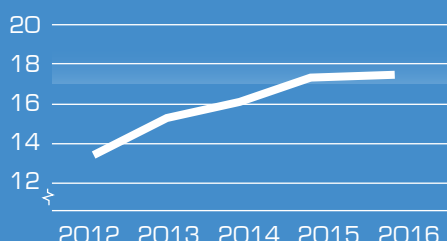
Drivers in the Group's principal markets are trends in a number of end-customer segments, which are

SALES GROWTH* % (Target >10%)

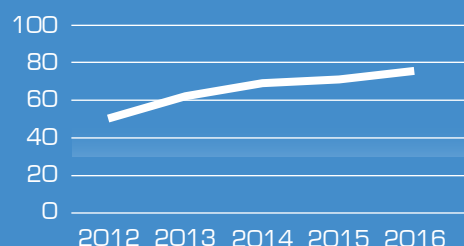


* Adjusted for exchange rate effects

OPERATING MARGIN % (Target >17%)



EQUITY/ASSETS RATIO % (Target >30%)



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, GoldKey, Stellana, Burton Rubber, Colonial Rubber, Robbins, HEXPOL TPE (incl. product brands), Elastomeric, Vigar, Kardoes, RheTech and Berwin, which are recognised brands in their particular product areas and geographical markets.

FINANCIAL TARGETS

The Board of Directors has adopted the following 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 2016 equity/assets ratio amounted to 77 percent. The target for sales growth were fulfilled in 2015 but not for 2016, when it was negative 4 percent, and nor for the period 2012-2016, when the average was 5 percent. The target for the operating margin

was fulfilled for 2015 and 2016 when the operating margin was 17.5 respective 17.7 percent, while the average for the period 2012-2016 was 16.1 percent.

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 Stockholm.

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.

During 2015, RheTech Thermoplastic Compounding, with four American facilities within specialized Thermoplastic Compounding, was acquired.

During the summer of 2016, Berwin Group, a well-known leader Rubber Compounder on the British market, with manufacturing facilities in Manchester and Gloucestershire in the UK, was acquired.

1893

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

1995 Stellana in Laxå, Sweden is acquired
 1998 Elastomeric Engineering 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



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

2007

2007 Establishment of three new plants for rubber compounds, wheels and gaskets in China and a new plant for rubber compounds in Mexico.

2008

2007 GoldKey Processing 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 Stockholm

2010

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

2012

2011 Excel Polymers is re-branded as Burton Rubber Processing, Colonial Rubber Works, Chase Elastomer and HEXPOL Compounding

2014

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 Compounding in Mexico and China and within HEXPOL TPE Compounding

2015

2014 Kardoes Rubber, a well-known US Rubber Compounding manufacturer, is acquired

2014 Vigar Rubber Compounding, a well-known European Rubber Compounding manufacturer, is acquired

2014 Portage Precision Polymers, a well-known US Rubber Compounding manufacturer, is acquired

2015 RheTech Thermoplastic Compounding, with four American facilities, within specialized Thermoplastic Compounding is acquired

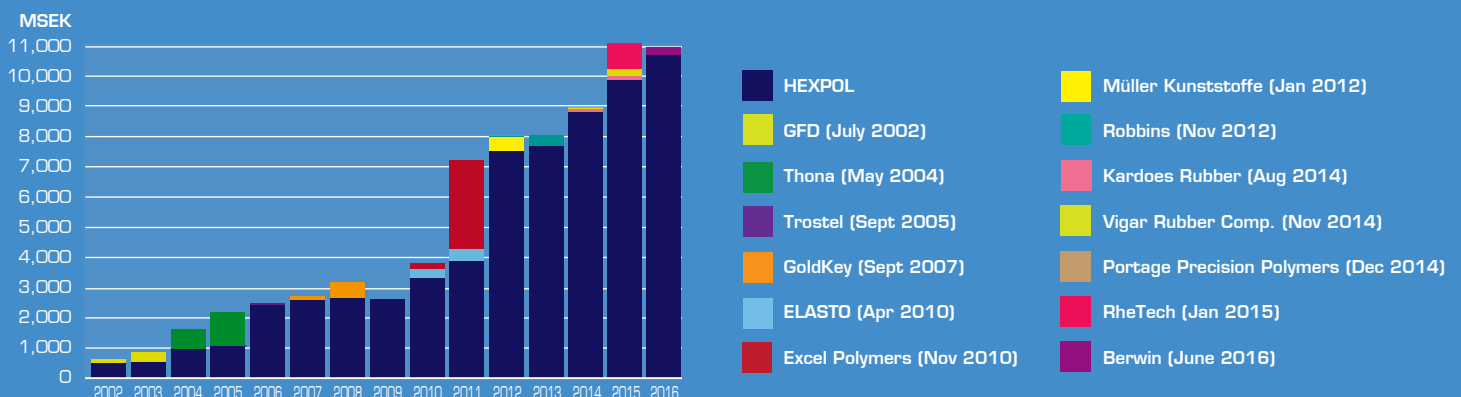
2016

2015 Continued capacity investments within rubber compounding in Mexico

2016 Berwin Group, a well-known leading British Rubber Compounder, is acquired

2016 HEXPOL TPE starts production and product development in North America

2016 Re-branding of Elasto AB, Elasto UK and Müller Kunststoffe to HEXPOL TPE

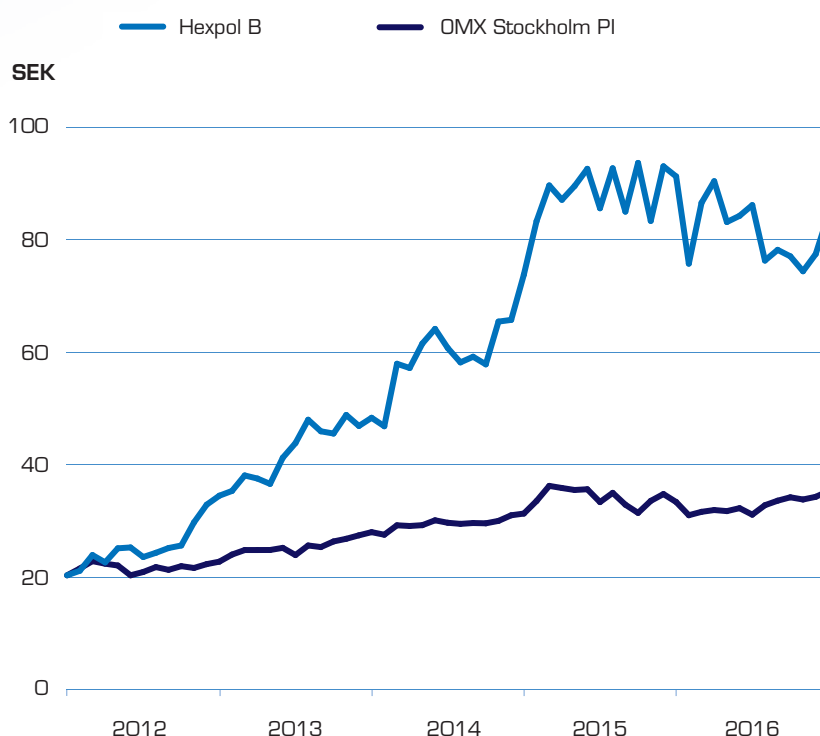
STRONG GROWTH Contributions to sales made by acquisitions in 2002–2016, acquisition month in parenthesis.

The share and Shareholders

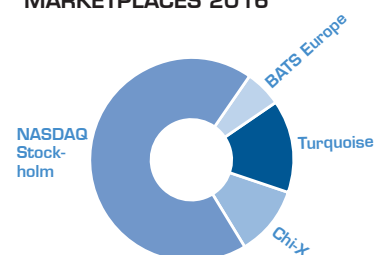
Shareholder data: Euroclear Sweden
Share data: SIX Financial Information

HEXPOL AB was registered on NASDAQ Stockholm on June 9, 2008 where the Class B share is listed on the Stockholm Large Cap list in the industrial sector.

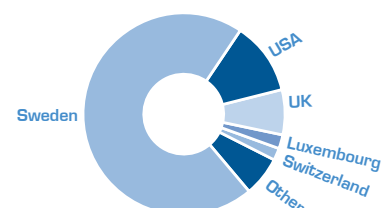
SHARE PRICE TREND 2012–2016



STOCK TRADING ON DIFFERENT MARKETPLACES 2016



GEOGRAPHIC DISTRIBUTION OF SHAREHOLDINGS, DECEMBER 31 2016



NUMBER OF SHARES PER SHAREHOLDER, DEC. 31 2016

Number of shares per shareholder	Number of shareholders	Number of Class A shares	Number of Class B shares
1-500	6,949	0	1,213,822
501-1000	1,917	0	1,602,400
1001-5000	2,889	0	6,865,650
5001-20000	998	0	10,057,448
20001-	577	14,765,620	309,696,340
Total	13,330	14,765,620	329,435,660

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

	2016	2015	2014	2013	2012
Earnings	4.06	4.05	3.05	2.70	2.19
Equity	21.97	18.11	14.67	10.51	8.45
Dividend	1.70	1.20	0.90	0.60	0.50
Market price class B shares Dec 31 last traded price	84.35	91.10	73.65	48.20	34.35

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 PRICE TREND AND TRADING VOLUME

The price of the HEXPOL Class B share fell by 7 percent during 2016 and the closing price at the end of 2016 was 84.35 SEK. The highest closing price was 91.95 SEK (April 15). The lowest closing price during the year was 72.95 SEK (January 20). During 2016, 175.5 million (192.5) HEXPOL shares were traded. Average trading per day in the share was 693,569 shares (766,953). The number of shares traded represented 51 percent (56) 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 2016, HEXPOL AB had 13,330 shareholders (11,696). The major shareholder is Melker Schörling AB, who owns all Class A shares. Melker Schörling AB also owns Class B shares and owns in total 26 percent of the share capital and 47 percent of the voting rights.

The number of shares held by non-Swedish shareholders totaled 29 percent (36) of the capital. The 20 largest shareholders accounted for 63 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.

WARRANTS PROGRAMME

In September 2016, a warrants programme was implemented for Group management, senior managers and key employees within the Group. Under the programme, 2,100,000 subscription warrants entitling to subscription for the corresponding number of new shares of series B in HEXPOL AB offered for sale to participants of the programme.

1,408,000 warrants have been transferred by the Board of Directors identified senior executives and key employees. The remaining warrants have been reserved for future senior management and recruitment of persons within the categories eligible.

The strike price for subscription of shares upon exercise of the transferred warrants was determined to 89.20 SEK. The rate is based on a market valuation taking into account the established option consideration in accordance with the Black & Scholes method. The options may be exercised from June 1, 2019 to December 31, 2020.

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 2016

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	27,030,381	7.9	5.7
Swedbank Robur fonder	0	16,899,707	4.9	3.5
Handelsbanken fonder	0	10,650,018	3.1	2.2
JPM CHASE NA	0	9,441,524	2.7	2.0
STATE STREET BANK & TRUST COM., BOSTON	0	7,844,965	2.3	1.6
Alecta Pensionsförsäkring, ömsesidig	0	7,600,000	2.2	1.6
SEB Investment Management	0	6,639,961	1.9	1.4
AMF - Försäkring och Fonder	0	5,980,036	1.7	1.3
Livförsäkringsbolaget Skandia ömsesidig	0	5,395,072	1.6	1.1
Total of the 10 largest shareholders	14,765,620	172,014,823	54.3	67.0
Total other shareholders	0	157,420,837	45.7	33.0
Total	14,765,620	329,435,660	100.0	100.0

OWNER STRUCTURE, DECEMBER 31 2016

Shareholder	Number of shareholders	Shareholder (%)	Holding (%)	Votes (%)
Physical persons	11,904	89.30	10.35	7.47
of whom living in Sweden	11,799	88.51	8.92	6.44
Legal entities	1,426	10.70	89.65	92.53
of whom living in Sweden	747	5.60	61.69	72.36
Total	13,330	100.00	100.00	100.00
of whom living in Sweden	12,546	94.11	70.61	78.80

Business area HEXPOL Compounding

Continued growth and further acquisitions

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

10,028

SALES MSEK (10,402)

1,806 MSEK

OPERATING PROFIT (1,859)

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 customer segments within thermoplastic elastomers compounds (TPE) are general industry, consumers and medical technology. The largest customer segments within thermoplastic compounds (TP) are the automotive industry and consumer.

High quality, global delivery capacity

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

NUMBER OF EMPLOYEES AT DECEMBER 31
2,679 (2,429)

Operating units HEXPOL Compounding	Location	Number of employees Dec 31 2016	Production capacity, tonnes
HEXPOL Compounding North Carolina	Statesville, USA	94	20,000
GoldKey Processing	Middlefield, USA	195	40,000
HEXPOL Compounding – Burton Rubber Processing	Jonesborough, USA	113	50,000
HEXPOL Compounding – Burton Rubber Processing	Burton, USA	254	55,000
HEXPOL Compounding – Colonial Rubber Works	Dyersburg, USA	223	136,000
Chase Elastomer	Kennedale, USA	79	18,000
HEXPOL Compounding – California	Santa Fe Springs, USA	42	13,500
Robbins	Muscle Shoals, USA	52	-
Kardoes Rubber	LaFayette, USA	93	46,000
HEXPOL Silicone Compounding	Mogadore, USA	4	9,100
HEXPOL Compounding Aguascalientes	Aguascalientes, Mexico	131	24,600
HEXPOL Compounding Querétaro	Querétaro, Mexico	169	53,000
HEXPOL Compounding Belgium	Eupen, Belgium	82	20,000
HEXPOL Compounding Germany	Hückelhoven, Germany	67	35,000
HEXPOL Compounding Czech Republic	Unicov, Czech Republic	118	35,000
HEXPOL Compounding Sweden	Gislaved, Sweden	60	19,000
HEXPOL Compounding UK	Manchester, UK	61	5,500
HEXPOL Compounding Spain	Barcelona, Spain	87	30,000
Flexi-cell	Manchester, UK	13	-
Berwin Rubber	Manchester, UK	100	30,000
Berwin Industrial Polymers	Lydney, UK	71	21,000
HEXPOL Compounding Qingdao	Qingdao, China	79	20,000
HEXPOL Compounding Foshan	Foshan, China	35	20,000
Elastomeric Group	Bokundara, Sri Lanka	(53) ¹	6,000
RheTech Compounding	Whitmore Lake, USA	110	66,000
RheTech Compounding	Fowlerville, USA	41	38,000
RheTech Colors and HEXPOL TPE North America	Sandusky, USA	40	4,500
RheTech Engineered Plastics	Blacksburg, USA	16	12,700
HEXPOL TPE Germany Plant 1	Lichtenfels, Germany	37	10,000
HEXPOL TPE Germany Plant 2	Lichtenfels, Germany	93	25,000
HEXPOL TPE Sweden	Åmål, Sweden	66	20,000
HEXPOL TPE UK	Manchester, UK	44	13,000
HEXPOL TPE Compounding Foshan	Foshan, China	10	5,500
Total		2,679	901,400

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 medical technology 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 competence and a strong portfolio. HEXPOL Compounding primarily focuses on three important polymer compounding areas:

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

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

HEXPOL Compounding offers customers worldclass 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 34 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 supplier agreements (strategic supplier choices, price negotiations)
- Engineering (design of equipment)

Most units are structured as separate units with

complete organisational functions for sales, product 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) are general industry, consumer and medical technology 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. HEXPOL Compounding, who focuses on global delivery capabilities for the market's best products, offering identical quality regardless of the production unit, is a good partner.

According to the market institute IHS Global Insight, 88.7 million light vehicles were produced in 2015. During 2016 the production increased to



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



Sandusky, USA



Mogadore, USA



LaFayette, USA



Muscle Shoals, USA



Blacksburg, USA



Manchester, UK



Manchester, UK



Manchester, UK



Manchester, UK



Lydney, UK



Åmål, Sweden



Gislaved, Sweden



Eupen, Belgium



Hückelhoven, Germany



Lichtenfels, Germany



Lichtenfels, Germany



Unicov, 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



Ronald Mayfield,
Managing Director
HEXPOL Compounding
North Carolina, USA



Jerry Saxion,
Managing Director
GoldKey Processing,
USA



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



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



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



Joey Young,
General Manager
Chase Elastomer, USA



Andrew Wallace,
General Manager
HEXPOL Compounding –
California, USA



Terry Elgin,
Managing Director
Robbins, USA



Omar Guifarro,
General Manager
Kardoes Rubber, USA



Mark George,
Operations Director
HEXPOL Compounding
Mexico



Ernesto Gutierrez,
Managing Director
HEXPOL Compounding
Aguascalientes, Mexico



Leopoldo Reyes,
Managing Director
HEXPOL Compounding
Guerrero, Mexico



René Herbiet,
Managing Director HEXPOL
Compounding Belgium and
Managing Director HEXPOL
Compounding Germany



Milos Pitela,
Managing Director
HEXPOL Compounding
Czech Republic



Jan Wikström,
Managing Director
HEXPOL Compounding
Sweden



Ed Dowdall,
Managing Director HEXPOL
Compounding UK



Eduard Barragan,
Managing Director
HEXPOL Compounding
Spain



Simon Lawton,
General Manager Berwin
Rubber Compounding,
UK



Paul Stevenson,
General Manager Flexi-
Cell, UK



Clive Rickards,
Managing Director Berwin
Industrial Polymers, UK



Urs Calonder,
Regional Director
HEXPOL Compounding
China



Jeremy Xing,
Operations Director,
HEXPOL Compounding
Foshan, China



John T. Levinson,
President RheTech
Compounding, RheTech
Colors and
RheTech Engineered
Plastics, USA



Craig Dunaway,
General Manager
RheTech Colors, USA



Peter Ryzko,
Managing Director HEXPOL
TPE Germany

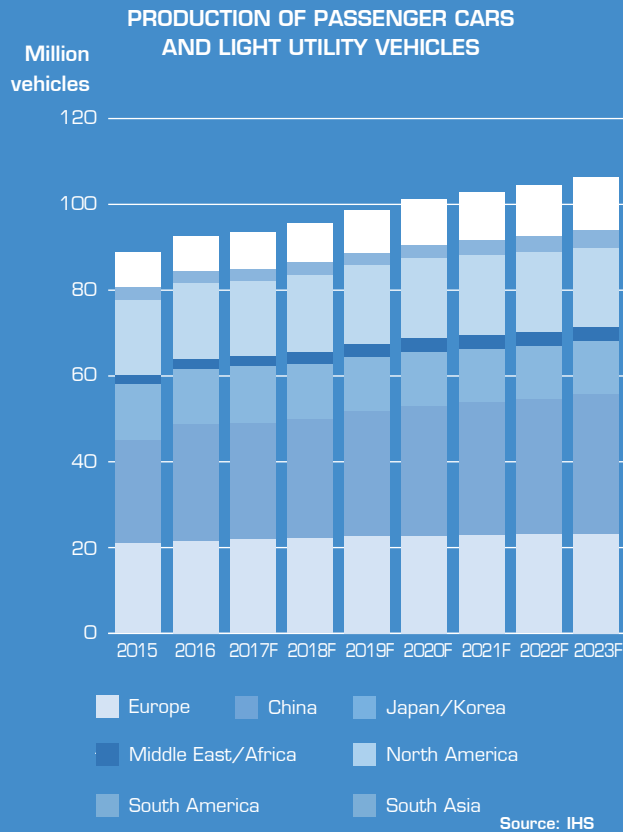


Thomas Nilsson,
Managing Director
HEXPOL TPE Sweden



Tony Wood,
Managing Director
HEXPOL TPE UK

93.0 million light vehicles. For 2017, growth of 1.9 percent is expected. 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. 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 compounds in Foshan, China, to cover the growing Chinese market. HEXPOL TPE has in 2016 increased its global capabilities further with the startup of TPE production and product development in North America.

The market for TP Compounds is also in growth with interesting and growing customer applications not least for reinforced polypropylene (PP) compounds and polyamide (PA) compounds.

COMPETITORS

Only a small number of large manufacturers of rubber, TPE and TP compounds have true international operations, with AirBoss, Teknor Apex, Dynamix, PTE, Multibase, GLS, Kraiburg, Preferred Rubber, A. Schulman and Washington Penn, 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 portion of their production 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, which 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, most of the compounds sold on the European market are based on HEXPOL's own recipes.

Sales are handled mainly through 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 customers within 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 production 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

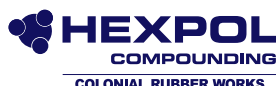
HEXPOL Compounding's largest customer segments are the automotive, engineering, construction, energy, oil and gas sectors. Customers in the automotive industry are not the automotive manufacturers themselves, but rather large system suppliers to vehicle manufacturers (Tier 1). However, it is essential 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, Colonial Rubber, Robbins and Kardoes, are well-established brands in the North American market as well as Vigar and Berwin in the European market.



In the HEXPOL TPE Compounding area, HEXPOL TPE and their product brands, Dryflex, Mediprene and EPSeal, are used globally. In the HEXPOL TP Compounding area, RheTech and its product brands are used.

OPERATIONS IN 2016

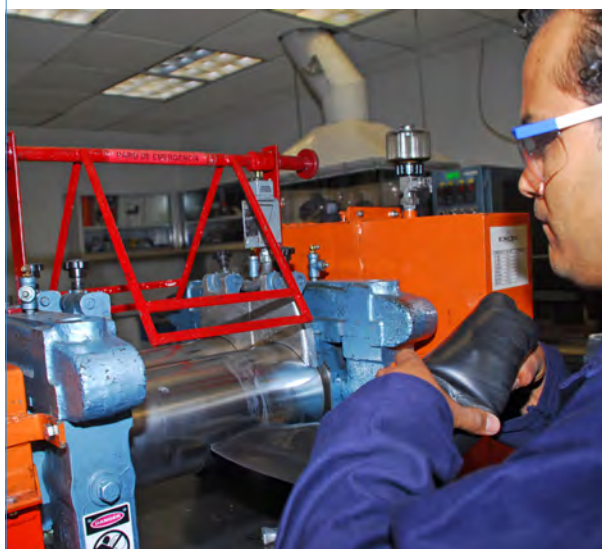
2016 was another strong year for HEXPOL Compounding. Sales amounted to 10,028 MSEK (10,402) and the operating profit amounted to 1,806 MSEK (1,859), resulting in the operating margin improved to 18.0 percent (17.9). Sales were strong to the global automotive industry's system suppliers and the engineering industry, while sales to other market segments, such as mining, agriculture and the energy, oil and gas sector was weak.

During 2016, Berwin Group, a well-known leading British Rubber Compounder, was acquired, which strengthens HEXPOL's presence in the UK market.

OUTLOOK AND PRIORITIES

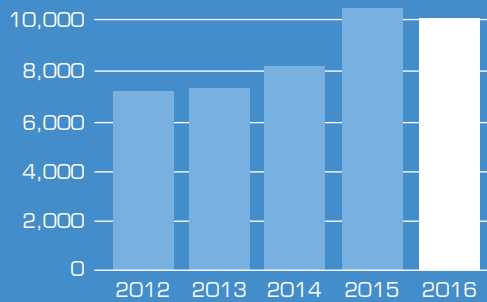
HEXPOL Compounding aims to offer customers local service in all markets and to be a development partner on a global and local basis. With 34 production and development units in ten countries, our structure is unique for the industry and provides our global customers with local service. HEXPOL Compounding is favourably positioned for continued growth, both from a geographic and an applications perspective.

2017 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 automotive and engineering industry, 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.

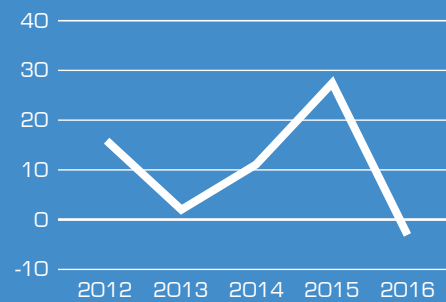


HEXPOL Compounding, five-year figures

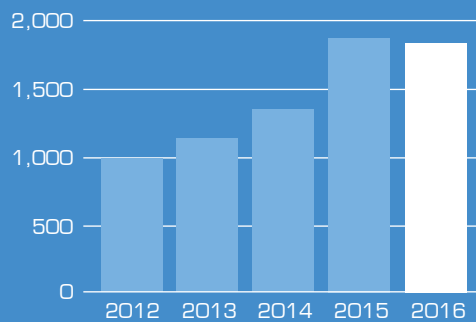
SALES, MSEK



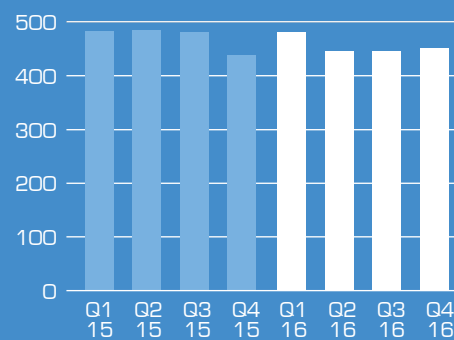
SALES GROWTH, %



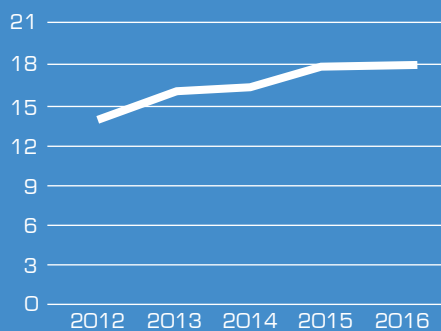
OPERATING PROFIT, FULL-YEAR, MSEK



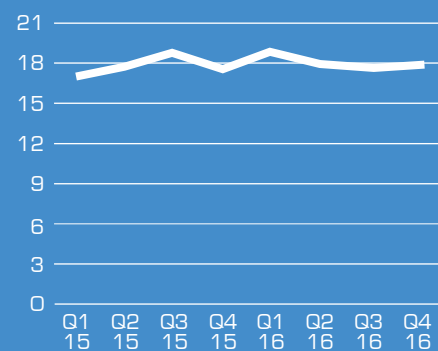
OPERATING PROFIT, QUARTERLY, MSEK



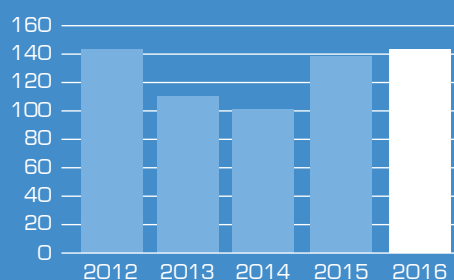
OPERATING MARGIN, FULL-YEAR, %



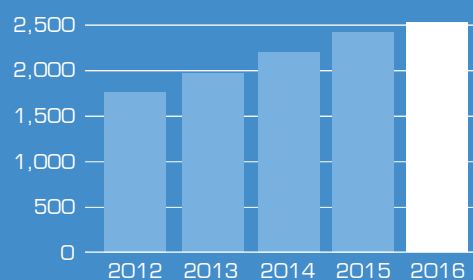
OPERATING MARGIN, QUARTERLY, %



INVESTMENTS, MSEK



AVERAGE NUMBER OF EMPLOYEES



HEXPOL FOSHAN RECEIVES SUPPLIER AWARD

HEXPOL Foshan has received an Excellent Supplier-award from Dunlop China, for the period of July 2015 – June 2016. It's the first time HEXPOL Foshan gets this award from Dunlop China.



HEXPOL WELCOMES THE BERWIN GROUP

In June we announced our latest acquisition as we welcomed the Berwin Group to the HEXPOL Group. The Berwin Group has more than 60 years' experience of rubber compounding and is today a leading Rubber Compounder in the UK market.

The Group comprises of Berwin Rubber Co Ltd, Berwin Industrial Polymers Ltd and Flexi-Cell (UK) Ltd with three manufacturing sites in UK, two in Manchester and one in Gloucestershire. Berwin has around 200 employees and produces a wide range of elastomeric compounds including; EPDM, EPR, NR, SBR, CR, CSM and IR. Berwin also produces several specialist elastomers for aggressive environments such as HNBR, XNBR, AEM, ACM, ECO, EVA and CPSE. Berwin also operate a dedicated silicone mixing facility. The company work in diverse market sectors such as aerospace, construction, electronics, marine, railways and general industrial. The largest market sector is the automotive industry where Berwin supply compounds for the following applications: door seals and weather strip, hoses, gaiters and engine seals.

We spoke with Simon Lawton, General Manager Berwin Rubber Compounding and Paul Stevenson, General Manager Flexi-Cell.



Simon Lawton



Paul Stevenson

Welcome to the HEXPOL family, please can you tell us a little about the Berwin Group?

Berwin Group is a leading UK custom compounder. We provide rubber compounds that conform to international standards and bespoke customer requirements. These cover a wide range of applications from technical rubber goods through to tyre and automotive products. We pride ourselves on the level of technical assistance and customer service we provide, making us the number one choice in the UK.

What is your first impression of HEXPOL?

To be acquired by HEXPOL was the perfect match for Berwin. HEXPOL provide the opportunity for us to make the most of our business, it has all the positive aspects of being a larger organisation without any of the disadvantages of a heavy corporate structure. The way HEXPOL operates is perfect for Berwin and will allow us to make the most of future business opportunities.

Where do you see the biggest possibilities for the future?

The synergies HEXPOL can provide to Berwin will allow us to be world class in all areas from raw material optimisation, efficiencies of production to customer service.

What are the main objectives for the Berwin Group over the next 12 months?

Our main objectives for the next 12 months are to make the most of the business opportunities provided to us as part of the HEXPOL group. We plan to ensure we capture every available opportunity in growth both in our organic compound and in the silicone market and reinforce our position as one, among others, market leader within rubber compounding in the UK.

HEXPOL TPE START-UP OPERATIONS IN NORTH AMERICA

HEXPOL TPE further expanded their global capabilities in 2016 with the start-up of TPE production and product development in North America.

The new operation complements the HEXPOL TPE operations in Sweden, UK, Germany and China and therefore enhance the position as a global supplier of innovative Thermoplastic Elastomer (TPE) compounds. The North American TPE production and product development facility has been installed at HEXPOL's RheTech Colors plant in Sandusky, Ohio and is marketed under the HEXPOL TPE name.

Speaking of the expansion, Craig Dunaway, General Manager for RheTech Colors and HEXPOL TPE for North America commented: "The investment in our new TPE business is driven by customer and market demand. We are working with a number of global customers that we already supply from the HEXPOL TPE operations in Europe and China, we can now also provide them with local supply and support in North America. We have also seen good synergies between existing customers for RheTech products that are looking for a local TPE partner."

The initial focus for the North American operation will be the Dryflex family of TPE compounds. Dryflex TPEs have been developed to add soft-touch aesthetics, functional performance and product safety features to a range of applications in the consumer, automotive, industrial, packaging and construction markets.

Don Picard, Vice President Sales and Marketing for HEXPOL Compounding NAFTA added: "Alongside our rubber and thermoplastic compounding capabilities, the new HEXPOL TPE operation in North America reinforces our position as a truly global provider of advanced polymer compounds."



INTERVIEW WITH CLIVE RICKARDS, MD BERWIN INDUSTRIAL POLYMERS

What is your opinion being acquired by HEXPOL?

A great opportunity to be part of a truly global and experienced business network with the common aim of servicing clients with the right compounding solution that fits its intended purpose at the right price.

Is it true that HEXPOL is decentralized but extremely coordinated?

At first it came as a surprise, the degree of decentralization, however as we have become more familiar and more integrated into the HEXPOL family the structure and coordination

in place allows each business unit the flexibility to operate within its own geographical area and market sector.

What is the general opinion on being acquired?

The acquisition has been well received both from an internal and external viewpoint as with it brings synergies and best practices to further push the boundaries of performance for a more secure future.



INTERVIEW WITH PAUL STEVENSON, GENERAL MANAGER FLEXI-CELL

What is your opinion being acquired by HEXPOL?

A superb opportunity for Berwin to benefit from being part of an international Group with the resource to help us invest and build upon our proven track record over many years of providing excellent products and customer service.

Is it true that HEXPOL is decentralized but extremely coordinated?

The HEXPOL team explained this at the start of the acquisition process. We have now seen this in practice for the last months and it is certainly how things are done. It is helpful at a

"local level" that we can get on with running the business while knowing support is there if required.

What is the general opinion on being acquired?

Very positive, both internally and externally. Medium to long term we have no doubt that being part of HEXPOL will help individuals and the business develop to the benefit of everyone.



RHETECH – SUPPLIER OF THE YEAR

RheTech is the proud recipient of the Chase Plastics 2015 Supplier of the Year award. It is based upon numerous criteria including outstanding service, quality products, competitive costs, accurate and timely documentation and on-time delivery to name a few. RheTech competes against an industry leading portfolio of world-class suppliers which is a testament to the hard work and dedication the RheTech Team puts forth every day. It is the fifth time RheTech has received the award.



INTERVIEW WITH SIMON LAWTON, GENERAL MANAGER BERWIN RUBBER COMPOUNDING

What is your opinion being acquired by HEXPOL?

Being acquired by a Group that is in exactly the same business as us is the best possible result we could have hoped for. The synergies resulting from being part of HEXPOL are helping drive improvements in all aspects of our business.

Is it true that HEXPOL is decentralized but extremely coordinated?

We were told about this at the start of the acquisition process. We have been pleasantly

surprised at how true this is and how it allows the local management of each individual business unit to make swift business decisions necessary to meet customer requirements and business opportunities.

What is the general opinion on being acquired?

We have had only positive responses from both suppliers and customers on our acquisition by HEXPOL.



HEXPOL Rubber Compounding

ORGANISATION

HEXPOL traces its origins to the rubber industry in 1893, when the Gislow 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 and skilled 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 US Rubber Compounder Kardoes Rubber was acquired, which strengthened the presence in South Eastern 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 strengthened the market position in North Eastern US. During 2016 Berwin Group,

a well-known leading UK Rubber Compounder, was acquired which strengthened HEXPOL's presence in the UK market.

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 consist largely of component manufacturers who place meticulous demands and global delivery capabilities. The largest market segment is the automotive industry. Other key segments are building and construction, mining, agricultural, 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:

- Rubber Compounding – Custom compounds 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 compounds for tread, retread, sidewall, coating stocks, bead, inner liner, bladder, and white compounds.
- Curing envelopes and tubes for retreading.

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 Compounding'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 COMPOUNDING EXPANDS IN MEXICO

As a result of the growth of the automotive industry in Mexico, the last decade has been crucial for the performance of the HEXPOL Compounding's Mexican operations.

The latest investments made by HEXPOL Compounding are to bolster the installed capacity of its operations in Querétaro and Aguascalientes, as well as to keep up the work pace required for the assembly plant supply system.

In November 2016 a brand new and state of the art third mixing line in the HEXPOL Compounding Querétaro plant was inaugurated with a very successful event hosted in Queretaro joining HEXPOL Compounding Mexico's community of Vendors, Customers and HEXPOL NAFTA Team mates. This added capacity dedicated to the manufacture of rubber compounds will kick off with a production target of 12,000 metric tons a year, in addition to the 65,000 metric tons of mixing capacity by HEXPOL Compounding Mexico. Like the two existing lines, this line is bound for the automotive industry.

As a company in the third rung of the automotive sector supply chain, HEXPOL Compounding sells its production to manufacturers of hoses, door seals, windshields, trunks and engine mountings. In turn, HEXPOL Compounding customers supply the assembly plants in the industrial corridor of the central zone of Mexico known as the "Bajo".

The latest projects of HEXPOL Compounding in Mexico spotlight the importance that the country holds for the HEXPOL Group given its geographical location and its linkage to the national car manufacturing industry and its incorporation into export flows.

HEXPOL Compounding has full confidence in Mexico. In 2013, line 3 was opened in the Aguascalientes plant, with an investment of several million dollars. Right after that, in 2014, investments went to line 2 in the Querétaro plant, where a single production line had been operating for 15 years. The Querétaro line 2 investment had barely wrapped up, in February 2015, when the decision was made to create line 3 in that same Campus.

This new investment in a third production line in Queretaro allows the company in Mexico to boost the capacity to meet the current demand from industrial customers, such as hydraulic hoses and conveyor belt manufacturers, as well as staying one step ahead of the future needs of the mining and energy sectors, two relevant segments that HEXPOL Compounding foresees opportunities in during the years to come.

The HEXPOL Compounding plant in Querétaro has space to house a fourth line, should it be required due to the forecasted increase in demand stemming from mining and oil exploitation in Mexico.



DRYFLEX GREEN THERMOPLASTIC ELASTOMER (TPE) COMPOUNDS OFFER PLASTIC PRODUCT MANUFACTURERS NEW OPPORTUNITIES FOR SUSTAINABILITY

With advances in technical properties and functionality and a growing number of manufacturers, materials and applications, the bioplastics market is emerging from the sidelines. Although we are currently in a period of unpredictability in oil prices and supply, it is recognised that in the long-term industries that have traditionally relied on fossil based feedstocks will need to embrace new technologies to sustainably meet the demands of a growing global population. As an active player in this transition, HEXPOL TPE recently launched a new family of bio-based thermoplastic elastomers to the market called Dryflex Green.

Currently biodegradable and biobased plastics represent less than one percent of global plastics production. In 2014, global production capacity amounted to around 1.7 million tonnes. However, there is a growing number of bioplastic materials and feedstocks entering the market. In 2015 European Bioplastics in cooperation with the Institute for Bioplastics and Biocomposites and the nova-Institute presented data that the global market for bioplastics will quadruple to 7.8 million tonnes by 2019. Biobased represents the largest driver with an increase from 60% of global bioplastics production in 2014 to over 80% in 2019.

What are Bioplastics?

We can categorise bioplastics in three groups:

- **Biobased or partially biobased:** a bioplastic where a percentage of the content comes from renewable agricultural or biological materials.
- **Biodegradable and biobased:** a bioplastic that is designed to degrade under compost conditions. Containing renewable content.
- **Biodegradable:** a bioplastic that is designed to degrade under compost conditions. Based on fossil resources.

Why use Biobased?

There are numerous potential benefits from utilizing bioplastics:

- Biobased plastics help to reduce the usage and dependency on limited fossil resources, which also are expected to become more expensive in the coming decades.
- Plants absorb carbon dioxide from the atmosphere as they grow. By using these crops to create biobased plastic products, greenhouse gases (CO₂) are removed from the atmosphere.
- As many bioplastics can be mechanically recycled in existing recycling streams, they also have the potential to contribute to an improved LCA (Life Cycle Assessment). They can first be used for products (both as virgin- and recycled materials), then at the end of the product life they can be used for renewable energy generation.
- Crops for industrial use can be grown in poor soil which is unsuited to food crops, thereby avoiding food crop displacement and improving biodiversity.

Dryflex Green TPE Compounds

Dryflex Green is a family of biobased thermoplastic elastomer (TPE) compounds. A range of options has been developed containing raw materials from renewable resources that have been responsibly grown. Raw materials can be produced from various renewable sources, these include products and by-products from agricultural that are rich in carbohydrates, especially saccharides such as grain, sugar beet, sugar cane, etc. The biobased content could derive from different raw materials such as polymers, fillers, plasticizers or additives. The Dryflex Green family includes compounds with amounts of renewable content up to 90% (ASTM D 6866-12) and hardness from 30 Shore A to 50 Shore D. Dryflex Green TPE compounds display mechanical and physical properties close to and comparable to TPE compounds from fossil based raw materials. Dryflex Green TPE compounds can be used in many applications that currently use conventional TPD compounds, such as soft-touch grips and handles, sealing and closures, sports equipment, toys, packaging and tools.



40 YEARS OF HEXPOL TPE SWEDEN – A STORY OF MUDFLAPS TO MEDICAL

1976 was an eventful year. It was the year the Supersonic Concorde took its first commercial flight, Stephen Wozniak and Steve Jobs founded Apple Computers and Robert De Niro first asked the question "You talkin' to me?" in Taxi Driver. It was also the year that HEXPOL TPE Sweden (former ELASTO Sweden) was born.

Ladislav Kubicka, a Master of Engineering in Rubber from former Czechoslovakia, founded Elastoteknik AB in Halmstad, Sweden in 1976. The business idea was to produce Thermoplastic Elastomers as a compound for injection moulding and extrusion. During the first years, compounds were developed for the household and automotive sector. The most important sectors were guards and mudflaps to Volvo and Scania.

A new era of rapid growth began in 1988 with the appointment of a new managing director, Per G. Hellberg, he was key in the company's further development due to his extensive experience within the plastic- and rubber industry. Focus was on developing new TPE compounds and increasing market share. Investments in the first twin screw extruder were made in 1989. In the following years, a continuous expansion in people, technical and production capabilities took place. To support their growing customer base further investments were made in new compounding lines, offices, pilot plant and a new laboratory. The company was building a trusted reputation for versatile, customized TPE compounds and technical know-how, particularly for the consumer, automotive and household markets. In 2000 the Åmål site was certified according to ISO 14001. The company was also continuing to expand their portfolio and expertise

in TPE compounds for the medical industry. Medical became a strategic market for the company, where they saw good opportunities for TPE compounds.

The Mediprene brand of TPE compounds for medical applications was launched in 2004 and growing sales resulted in a new production line and supporting subsystems being installed in 2006 with focus on clean compounds (medical, transparent, food contact etc.). In 2007 the company became the first TPE compounder in Europe to be awarded the ISO 13485 accreditation for the development and manufacture of Thermoplastic Elastomer compounds for the medical device industry.

The company continued to thrive as part of the HEXPOL family with further investment in people, production capacity, warehousing and a new technical centre at their Åmål site. They were joined by Müller Kunststoffe, the German TPE compounder acquired in 2012, and HEXPOL also developed TPE production capabilities in China. Today these companies form the HEXPOL TPE Group, with a vision to become a world leading TPE brand, recognized for material know-how, personal service, application expertise and global capabilities.

Thomas Nilsson, managing director at HEXPOL TPE Sweden commented, "Our 40th anniversary gives us an opportunity to look back and celebrate the great journey we've been on. I'm proud of our team of exceptionally dedicated and talented people. We are also proud to count some of the most renowned businesses in the world as valued customers. As we celebrate our first 40 years, we look forward to working together on the next step in our evolution."



HEXPOL

TPE Compounding

ORGANISATION

As a result of the acquisition of ELASTO Group, with plants in the UK and Sweden, in 2010, 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 compounding with growth potential in a diverse range of markets. The addition of TPE Compounding to the product portfolio strengthened HEXPOL's market position and customer offering while opening up new markets and application areas.

In 2012, HEXPOL acquired Müller Kunststoffe, with 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 pro-

duction line that came on stream in 2013. During 2015/2016, the capacity was further increased at Müller Kunststoffe and a new technical laboratory was inaugurated. In 2016, a capacity expansion in ELASTO in Åmal, Sweden, was completed. With the integration of ELASTO and Müller Kunststoffe, HEXPOL has now established a robust European organisation for TPE compounds, with progressive solutions and high level of technical expertise which are ideally positioned to capture growth.

At the end of 2016 a new global brand strategy was carried out. This meant a restructuring of the group's TPE brands and a name change for all European companies to HEXPOL TPE. The changes were made as a part of the global expansion and in order to create a more unified product portfolio for customers.

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 supp-

MEDIPRENE THERMOPLASTIC ELASTOMERS FOR MEDICAL APPLICATIONS

A continuing success story for HEXPOL TPE's Swedish site is the Mediprene family of TPE compounds designed for medical applications.

Mediprene TPEs 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 helps to reduce the risk of allergic reactions. Mediprene TPEs are also resistant to many fluids used in the healthcare environment.

Mediprene TPEs are often used in two component mouldings where the TPE is overmoulded onto a substrate such as PP, PE, ABS, PC, PETG and SMMA. Overmoulding is a powerful technique that allows the production of finished parts in soft and hard material combinations without trimming or assembly. It offers many design and product advantages, allowing designers to differentiate products while meeting important user and patient demands, including soft-touch and cushioning for greater comfort and non-slip surfaces with improved grip for safety.

The Mediprene TPE 500M range bonds very well to polyolefins like polyethylene (PE) and polypropylene (PP). However, in several medical applications transparent engineering plastics such as ABS, PC, PETG are utilised.

The Mediprene A2 range has been developed to address demands for medical grade TPEs that bond well to these substrates.

Mediprene TPE overmoulding grades are used in applications such as seals, membranes, closures, friction grips and soft-touch handles. Mediprene TPEs also provide enhanced sealing capabilities in fluid environments.

Other typical applications for Mediprene TPEs include medical tubing, syringe plunger seals, IV bags, face-masks, urinary catheter connections and teat droppers.



DRYFLEX TOUCH – A NEW TPE MATERIAL BY HEXPOL TPE COMPOUNDING

The interaction between touch, functionality and wearability has an important role to play in product design and brand aesthetics, particularly in the growing wearables market. HEXPOL TPE has therefore launched a range of new Thermoplastic Elastomer materials with enhanced touch properties.

HEXPOL TPE has expanded the Dryflex family of Thermoplastic Elastomer (TPE) compounds to include Dryflex Touch, a range of TPEs designed to give a touchable soft sensation. Several Dryflex Touch series have been developed with properties designed for applications such as wearable technology, consumer electronics, smartphone and tablet protective cases, wrist straps, grips, cosmetics and packaging.

Dryflex Touch TPE compounds have a smooth and velvety feel that is non-sticky and easy to clean. They also offer good scratch and abrasion resistance; all of which helps to enhance the durability, appearance of the final application. Dryflex Touch grades are available in a range of hardnesses from 30 to 90 Shore A and are easy to colour in a variety of vibrant shades.

The Dryflex Touch range includes grades that are produced from raw materials which are compliant with food contact regulations, as well as UV resistant grades and compounds that are latex and PVC free. Representative Dryflex Touch grades have been tested in accordance with ISO 10993-10:2010 for irritation and skin sensitization, they were shown to have no sensitization potential and classified as a non-sensitizer. They have also passed cytotoxicity tests according to ISO 10993-5:2009.

Dryflex Touch TPE compounds allow for efficient processing via injection moulding with grades that can also be overmoulded onto substrates such as PP, PE, ABS, PC and TPU for multi-component applications.

Speaking of the development, Klas Dannäs, Global R&D Coordinator for HEXPOL TPE commented "Consumers want products that not only look good and work correctly, but are also comfortable to wear with an appealing smooth and silky feel. Brand owners also want to enhance product differentiation and brand experience while ensuring the performance and durability of their products. That is precisely why we have developed the Dryflex Touch range of TPEs; for applications that need to be durable and functional as well as feeling great."



INTERVIEW WITH TONY WOOD, MD HEXPOL TPE UK

**Welcome to the HEXPOL Group, please tell us a little about yourself?**

I'm married to Wendy. Between us we have three children and three grand children. Wendy is a dual US/UK national, so we have children and grand children on either side of the Atlantic. My background is in Electrical Engineering and my formative years in business were spent 'hands on' in rubber moulding and compounding businesses.

What made you accept the position as MD for HEXPOL TPE UK?

I know the business from my time as MD of a customer company and from my time employed by The Vita Group. I have heard many times first hand how employees feel like they are part of a family and how they feel there is a group purpose.

What is your first impression of the job and the group?

I'm immediately impressed at the group knowledge base and the way that employees in each business unit willingly engage in cross functional activities to benefit the group. Locally, I feel the HEXPOL TPE UK business has many of the requisite building blocks in

place in order to progress. We need to clarify strategy and to ensure resources are adequately matched to the challenges ahead.

You have been in the business of rubber and plastics for quite some time, what made you become interested in this industry?

My parents were employed in this industry for many years, so it seemed only natural to follow suit. Over time, like many people in the industry, I have gained an affinity to rubber that only those of us within can understand!

What would you say is your greatest challenge? I'd like to think we can make record breaking a way of life at HEXPOL TPE UK. I feel like there is an abundance of talent in the business but a lack of know-how and a shortage of confidence. My biggest challenge is to bring out the best in individual talent and to harness the outcome into collective performance. I'm very much looking forward to the challenge!

lied 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.

With the creation of HEXPOL TPE Compounding, immediate growth and innovation synergies were achieved. HEXPOL TPE Compounding is focused on delivering TPE solutions to markets with strong growth potential, such as the 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 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.

During the end of 2016, HEXPOL TPE Compounding increased its global capabilities further with

the start up of TPE production and product development in North America.

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 compounds (TPE-O or TPO)
- Elastomeric compounds (TPE-V or TPV)
- Thermoplastic polyurethanes (TPE-U or TPU)

The expertise in this diversified TPE offering positions HEXPOL so that each customer can get 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, toys and food contact, require the highest level of production control, material traceability and consistency. HEXPOL TPE Compounding operates state-of-the-art compounding and product development facilities in Europe, Asia and North America with a strong

NEW CUSTOMERS AND SYNERGY WITH HEXPOL CAMPUSES PROMPT SILICONE COMPOUNDING GROWTH

It's been a good year for HEXPOL Silicone Compounding. A combination of 12 new customers and growing synergy with other HEXPOL campuses provided the perfect mix to stimulate silicone growth in 2016.

Examples of synergy among HEXPOL campuses include:

- Providing silicone gum weigh-up for RheTech Colors
- Collaborating on technical issues with Berwin and Kennedale
- Supplying compound mixing for Kennedale
- Developing grades of silicone colorants with Kennedale

Collaboration with multiple HEXPOL campuses was key to our impressive silicone customer growth. Leveraging our rubber compounding strengths to improve our silicone manufacturing processes and custom silicone mixing has positioned us to provide customers with a premium single source for compounding, whether silicone or organic rubber.

Ensuring that we continue to provide our customers with state-of-the-art silicone products and services required plant design improvements and significant equipment upgrades.

"Throughout 2016 we improved our silicone plant layout to increase production efficiency and enhance plant-floor safety," Donald Picard, HEXPOL compounding NAFTA VP Sales & Marketing, explained. "We also implemented a new lab layout to decrease development time, which helps our customers reduce their time to market for new products."

Equipment updates included:

- Rebuilt mixer rotors
- A mixer drop door to improve efficiency and safety
- A dry ice blaster for improved cleaning
- New knife and scrapper capabilities
- Improved mixer controls
- A new process control system (mixer timer)

Our raw material library was expanded significantly during the past year, ensuring that our customers always have access to the best materials, at competitive prices, for their existing recipes or new recipe development. We also invested in a raw material verification system, with lot control and the ability to track batches. New kneader dies give us more flexibility and packaging options.

Plant layout changes and equipment upgrades are important, but are only as effective as the HEXPOL associates who manage and operate them. Cross training production associates will help us ensure constant coverage during vacations and other PTO (paid time off) scheduling. Investments in Maxwell training for associates promoted the importance of teamwork, winning with people, and developing leadership skills.

To help ensure the safety of our silicone associates, we are participating in Corporate Safety Team programs and performing periodic safety audits.

Working with other HEXPOL campuses, upgrading equipment, and improving plant designs strengthen HEXPOL Silicone Compounding to aggressively pursue silicone customers and opportunities as we enter 2017.



emphasis on operational development 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.

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 in-

telligent 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 TPE IMPLEMENT NEW GLOBAL BRANDING

To make things easier for customers to know who HEXPOL TPE are, a new global branding strategy was announced in 2016. This involved a restructuring of the Groups' TPE product brands and the re-naming of all European sites to HEXPOL TPE. The changes were made to support their global expansion and create a more cohesive portfolio for customers.

HEXPOL TPE currently operates three companies in Europe; previously called ELASTO Sweden, ELASTO UK and Müller Kunststoffe in Germany. These are supported by sales offices in France and Belgium. As part of the branding strategy each of these companies was re-named to HEXPOL TPE in January 2017. Alongside their European sites, HEXPOL TPE also operates production, R&D and sales in China and is developing their North American capabilities, both of which are also marketed under the HEXPOL TPE name.

Carsten Rüter, president technology for HEXPOL Compounding, commented, "The HEXPOL TPE businesses have been on an exciting journey over the past few years. We've grown through acquisitions and organic growth, we've invested in our production capacities and technical capabilities and we've challenged ourselves to deliver even more value, polymer know-how and application expertise. We believe the new branding strategy is a natural next step in our evolution and will help to demonstrate the advanced TPE solutions and global support we can offer our customers".

The group also restructured their TPE product brands with the aim to create a more cohesive portfolio. For new developments and projects the group consolidated the Dryflex, Lifoflex and Lifoprene product ranges under the Dryflex name. Their TPE portfolio now comprises of three distinct product families:



DRYFLEX: TPEs for consumer, automotive, packaging, industrial and construction applications.

MEDIPRENE: TPEs for medical device and pharmaceutical industries.

EPSEAL: TPEs for food and beverage sealing systems.

The group's German operation continues to offer a number of complementary compounds including soft PVC, cork compounds and masterbatch.



Ralph Wolkener, president HEXPOL TPE Compounding added "We know that our success is built on customer partnerships, so it's important to us that we continue to offer close local connections, with fast personal support. At the same time, we

also want to show that we are global in our capabilities, with an international team of polymer experts and world-class operations in Europe, Asia and North America. HEXPOL has a core belief in being the easiest company to do business with and we think these changes will support this message and offer greater clarity and consistency for our customers".



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 demanding automotive industry. The operation complements the other HEXPOL Compounding operations with for example common end-customers and similar technologies. During 2015 and 2016, extensive investments have been made 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), high quality polyamide compounds (PA) and color additives. The production is highly automated with modern twin-screw extruders and efficient material handling systems.



A UNIQUE PROJECT FOR RHETECH

RheTech LLC – a HEXPOL Company was approached by CK Technologies of Montpelier, Ohio USA, to work on a unique project. CK Technologies was approached by a startup company that had developed an aerodynamics package that could improve fuel economy for the over-the-road tractor trailer. The part package included a complete aerodynamic system that reduces aerodynamic drag and improves fuel efficiency of the tractor by 2.23%, typically providing a return on investment for long haul trucking fleets in one year or less.

The part package application required a material compound with a unique set of performance requirements to meet the rigors of over the road miles. RheTech came through with a thermoplastic polyolefin (TPO) compound that met all requirements, and is currently in production in black or custom colors to match specific customer requirements.

So as you pass those “Big Rigs” on the highway in US, glance over and you may see where RheTech, is doing its part to help the environment as well as the economics of getting product transported across North America.



Business Area HEXPOL Engineered Products

Increased sales and improved results

**Senior executive within
the business area**



Jan Wikström,
President HEXPOL Wheels
President HEXPOL Gaskets

HEXPOL Engineered Products in brief

Strong positions

OPERATIONS HEXPOL Engineered Products has operations 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. The operations are organised into two product areas, HEXPOL Gaskets and HEXPOL Wheels.

851

SALES MSEK (827)

High quality, global delivery capacity

CUSTOMERS HEXPOL Engineered Products' customers are usually major 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 cooperations are of major importance for both parties. HEXPOL Engineered Products want to develop and innovate together with their customers to jointly strengthen both competitiveness and profitability for all parties.

115 MSEK

OPERATING PROFIT (105)

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 a leading supplier of rubber gaskets for plate heat exchangers, and of polyurethane wheels for forklifts. Within these areas, HEXPOL is one of a few major companies with global presence.

NUMBER OF EMPLOYEES DEC 31
1,456 (1,433)

Operating units HEXPOL Engineered Products	Location	Number of employees Dec 31, 2016	Area m ²
HEXPOL GASKETS			
Gislaved Gummi	Gislaved, Sweden	82	6,000
Gislaved Gummi Lanka	Bokundara, Sri Lanka	491	7,000
Gislaved Gummi Qingdao	Qingdao, China	146	8,000
Gislaved Gummi, profiles	Gislaved, Sweden	21	2,500
Total		740	23,500
HEXPOL WHEELS			
Stellana Sweden	Laxå, Sweden	83	8,000
Stellana US	Lake Geneva, Wisconsin, USA	79	6,600
Stellana China	Qingdao, China	53	1,080
Elastomerics	Horana, Sri Lanka	501	16,590
Total		716	32,270
Total HEXPOL Engineered Products		1,456	55,770

HEXPOL Engineered Products has a unique high material expertise which, along with its extensive application knowledge and efficient manufacturing processes, creates interesting offerings for the customer. A large part of the products are marketed, sold and distributed globally, placing huge requirements on an efficient logistics chain.

Customer demands are increasing and today's requirements on short lead times and delivery reliability, places special demands on the business. In recent years major initiatives have been implemented on the logistics side with the establishment of several local distribution centers. This, together with a well-developed ERP system, ensures that communications, from reception of orders to delivery, occurs entirely without manual intervention. This has significantly reduced internal throughput times.

HEXPOL Engineered Products is continuously developing its manufacturing processes. The production processes are well controlled, and with a strong focus on continuous improvement according to the concept of Lean production. The business area's global ERP system enables benchmarking online, which drives development forward. All units are certified according to ISO 9001/14001.

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 the 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 production units and distribution centers are strategically well placed 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 the only forklift wheels

manufacturer with production units in Europe, North America and Asia.

HEXPOL Gaskets is global market leader in gaskets for plate heat exchangers. The customers are mainly leading global OEM manufacturers of plate heat exchangers in Europe, USA 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 market for gaskets remained relatively stable during 2016. The market for large projects remained weak, although demand for small and midsize plate heat exchangers has remained good. Aftermarket demand remains strongly driven by maintenance investments in existing facilities.

HEXPOL Gaskets supply gaskets to all major OEM manufacturers of plate heat exchangers. The aftermarket is currently estimated to account for approximately one-fourth of the total market. The product area HEXPOL Gaskets is consolidating its position as 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 wheel market is dominated by a handful of major players in Europe and North America and a number of fast-growing operators in China. During 2016, global sales of electric powered warehouse forklifts showed continued growth. The aftermarket for forklift wheels also increased and is dominated by OEM manufacturers of forklifts and independent distributors.

In the warehouse forklift market the consolidation process that has taken place in recent years continues. The development of new forklift models representing a larger share of joint global content is growing stronger. HEXPOL Wheels is, 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

HEXPOL Engineered Products 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 Engineered Products, has opted not to enter areas where the Group's customers within HEXPOL Compounding are direct competitors.



1
Lake Geneva, USA
HEXPOL Wheels



2
Laxå, Sweden
HEXPOL Wheels



3
Gislaved, Sweden
HEXPOL Gaskets



4
Gislaved, Sweden
HEXPOL Profiles



5
Bokundara, Sri Lanka
HEXPOL Gaskets



6
Horana, Sri Lanka
HEXPOL Wheels



7
Qingdao, China
HEXPOL Wheels



8
Qingdao, China
HEXPOL Gaskets

Senior Managers at HEXPOL Engineered Products' operating units



Jan Wikström,
Managing Director Gislaved Gummi, Sweden and
Managing Director Stellana Sweden



Peter Li,
Managing Director
Stellana China



Mark Shea,
Managing Director
Stellana US

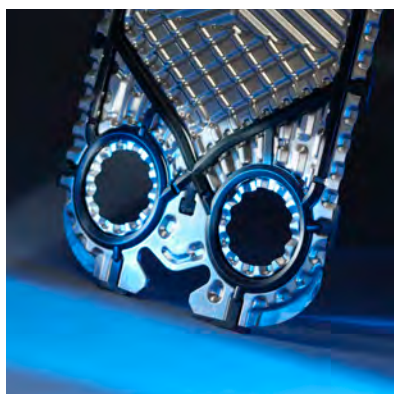
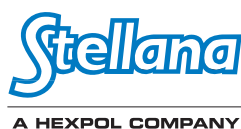


Roger Jonsson,
Managing Director
Elastomeric Wheels and
Managing Director
Gislaved Gummi Lanka,
Sri Lanka



David Jia,
Managing Director
Gislaved Gummi China

Brands in the business area



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 applied successfully in the respective plants and manufacturing processes are coordinated and standardized. It is important for HEXPOL Gaskets to ensure the same high quality regardless of the production plant. Internal throughput times and administrative work have been sharply reduced thanks to 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 Trelleborg group and the family owned company TRP. A number of 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 2016

HEXPOL Engineered Products sales amounted to 851 MSEK (827) in 2016, a year-on-year increase of almost 3 percent. Operating profit during the same period increased to 115 MSEK (105). The operating margin improved to 13.5 percent (12.7).

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 2016. Pricing pressures remained high, especially for forklift wheels in Europe. HEXPOL Wheels has had a 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 competition in the market remained strong. 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 2016. Efforts to raise the quality and efficiency continue with unchanged force. The establishment of a distribution centre in Europe for the aftermarket enables HEXPOL Wheels to offer their customers the same products, quality and service globally and locally.

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. Continued investments in customer service and product development are critical factors for success in 2017.

HEXPOL Engineered Products continues its systematic focus on LEAN and synergies between the operations units. The production development programme for developing and streamlining the business area's production system is now implemented in all production units.

STELLANA GROWING POLYURETHANE WHEELS BUSINESS IN ASIAN MARKET

During the first half of 2016, tailor-made products and optimized solutions from Stellana are getting more and more preferred in the Asian market. Despite of the slowdown in the Chinese economy the polyurethane wheels business in Stellana China grows.

Growth increase comes mainly from the traditional OEM forklift industry and is showing good growth and good growth potential. As a leading manufacturer in the world, Stellana has established stable connections with major OEM forklift manufacturers in China. Now Stellana is well acknowledged through the outstanding wheel performances, strong global R&D support and localized customer-focus services. Owing to this, many customers have entered strategic partnership with Stellana to enhance the services and business together.

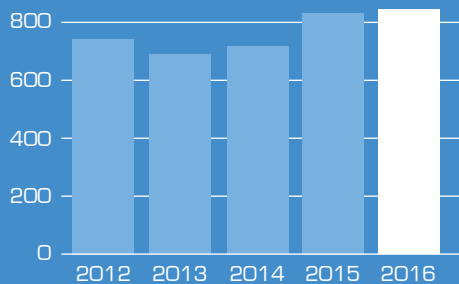
Besides the forklift industry, Stellana wheels have won great interest in many other parts of the material handling industry. Apart from forklifts, Stellana has products used for, for

example, baggage, automotive and mining conveyors, escalators, auto doors and mono-rail trains. Stellana offers an optimized solution based on customer requirements and working conditions. With over 60 years wheel production experience, Stellana's tailor-made solutions have proved to be a great success with improved efficiency in the designated applications.

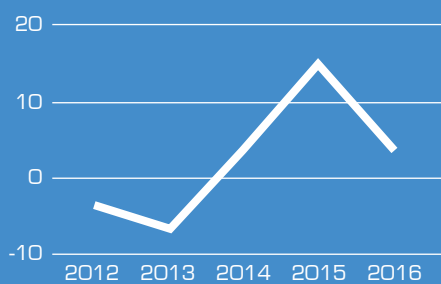


HEXPOL Engineered Products, five-year figures

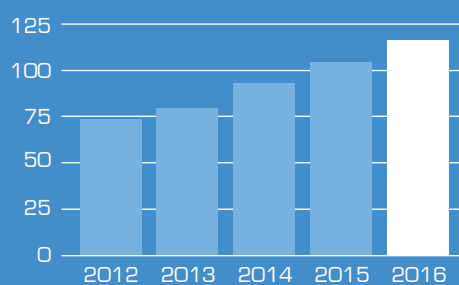
SALES, MSEK



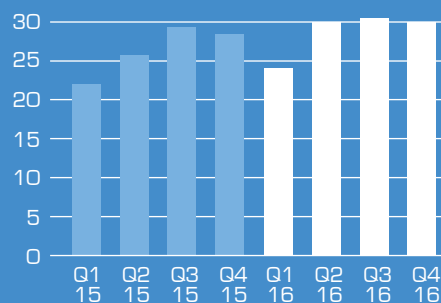
SALES GROWTH, %



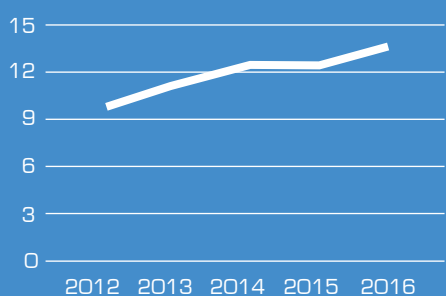
OPERATING PROFIT, FULL-YEAR, MSEK



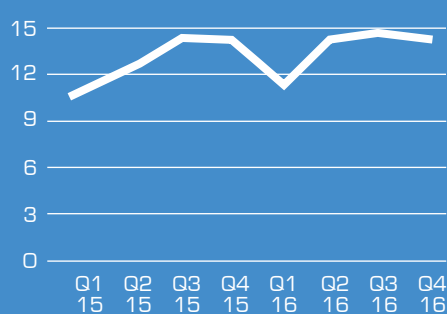
OPERATING PROFIT, QUARTERLY, MSEK



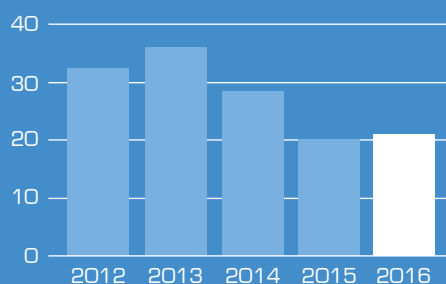
OPERATING MARGIN, FULL-YEAR, %



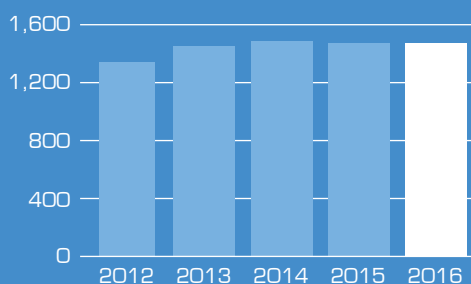
OPERATING MARGIN, QUARTERLY, %



INVESTMENTS, MSEK



AVERAGE NUMBER OF EMPLOYEES



HEXPOL Gaskets

ORGANISATION

HEXPOL Gaskets is a product area in HEXPOL Engineered Products. The management of the product area is stationed in Gislaved, Sweden. Responsible manager of each business unit reports to the Productarea Manager.

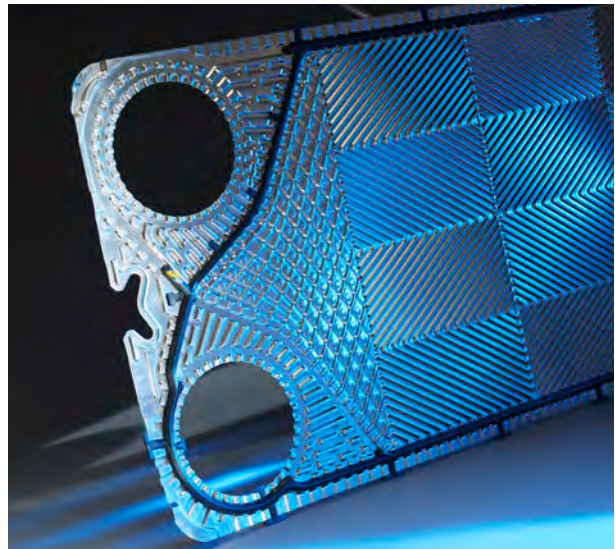
TECHNOLOGY AND PRODUCTS

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 is characterized by high 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 view-point, 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 production plants are located in Europe (Sweden) and Asia (Sri Lanka and China). All ready-mixed rubber compounds needed for manufacturing within the product area is manufactured adjacent to the plant in Sweden. The rubber material is then 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 manufacturing 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 posi-



tions 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.

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 short lead times. 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 having a materials development team with extensive experience mixed with young curiosity and initiative. The goal is to be best in the world in technical rubber compounds. 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 gas-

ket application for plate heat exchangers usually takes several years and is in close collaboration with the customer. Before the material is approved and delivered to the market, 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 product area aims to constantly be at the forefront of customer focus and customer value. The goal is to have the highest expertise and availability in the market, including sales representatives. By having a wide presence in the marketplace, HEXPOL Gaskets can catch signals from customers early on and thereby take steps 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 organisation works from Gislaved, Sweden, with the exception of the market in China, where there is also a local sales organisation 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 places 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 centres 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 centres 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. The winning concept is an active dialogue with customers and that the information comes from one source makes it easy for the customer.

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, rubber wheels for castor wheel applications, as well as tyres and special wheels in natural rubber and thermoplastics. HEXPOL Wheels' 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.

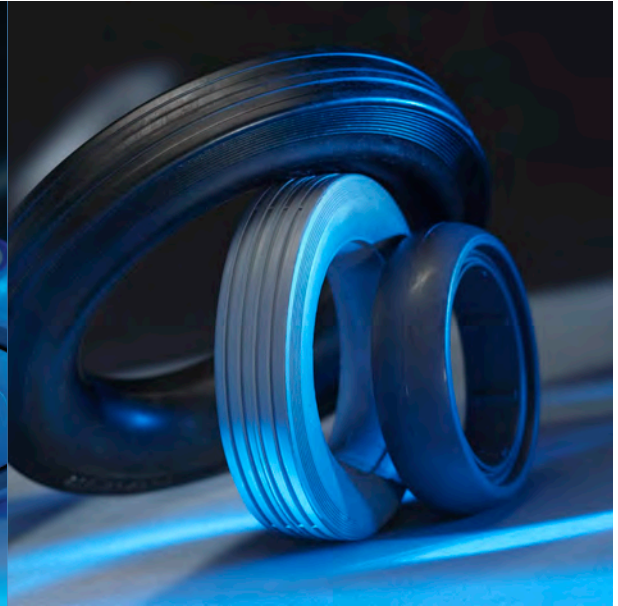
Five types of products are produced by HEXPOL Wheels:

- 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 is the market-leading polyurethane material Vulkollan™, licensed by Covestra, very durable and can cope high loads without being deformed. HEXPOL Wheels is one of the leading suppliers of wheels made of Vulkollan 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 both in Europe and in 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. The distribution center in Hamburg, Germany, brings customers in the aftermarket with quality service and fast delivery. Several major customers are increasing production capacity to rapidly expanding Asian markets. Market for Polyurethane wheels is growing strongly in China. 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 optimized at an early stage of the development process.

The Swedish unit manufactures wheels in cast polyurethane (including Vulkollan) and polyamide. The distribution center in Hamburg, Germany, is closely integrated with the production unit in Laxå, Sweden, 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 cooperation 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.

Corporate responsibility

Prerequisite
for long-term
value creation

Taking responsibility for people, environment and society is an important part of HEXPOL's corporate culture and something that creates value for the Group's stakeholders. Questions related to sustainable development – environment, work environment, social responsibility, business ethics – is integrated into the everyday work and the strategic planning.

Sustainability efforts are focused on reducing risks and creating business advantages. For example, environmental friendly product development and efficient use of resources gives both environmental and business benefits. During 2016, work continued to focus on issues that are essential for HEXPOL and the Group's stakeholders. These included training in business ethics, energy efficiency, phasing out hazardous substances, development of environmentally friendly products, work environmental measures, partnerships with schools and universities, and the evaluation of suppliers.

IMPORTANT GUIDELINES AND STANDARDS

Materializing Our Values

"Materializing Our Values" is HEXPOL's ethical compass and it summarises the view on business ethics, information, environment and work environment. The guidelines constitute the Group's code

of conduct and provide guidance to every employee in respect of legal liability, accounting, conflicts of interest, working conditions, environment, social responsibility 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 to work. In the daily operations, the responsibility rests with managing directors and all other 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, 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. During 2016, no events that may be associated with corruption was noted and the management of the Group companies are working actively on these issues through education, policies, control and monitoring.

Business ethics guidelines

The business ethics guidelines constitute a component of "Materializing Our Values" and provide guidance to employees concerning what is and

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 corporate culture and strategy, meaning that we strive to limit the Group's impact on the climate and to offer a safe and stimulating work environment for our employees worldwide. It is equally important that HEXPOL is associated with credibility and healthy values in our contacts with, customers, suppliers and business partners.

"Materializing Our Values" represents the Group's Code of Conduct and states the fundamental principles governing relations with employees, business partners and other stakeholders.

The guidelines offer direction to those activities 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.



what is not permitted in business contacts with customers, suppliers, competitors and distributors. The guidelines are complemented by a detailed Compliance Program, in which managers 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.

During 2015-2016 online courses were implemented, which included an examination on international legislation concerning cartels, competition and prohibited forms of business cooperation. So far, more than 150 managers and employees in purchasing and sales attended the training.

Whistleblowing

"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. No registered notifications were made during 2016.

International standards

The international standards ISO 14001 (environment) and ISO 9001 (quality) are applied in the Group's units. In addition to this, OHSAS 18001 (work environment) and ISO 50001 (energy) are used at a number of units. The standard for Social Responsibility (ISO 26000) provides guidance on the overall approach to sustainable development.

Legal and regulatory requirements

Group companies identify and take actions to introduce and apply the ordinances, rules and laws that impact business operations. These 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 wide-ranging and the main part of the production units needs license under the respective legislation. In addition, many of the Group's products are subject to various environmental requirements. Many customers present



their own demands in sustainable development. These requirements are being sharpened as time progresses, thus contributing to the development of HEXPOL's sustainability work.

Sustainability reports

HEXPOL communicate the activities within sustainable development in a separate sustainability report according to the guidelines of the Global Reporting Initiative (GRI G4). The reporting is designed to also comply with the new legislation on mandatory sustainability reporting for large companies in the EU. The Group's climate impact is reported according to the Carbon Disclosure Project (CDP). The sustainability work is regularly scrutinized by independent institutes and investors, and here too, the focus on transparency and performance is increasing.

UN's Global Objectives

The view on the role of business in sustainable development has changed and this is something that is clearly expressed in the UN's Global Objectives for sustainable development. The objectives were presented just over a year ago and expectations of business operations are high. This applies both to responsible behaviour and development of products and services that favours sustainable development. In this year's report HEXPOL has linked the overall Group objectives to the UN's Global Objectives.

EXAMPLES OF ACTIVITIES THAT CONTRIBUTE TO SUSTAINABLE DEVELOPMENT

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 Group objectives 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.

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.

STRATEGY AND MANAGEMENT

Corporate responsibility creates value for the Group's stakeholders and, by integrating the environment, social responsibility and ethics into our business model, conditions are created for a strategy that contributes to sustainable development. The Group-wide objectives are long term, and as apparent from the figure below, HEXPOL conducts every year different activities. The work includes focusing on energy, climate, chemicals, waste, product development and safe work environment. Offering customers knowledge and solutions concerning environmentally compatible product development is an important area. Evaluating suppliers' sustainability work has a high priority.

The operational responsibility for the environment and work environment is delegated to responsible manager of each operation unit. The Group Management and Board of Directors regularly monitor the progress of the work and sustainable development is integrated into the strategic planning. The activities are followed up through dialogue with the companies' management as well as through internal and external audits. In connection with the sustainability report, an in-depth analysis of how the law is followed, the fulfilment of the objectives, and how performance indicators developed during the year, is conducted.

VALUE FOR THE STAKEHOLDERS

Stakeholders' requirements and expectations are important, and HEXPOL is actively involved in the evaluations, dialogues and exchanges of views. The intention is to create value for stakeholders and HEXPOL's work includes:

- Fulfilling customer requirements in respect of quality, delivery precision, sustainable development and other areas.
- To make relevant demands on suppliers and implement constructive follow-ups.
- Communicating on a regular basis with the capital market, including shareholders, investors, analysts, banks and media.
- To listen to and interact with the Group's more than 4,100 employees. This takes the form of measures including developmental discussions and employee surveys.
- Maintaining good relationships with neighbours, authorities, media, schools, universities and other representatives of society.

The Sustainability Report provides more details on stakeholders' requirements and expectations, and how HEXPOL create value for the various stakeholders.

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 and interest in the Group 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 72-77 and is available at www.hexpol.com. All published financial information, such as presentations, press releases, financial statements and annual reports, is also available on the website.



2014

- Supplier Sustainability Guideline introduced.
- Sustainability objectives 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.
- The use of biofuels is increasing.

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

2016

- Group objectives are linked to the UN's Global Objectives.
- Focus on efficient use of resources – energy, materials, waste.
- Update to ISO 14001:2015 begins.
- Continued education in business ethics.
- Community engagement through activities in local communities and contacts with schools and universities.

PROFESSIONAL CUSTOMER RELATIONS

HEXPOL's relationship to its customers is characterized by professionalism, a high service level and quality awareness. In accordance with "Materializing Our Values", the Group focuses on sound 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 2016, 97 percent of the companies reported customer requirements that included the ISO 14001, hazardous substances, product declarations, conflict minerals, social responsibility and compliance with the customer's code of conduct. At 65 percent (62) of the Group's production units, customers implemented follow-ups of their requirements. The outcome of this year's evaluations was very positive.

CONTINUOUS IMPROVEMENTS

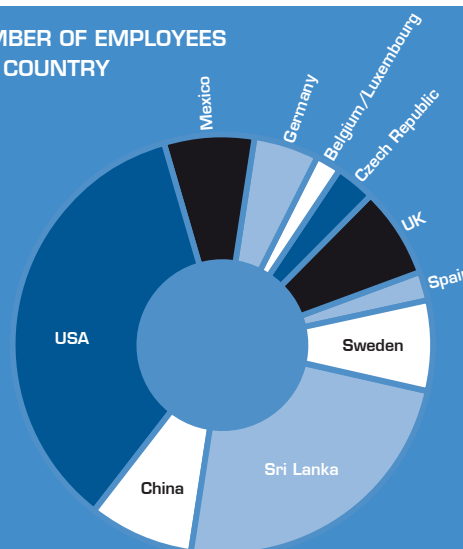
The concept of continuous improvements is an integral feature of the corporate culture and encompasses many areas. Product quality is a key competitive factor and quality-assurance work is conducted in accordance with the requirements of the international standard ISO 9001 and various industry standards. 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.

Within the management systems ISO 14001, ISO 50001 and OHSAS 18001, continuous improvement is a central concept and HEXPOL's units work systematically with targets and follow-ups. The Group also applies improvement systems such as "5s", "Kaizen" and "Lean Manufacturing". Several of the units within HEXPOL Engineered Products, are working according to the integrated management system HEPS (HEXPOL Engineered Products Production System), a concept first introduced at the Group's facilities in Sri Lanka. At the units in the US applies "HEXPOL Continuous Process Improvement," a systematic approach to help customers in their work with quality, productivity and performance.

SUPPLIER SUSTAINABILITY GUIDELINE

It is important to ensure that the Group is cooperating with suppliers who deliver the right quality with good delivery precision and the right price. In addition to this, HEXPOL sets requirements for good business ethics, good working environment, systematic environmental work and respect for

NUMBER OF EMPLOYEES
PER COUNTRY



human rights. Whether the supplier is large or small, global or local, they are expected to meet the same requirements regarding environmental and social responsibility as HEXPOL.

The Group-wide guideline "Supplier Sustainability Guideline" summarises HEXPOL's values and specifies requirements for sustainable development. Assessments are performed through self-declarations, surveys, site visits and formal audits. More than 1,000 suppliers have been evaluated in respect of environment and social responsibility. The majority of evaluations were made through surveys but nearly 30 audits were carried out in different parts of the world.

DIVERSITY, COMPETENCE, COMMITMENT AND WELL-BEING

Employees in 11 countries

At the end of the fiscal year, the number of employees was 4,140 (3,867), 2,679 (2,429) in HEXPOL Compounding and 1,456 (1,433) in HEXPOL Engineered Products. The Parent Company had 5 employees (5).

HEXPOL is a global group and 93 percent (92) of the employees are located outside Sweden. The work force is spread across the US/Mexico (42 percent), Europe (26 percent) and Asia (32 percent). This means diversity in the form of various cultures is a natural feature of HEXPOL's daily activities. With its presence in global markets, the mix of competencies is an important precondition for HEXPOL to succeed nationally and internationally. Because local presence in the various geographical markets is particularly important, HEXPOL endeavour to recruit necessary competencies in the region or country concerned.

Diversity is a matter of seeing the big picture and showing respect and professionalism, as supported by the open corporate culture, "Materializing Our Values" and the ambition to constantly improve.

Good leadership is a prerequisite for success and the work climate should encourage responsibility, creativity and innovation. HEXPOL encourage involvement and seek to engage all employees in the improvement work. Considerable emphasis is placed to keep a culture of rapid decision-making paths without unnecessary bureaucracy.

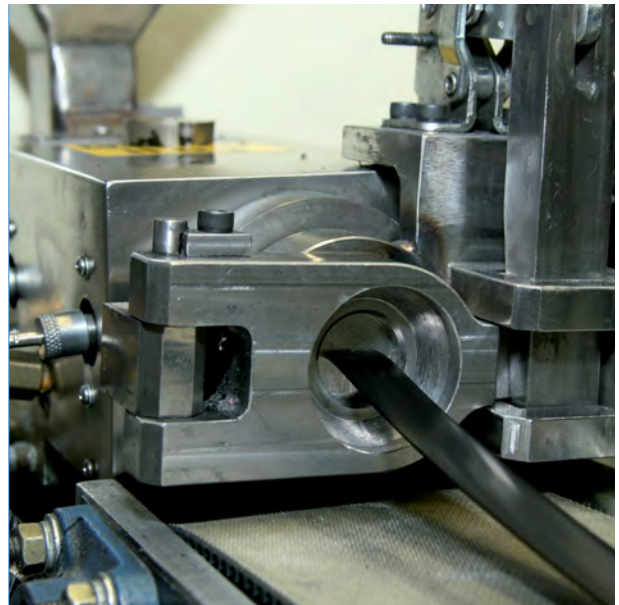
Training/education and experience exchange

Since a prerequisite for developing the business and the products is having committed, experienced and skilled employees, the training/education and skills development of employees takes place globally. The programme "HEXPOL Leadership Development" is designed for younger managers, with the purpose of further developing the ability to work as leaders in a multicultural company.

By working in networks, the overall level of competency is enhanced and many projects are carried out by participants from the Group's operations worldwide. This could be technology and product development, purchasing and marketing. At the 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 international 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 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 half of the units have formal equality plans. The employees are entitled to form and join trade unions and to collective negotiations. They also have complete insight into and the right of co-determination in accordance with the provisions of national legislation. During the year, many of the employees were informed about "Materializing Our Values" and in the introduction of new employees the education about the Group's values is an important point.

Work environment efforts focus on preventive measures and include risk analyses, training programmes, registration of incidents ("near misses") and technical improvements. Creating a good work environment and well-being are the responsibilities of executive management and improvement programmes are conducted in cooperation with employees and their 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 page 69 and to the Sustainability Report.

In the global polymer industry, men account for a substantial part of the workforce, and this also applies to HEXPOL. Within the Group, the proportion of female employees is 13 percent (14). The highest percentage is in Sweden and China (about 35 percent) and lowest in Sri Lanka (4 percent). The proportion of female members of the Board were 43 percent (29), and 17 percent (17) in Group management. The proportion of female members in local management teams were on average 15 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. Furthermore it is important that the remuneration level is on market terms and are competitive. Basic principles for HEXPOL are that wage formation should comply with legislation, at least match the minimum wage levels in the countries in which HEXPOL 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 2016 totalled 1,448 MSEK (1,385).

SOCIAL INVOLVEMENT

HEXPOL engages in social activities throughout the world. These include "open houses" for employees and their families, contacts and projects with schools and universities, and financial support for sports, health care 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. Many of the Group's units are active in contacts with schools and universities, for example, on field trips, development projects, theses and internships. In total, several hundred students participated in activities at the Group's units.

During the year, the units in Statesville, Burton and Middlefield in the US undertook several activities to create interest among secondary school students and engineering students to apply for the polymer industry. The students got, for example, help with career planning, they could participate in graduate programs and were briefed on HEXPOL's technology and values. Similar activities were carried out at Gislaved Gummi in Sweden, where the company is a mentor for young entrepreneurs. More formal research collaborations with universities were conducted for example at Elastomeric Engineering in Sri Lanka and at RheTech in the US. The Group collaborates, since long, with the International Environment Institute (IIIEE) at Lund University in Sweden.

Sustainable development

RESPONSIBILITY FOR PEOPLE AND ENVIRONMENT

Group-wide objectives

The Group-wide objectives focus on energy, climate, environmental management systems, chemical issues, safe work environment and suppliers. The objectives are long-term, comprehensive and supplemented by local targets and action plans at the production plants. As seen in the table below, HEXPOL's objectives are linked to several of the UN's Global Objectives, which shows the ambition of the global perspective of sustainable development. The work with the Group's objectives is moving forward, but further work is needed to achieve them. More details on the objectives can be found in the Sustainability Report.

Decentralised responsibility and systematic work methods

The responsibility for work within environment, work environment, social responsibility and business ethics is decentralised and delegated within the Group. The managers of the companies and production facilities are responsible for managing and monitoring work. 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 technical solutions for the use of resources, purification equipment and waste management, as well as activities that catch the attention of and educate the employees. One of the Group objectives includes the introduction of environmental management systems and all business units except four are



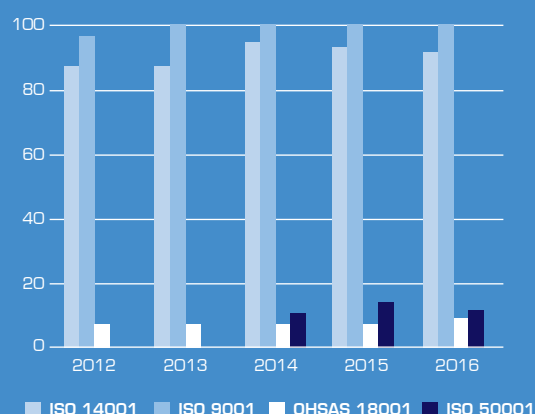
ISO 14001 certified. At these units, the introduction of the standard is ongoing. Many of the plants are now preparing to update the systems in accordance with the requirements of the new version of ISO 14001. This work will be completed no later than during 2018.

Internal and external environmental audits allow the environmental work to be reviewed and improved, and in 2016, 153 internal (135) and 43 external (37) environmental audits were conducted. The standard applied for the work environment (OHSAS 18001) has been introduced at plants in Sri Lanka and at a unit in the UK. Two companies in Germany and the companies in Sri Lanka are certified in accordance with the standard for energy management systems (ISO 50001). All HEXPOL units are certified under the ISO 9001 quality standard.

Risk analyses

The Group's risk analyses include analysing the consequences of developments within legislation, stakeholder requirements and expectations and scientific advances in sustainability development. 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 risks regarding sustainability development on pages 61 and 66-68.

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



Objective	UN Global Objective	Status	Trend
Energy consumption (GWh/net sales) is to be reduced continuously.	Objective 7: Affordable and clean energy	Work with energy analyses and measures aimed at saving energy continued. The installation of energy efficient production equipment, LED lights, infrastructure and energy monitoring contributed to more efficient energy use. See diagram on page 64.	▲
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.	Objective 13: Climate action	The use of biofuels, purchases of green electricity and energy optimisation measures reduce emissions of greenhouse gases. This was offset by increased activity in countries where electricity is produced from fossil fuels. See diagram on page 65.	▶
All facilities should have certified environmental management systems (ISO 14001).	Objective 9: Sustainable industry, innovation and infrastructure	More than 90 percent of the subsidiaries are certified according to ISO 14001. At three units, certification is planned in the coming year.	▲
The use of hazardous chemicals is to be identified, controlled and wherever possible, dangerous chemicals should be phased out. HEXPOL should be viewed as a frontrunner in the polymer industry as a supplier of environmentally compatible products.	Objective 9: Sustainable industry, innovation and infrastructure Objective 12: Responsible consumption and production	Work aimed at restricting the use of particularly hazardous substances is ongoing. A handful of substances were replaced during the year. The development of environmentally compatible products continues. Read more on page 64.	▲
HEXPOL's vision is that no accidents should occur at the workplace. The number of accidents should decrease. Systems to register incidents (near misses) should exist at the units.	Objective 8: Decent work and economic growth	The number of accidents leading to work absence and the number of lost working days increased compared to the preceding year. Systems for reporting near misses are in place at most of the units. Read more on page 69.	▶
HEXPOL Supplier Sustainability Guideline is to be introduced in the supply chain.	Objective 12: Responsible consumption and production	The work with the guideline for suppliers continued during the year. The suppliers were informed about the requirements and were urged to adopt HEXPOL's values. In total, more than 1,000 suppliers were evaluated. Read more on page 52.	▲

▲ TARGET ALREADY ACHIEVED

▲ POSITIVE TREND, TARGET POSSIBLE TO ACHIEVE

▶ NO CHANGE

▼ NEGATIVE TREND, TARGET NOT ACHIEVED

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 2016 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 Large Cap segment of the NASDAQ Stockholm exchange. HEXPOL had 13,330 shareholders on December 31, 2016. 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 63 percent of the capital and 73 percent of the voting rights.

OPERATIONS AND STRUCTURE

HEXPOL is a world leading polymer 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 systems suppliers to players in the global automotive and engineering industries, construction sector, the energy, oil and gas sectors, manufacturers of 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 4,140 employees in eleven countries at year-end.

Financial year 2016

SALES AND OPERATING PROFIT

The HEXPOL Group's sales for the year amounted to 10,879 MSEK (11,229). Currency effects had a positive impact of 110 MSEK on sales.

Sales growth (adjusted for currency effects) amounted to negative 4 percent. Sales growth (adjusted for currency effects and acquisitions) amounted to negative 6 percent. Sales were negatively affected by considerable lower sales prices due to considerably lower prices on our principal raw materials, than the corresponding year-earlier period.

The volume development was positive with higher volumes in Europe, stable volumes in NAFTA and lower volumes in Asia compared to the corresponding year-earlier period. Adjusted for the acquired Berwin Group the volumes were stable. The volumes in Europe and NAFTA were strong to automotive-related customers, while segments as mining, agricultural and oil and gas sector were weak.

Operating profit amounted to 1,921 MSEK (1,964) and the operating margin improved to 17.7 percent (17.5). Exchange rate fluctuations had a positive impact of 35 MSEK on operating profit during the year.

In the beginning of June, Berwin Group, a well-known leading Rubber Compounder in the UK market, with manufacturing facilities in Manchester, UK and in Gloucestershire, UK, was acquired. Berwin Group has an annual turnover of around 40 MGBP and has around 200 employees.

The HEXPOL Compounding business area's sales amounted to 10,028 MSEK (10,402). Sales were negatively affected by considerable lower sales prices due to considerably lower prices on our principal raw materials, than the corresponding year-earlier period. Operating profit amounted to 1,806 MSEK (1,859). The operating margin improved to 18.0 percent (17.9).

The HEXPOL Engineered Products business area's sales increased to 851 MSEK (827). Operating profit rose to 115 MSEK (105), which improved the operating margin to 13.5 percent (12.7).

FINANCIAL INCOME AND EXPENSES

The Group's net financial items amounted to an expense of 8 MSEK (expense: 21), of which interest expense amounted to 10 MSEK (expense: 18).

TAX EXPENSES

The Group's tax expenses amounted to 516 MSEK (550), corresponding to a tax rate of 27.0 percent (28.3).

NET PROFIT FOR THE YEAR

Profit before tax amounted to 1,913 MSEK (1,943) and profit after tax increased to 1,397 MSEK (1,393). Earnings per share increased to 4.06 SEK (4.05).

INVESTMENTS, DEPRECIATION AND AMORTISATION

The Group's investments amounted to 166 MSEK (159). Investments are mainly attributable to capacity investments in Mexico and maintenance investments. Depreciation, amortisation and impairment amounted to 216 MSEK (209).

PROFITABILITY

The return on average capital employed, R12, amounted to 26.8 percent (28.6). The return on shareholders' equity, R12, amounted to 20.5 percent (23.7).

CASH FLOW

The operating cash flow amounted to 2,057 MSEK (2,185). Cash flow from operating activities amounted to 1,710 MSEK (1,760).

FINANCIAL POSITION

The equity/assets ratio increased to 77 percent (72). The Group's total assets amounted to 9,848 MSEK (8,723). Net cash increased to 1,268 MSEK (454).

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

- A credit agreement with a limit of 125 MUSD that will fall due in February 2020.
- A credit agreement with a limit of 1,500 MSEK that will fall due in August 2019.

At year-end, these two credit agreements were unused.

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 4,577 MSEK (4,151). The principles applied in the analysis are presented on page 84 under the section accounting policies.

FINANCIAL TARGETS

The Group has the following financial targets:

- 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 2016 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. 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 shall annually consider whether a share- or share price related incentive program shall be proposed to the Annual General Meeting or not.

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 2017 Annual General Meeting that these guidelines remain unchanged. Variable remuneration is not pensionable and is capped at 130 percent of the fixed salary.

PERSONNEL

The average number of employees during the year increased to 4,028 (3,858). The increase in number of employees relates mainly to the units in Mexico and the acquired Berwin Group. 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, 93 percent is outside Sweden. At year-end, the HEXPOL Group had 4,140 (3,867) employees, of whom HEXPOL Compounding accounted for 2,679 (2,429), HEXPOL Engineered Products for 1,456 (1,433), 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 82 MSEK (78), 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	1,925,891
Share premium reserve	597,880
Profit for the year	1,142,658
Total unrestricted funds	3,666,429

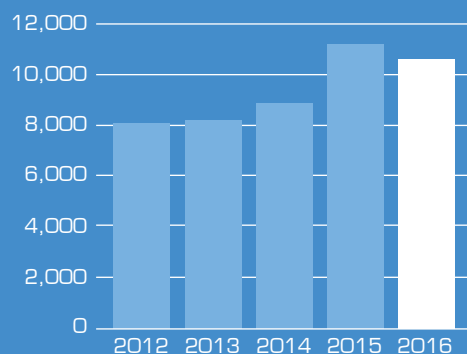
The Board proposes that the unappropriated funds be disposed of as follows: that the shareholders be paid a dividend of 4.75 SEK per share, consisting of an ordinary dividend of 1.75 SEK per share (1.70) and a special dividend of 3.00 SEK per share.

Total dividend from profit brought forward	1,634,956
To be carried forward	2,031,473
Total	3,666,429

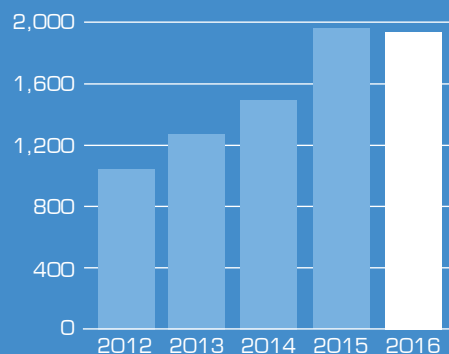


Five-year overview

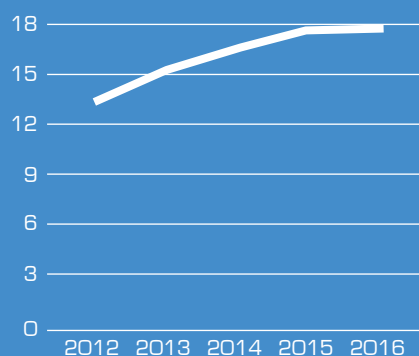
SALES, MSEK



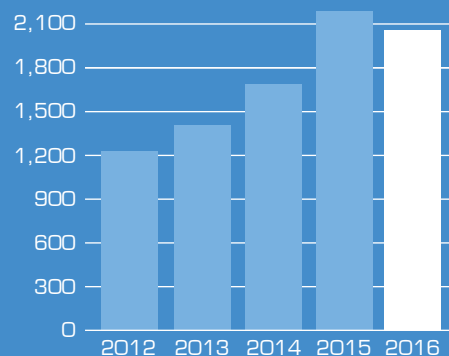
OPERATING PROFIT, MSEK



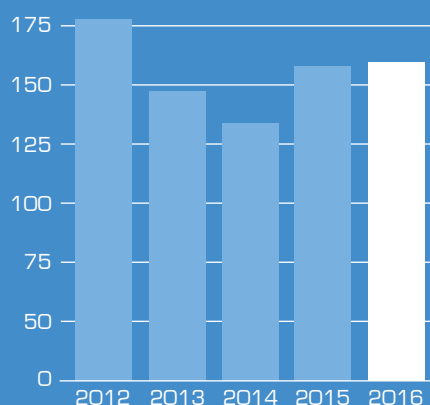
OPERATING MARGIN, %



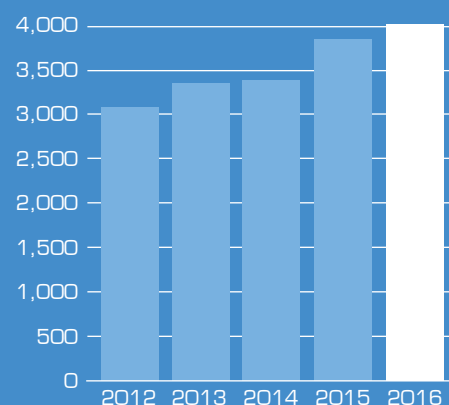
OPERATING CASH FLOW, MSEK



INVESTMENTS, MSEK



AVERAGE NUMBER OF EMPLOYEES



Risk factors

MARKET RISK MANAGEMENT

Risk

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.

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 into attractive products and customised solutions at a competitive price. Increased competition and price pressure in the markets in which HEXPOL is active could have an adverse impact on the Group's operations.

Acquisitions and integration

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.

Risk management

HEXPOL's operations are widely spread geographically, with a broad global customer base within numerous market segments, providing a favourable risk diversification. Possible negative effects of a downturn in one market can therefore be partially offset by increased sales in another market.

HEXPOL has a flexible production that can adapt to changed customer requirements.

Focus on product development is one of HEXPOL's operation strategies in order to maintain long-term profitability and sustainable competitiveness. The Group possesses in-depth and wide-ranging polymer and applications expertise. Most of the plants are relatively new and well-invested with high technology level. Overall, approximately five percent of HEXPOL Compounding's employees are engaged in development work and many of them are highly qualified engineers.

HEXPOL evaluate a large number of companies to find acquisitions that can strengthen the Group's product portfolio or geographical position, and that supports the Group's strategic plan. An analysis of the entire company, a so-called due diligence is done to assess any potential risks before decision is taken. HEXPOL has a strong balance sheet that provides a financial foundation for future acquisitions.

Based on extensive experience of acquisitions and integrations of these, combined with clear strategies and objectives, HEXPOL has good potential to successfully continue the active acquisition strategy.

STRATEGIC AND OPERATIONAL RISK MANAGEMENT

Risk

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 operations could be adversely impacted.

Products

If HEXPOL's products do not meet customer requirements, complaints and recalls may occur.

Suppliers

HEXPOL's products consist of many different raw materials 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.

Risk management

HEXPOL has a favourable risk diversification in terms of geographical areas and customer groups. No single customer accounts for more than 10% of Group's sales.

HEXPOL uses quality systems to ensure that the product complies with specified requirements.

HEXPOL has a favourable risk diversification in terms of suppliers and the group is not, to any significant extent, dependent on any single supplier.

Risk	Risk management
Key personnel If key persons leaves and successors cannot be recruited or if HEXPOL is unable to attract qualified personnel, this could have a negative impact on the Group's operations.	HEXPOL's future success largely depends on its ability to recruit, retain and develop the Group's employees. HEXPOL strives to be an attractive employer and encourages internal recruitments.
Production disruptions Damage to production facilities caused, for example, by fire, flood, mechanical damage, natural disaster, can lead to interruption of business and affect customer deliveries.	HEXPOL has many units which gives certain flexibility in terms of supporting production. HEXPOL works regularly with risk prevention.
Raw material HEXPOL depends on a significant number of input materials, primarily plastics and rubber raw materials. Trends in the market may result in higher purchasing prices for input materials that are crucial for HEXPOL. In view of the competitive situation, there is a risk that HEXPOL cannot raise prices sufficiently to fully offset the increased costs, leading to reduced margins.	To meet the increased costs for input materials, HEXPOL works, among other things, to improve production efficiency, developing more cost-effective processes and monthly price negotiations.

LEGAL RISK MANAGEMENT

Risk	Risk management
Legislation and regulation HEXPOL's principal markets are subject to extensive regulation. 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 restrictions in the countries in which HEXPOL is active could have an adverse impact on the Group's operations.	HEXPOL complies in all respects with the applicable laws, regulations and ordinances in each market and works for quick adaptation to identified future changes in the area. HEXPOL educate employees in business ethics guidelines and senior managers and employees within purchasing and sales participate in education of international law relating to cartels and illegal business collaborations.
Tax risks HEXPOL conducts its operations through subsidiaries in a number of countries. The Group's interpretation of applicable laws, tax treaties, OECD's guidelines and regulations can be challenged by local tax authorities. Rules and guidelines may be subject to future changes which can have an impact on the Group's tax position.	The business, including transactions between Group companies, is conducted in accordance with the Group's interpretation of prevailing tax legislation, tax agreements, OECD's guidelines and regulations. The Group has obtained advice on certain matters from independent tax advisors. Transactions between Group companies are normally conducted at arm's length.
Intellectual property rights 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. 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 Vulkollan wheels currently accounts for a major share of the sales of the subsidiary Stellana AB.	HEXPOL has an ongoing dialogue with the license owner.
Health, safety and the environment HEXPOL has operations in many countries with different permit requirements and environmental legislation. 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. Legislative amendments and changes in government regulations could also impede or limit HEXPOL's operations. The possibility of liabilities arising in conjunction with personal or property damage, as well as damage to air, water, land and biological processes may have a negative impact on the Group's operations.	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. HEXPOL is continuously monitoring anticipated and implemented changes in legislation in the countries where the Group operates. 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. HEXPOL has a health insurance system in the US, whereby the employee are offered compensation for health care. The Group's expenses are maximized to a fixed amount per individual and year.

FINANCIAL RISK MANAGEMENT

Risk

Risk management

Currency risk

In its operations, HEXPOL is exposed to various financial risks, of which the 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.

HEXPOL's business is local, which means that sales and purchases normally are made in local currency and thus limits the Group's transaction exposure. The translation effect is limited to a certain extent through hedging instruments in the parent company.

A sensitivity analysis shows that the effect of a change of 10 percent against all currencies in relation to the exchange rate of SEK would affect operating income by 166 MSEK.

Interest risk

Changes in the market interest rates affect HEXPOL's net financial items.

Excess liquidity and credit agreements are primarily managed at Group level and in accordance with the financial policy and to variable interest rate.

External liabilities December 31, 2016, amounted to 29 MSEK, which limits the interest risk.

Credit risks

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. 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.

HEXPOL conducts regular credit assessments of customers. HEXPOL has widely diversified customers in terms of both geographical areas and customer groups, which limits the risk of significant customer losses.

HEXPOL's excess liquidity is primarily used to amortize external loans and further surpluses are placed in well-known banks.

Financing and liquidity risk

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

HEXPOL has a strong balance sheet that provides a financial platform for future acquisitions.

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 has two major credit agreements with Nordic banks, both of which were unused December 31, 2016:

- 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 2019.

Insurable risks

HEXPOL's operations, assets and employees are to some extent exposed to various types of risks that may affect HEXPOL's operations.

HEXPOL has a centrally procured insurance coverage for property, responsible, interrupt, travel and transport insurances, etc., combined with local insurances where necessary.

Sustainability work

ENVIRONMENTAL RESPONSIBILITY

ENVIRONMENTAL WORK CREATES BUSINESS VALUE

During 2016, environmental work was further developed in HEXPOL. Key drivers is to reduce the environmental impact and comply with environmental legislation in the countries where HEXPOL is active. Beyond that, many activities focused on creating business value of environmental work. For example, both environmental and business value was created through more efficient use of energy, water and raw materials. Environmentally sound product development is another priority area where HEXPOL's knowledge and technology can contribute to customers' environmental work.

Key environmental aspects include the use of resources in the form of polymer raw materials (rubber, plastic), chemical products, energy and water. Other significant aspects pertain to emissions into the atmosphere and waste generation. Indirect environmental aspects include a life cycle perspective on supplier activities, transportation of raw materials and complete products, as well as customers 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 2016 Sustainability Report encompasses all plants in the Group, apart from one, in ten countries.

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. Some minor operations in the UK and one facility in Germany are not subject to any specific environmental permits. Compliance with permits and emission conditions is monitored through measurements and inspections, and in more than 30 units submit specific environmental reports to supervisory authorities. Half 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 (REACH, RoHS, CLP, WEEE, energy optimisation) and other national or international legislation affect most 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. In the concerned units, energy audits have been conducted or will be conducted. The requirements in the Directive can also be met by the introduction of the ISO 50001 energy management system. Within the EU, ISO 50001 exists at two plants in Germany and some other units are working to implement the management system.
- 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, the regulation resulted in many measures during 2015-2016, such as new classification of chemical products and that labelling and safety data sheets have been updated.
- Supervisory authorities conducted inspections at 15 of the plants. Any serious deviations from environmental legislation could not be found.
- Minor violations of environmental law in the form of discharges into the air and water occurred at a plant in Sweden and one plant in the US. Actions have been taken and the violations did not result in any legal consequences. A preliminary investigation regarding violation of environmental legislation are in progress in Gislaved Gummi AB, Sweden.

ENERGY CONSUMPTION

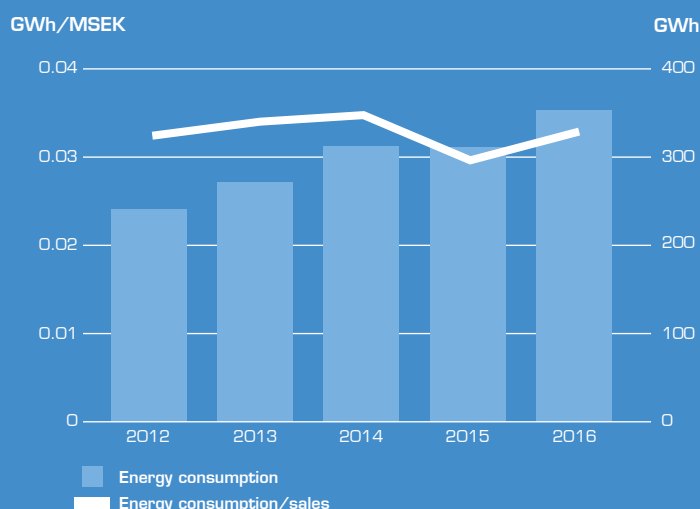
The use of energy is one of HEXPOL's most important environmental issues. In 2016, 355 GWh (309) was needed to keep the business running. The energy cost was 220 MSEK (193) and gave rise to the emission of 143,000 tonnes of the greenhouse gas carbon dioxide. It is especially mixing equipment, presses and other heavy production equipment that dominate energy usage, but compressed air, cooling, lighting, ventilation and moving of materials are also important in this connection. About two-thirds of the energy consisted of purchased electricity, 16 percent (20) of natural gas and the rest derived from other sources. The use of biofuels and fossil-free electricity amounted to 11 percent (16).

The Group is growing both in terms of number of plants and production volume, and with this follows increased energy use. The aim is to use energy more efficiently, and therefore, many energy projects are conducted every year. Despite this, the key figure for energy (GWh/net sales) in a five-year perspective is largely unchanged. The indicator is linked to net sales and as the prices on raw materials have fallen in recent years,

something that affects sales, the increased energy efficiency is not clearly reflected in the accounts. During the year, measures were implemented such as:

- Performing energy surveys and introduction of the ISO 50001 energy management system.
- Installation of AC drives, which provide better control of the speed (frequency control) of the electric engines in the rubber compounding equipment, thus reducing energy use.
- Detecting leaks in the compressed air systems in order to reduce unnecessary energy losses.
- Installation of cooling systems with greater energy efficiency.
- Replacement of fixtures with LED bulbs and better systems to control the lighting and to automatically turn it on and off. Increased use of daylight in the premises for example some warehouses.
- Installation of steam traps on presses and insulation of furnaces. Switching off equipment not in use.
- Better control of the processes for rubber compounding and shorter cycle times reduced energy consumption at several plants. Faster conversion of equipment when changing products. Pre-heating of presses.
- Reduced energy consumption during peak periods on the electricity network. Surplus energy sold to the local district heating network in Gislaved, Sweden.
- More efficient use of forklifts for internal transportation. Replacement of gas-powered trucks to electric.

ENERGY CONSUMPTION



POLYMERS AND OTHER CHEMICAL PRODUCTS

Most of the Group's manufacturing processes are based on the use of polymers, softening agents, fillers, and a large number of different chemical substances. The recipe depends on the desired technical properties. The rubber compounds include various types of synthetic rubber, process oils as softening agents, carbon black and other fillers, as well as chemicals and additives. Some compounds include natural rubber.

In addition to the above-mentioned raw materials,

polyurethane plastics, thermoplastic elastomer compounds (TPE), metals, solvents and dyes are used. In terms of volumes, synthetic rubber polymers are predominant but TPE, polyurethane plastics and olefins are used to a considerable extent. The use of natural rubber accounts for about 7 percent (8) of total polymer consumption and recycled polymers accounts for about 18 percent (1). The natural material, cork, is used in certain TPE applications. In the product series, Dryflex Green and RheVision, bio-based raw materials are included.

SAFE CHEMICAL MANAGEMENT

At HEXPOL, a large number of different recipes and many 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. About ten substances, identified by REACH or other chemicals legislation, are used within the Group.

Efforts to reduce the risks continued in 2016 and applied, for example, to finding replacements for certain phthalates, solvents, biocides and accelerators. This work is complicated since there is no global harmonised legislation and substances that are banned in one country may be permissible in another part of the world. Regardless of this, HEXPOL strive to offer customers options that are advantageous from an environmental and health perspective but without lowering technical performance.

EMISSIONS TO THE ATMOSPHERE

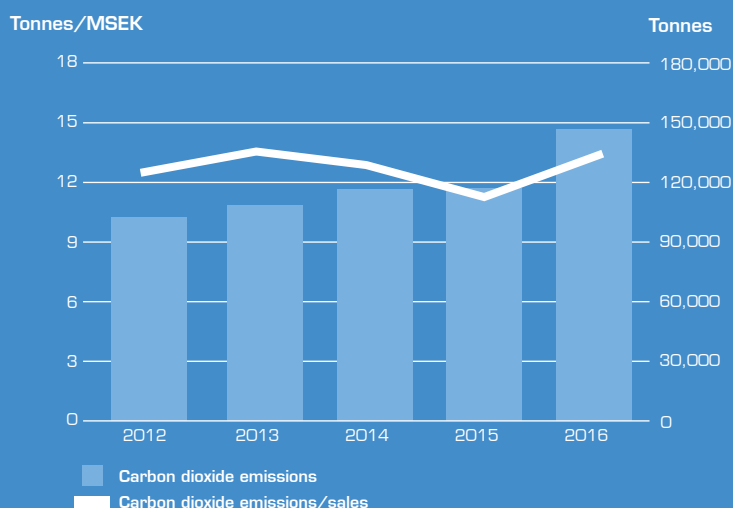
CLIMATE IMPACTING GASES

The aim is to reduce the emission of the greenhouse 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 143,000 tonnes (117,000) during 2016. The indirect emissions through purchases of electricity dominated and accounted for 88 percent (87) of the total amount of carbon dioxide. The Group's carbon dioxide footprint has increased, and the increase has several causes:

- Increased production, increased used of energy, and increased number of acquired facilities. Because significant parts of the production takes place in countries like the US, Mexico, Germany and China our emissions have been affected of the electricity production in these countries, having a large amount of fossil fuels.
- The purchase of "green" electricity in the Czech Republic has fallen dramatically. Previously, priority customers were offered fossil-free electricity but now all companies gets the same portion. This year's award of "green electricity" for the HEXPOL was four percent, which unfortunately affect the Group's emissions in a negative way.

In a five-year perspective, the Group's KPI (tonnes of carbon dioxide/net sales) is unchanged. The measures for improving energy efficiency contribute to reduced emissions, which is positive. The same applies to the use of biomass (wood, sawdust) on Sri Lanka. The purchase of "green electricity" in several units has also a positive impact on the carbon dioxide footprint. In the same way as for energy consumption, the Group's KPI is negatively affected of the lower raw material prices.

CARBON DIOXIDE EMISSIONS



OTHER EMISSIONS

Energy consumption caused 9 tonnes (9) of atmospheric emissions of sulphur dioxide and nitrogen oxide. The emissions have been reduced in recent years and are a result of minimisation of the use of fuel oil at the units on Sri Lanka through investments in biofuel. Emissions of VOC (Volatile Organic Compounds) from dyes and solvents totalled some 30 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 approximately one tonne.

WATER CONSUMPTION

In 2016, some 340,000 m³ (250,000) of municipal water was consumed, 98,000 m³ (25,000) from proprietary wells and 447,000 m³ (428,000) from streams. Acquired companies and increased production contributed to the rise in water consumption. Another factor is that several companies have introduced systems to better record the actual use of water from wells and streams. Most of the production facilities have cooling systems with recirculated water and actions have been taken to reduce water consumption such as leak searches, training and technical measures. The total cost of water was 4.3 MSEK (3.7).

Access to good quality water is essential for HEXPOL and, from a natural resource perspective, there are many reasons for us to be economical with water. The Group's production units are not

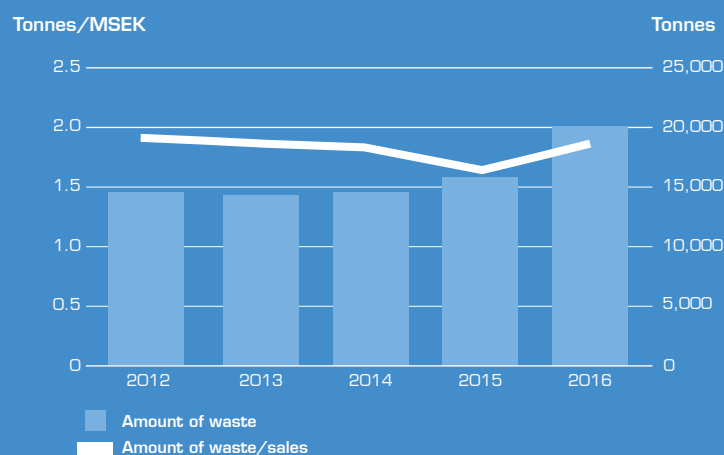
located in areas suffering from water shortages or where the aquatic eco-system is threatened. The exception is a unit in California, USA, where the State has suffered a severe long-term draught and where companies are expected to implement water-saving measures. Emissions to wastewater from production 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.

RESOURCE-EFFICIENT USE OF MATERIALS

By minimising spoilage, improving waste sorting at source and reducing the amount of waste, the Group are using raw materials more efficiently. Examples of actions that are good from an environmental perspective include internal recycling of process waste and the utilisation of purchased recycled polymers. During 2016, purchased recycled material accounted for about 18 percent (1) of total polymer raw materials. Here it is mainly RheTech in the US that provide great use of recycled plastic. In one project, conducted at the Group's units in the US, a significant amount of carbon black has been recycled from dust filters in certain products.

During 2016, the total volume of waste was 20,000 tonnes (16,000), of which hazardous waste accounted for 810 tonnes (638). In a five-year perspective, the KPI for waste (tonnes/net sales) is showing a slightly declining trend. The key figure is affected by raw material prices (net sales), which in 2016 was one of the reasons for the deviation in the downward curve. The cost of waste management amounted to 18.4 MSEK (13.3).

AMOUNT OF WASTE



PRODUCTS CREATING ENVIRONMENTAL VALUE

Interest in the "cleantech" – products and services that make environmental and business benefits – increases in society. Therefore, many of HEXPOL's customers are working to environmentally adapt their products. It may be a question of reducing the risks associated with chemical substances, reducing fuel consumption in vehicles, increasing energy efficiency in industrial processes, or increasing the use of renewable materials. Within the Group there are many good examples of products that contribute to environmental benefits and which has been developed by HEXPOL:

- RheTech in the USA uses recycled polymers. The product line, RheVision, is based on renewable materials. The polypropylene plastic is reinforced with fibers from, for instance, Agave cactus, coconut or rice shells. The raw materials are considered as waste but are instead re-used for the production of plastic products. In the products RheTech may use up to 15 percent of biological material and combined with recycled polymers, more than half of the product may consist of recycled material.
- HEXPOL TPE Compounding has recently launched product line Dryflex Green. A thermoplastic elastomer based on raw materials from renewable sources.
- HEXPOL has developed a type of EPDM rubber with low electrical conductivity, which is something the automotive industry demands. The risk of electrolytic corrosion occurs when the use of light aluminium and magnesium alloys increase in cars. Door strips with the new type of EPDM reduces the risk of corrosion.
- Recycled polymers are used in materials 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 saving, 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. TPEs can also replace PVC in certain applications.
- 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 application with environmental benefit.

RISKS RELATED TO SUSTAINABLE DEVELOPMENT**Environmental legislation**

The development of environmental legislation and environmental policies impacts HEXPOL in both short and long term. Climate change represents an area in which it is probable that additional legal and financial means of control will be introduced.

RHETECH ENVIRONMENTAL AWARD

RheTech LLC has received the Pollution Prevention Award from the Washtenaw County Environmental Excellence Partnership Program (E2P2). The Environmental Excellence Partnership Program (E2P2) recognizes businesses and non-profits that provide leadership in environmental protection and practice environmentally sound behaviour in the areas of water quality protection, waste reduction and recycling, and pollution prevention.

"We are very excited to be recognized with this award. Here at RheTech, we continuously aim to improve and reduce the environmental footprint of our products and facilities," said Brian Gillette, corporate safety & environmental officer, RheTech. "We have always taken a very proactive role in our green initiatives, which not only helps our company and the local communities in which we do business,

but also helps our customers and other companies achieve their environmental goals as well." Some of the environmental policies put in place at RheTech include: working towards becoming a "zero waste" facility; maintaining exemplary compliance during all partnership program inspections; installing solar tubes in office hallways; recycling cardboard, pallets, bags, and office paper; replacing light fixtures with LED lights; automatic light turn-off devices installed in most common areas; and installing screens in catch basins to ensure clean and safe water.



The Group is working systematically to analyse and implement the legislation and currently sees no unforeseen changes in requirements 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 creates 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. The 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 current Sustainability Report in accordance with GRI guidelines, 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 2016.

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, has been examined 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

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 labour 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. In total around 1,000 suppliers have been assessed so far.

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.



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 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. During the year, there have been no accidents or uncontrolled emissions to the environment. A fire in an electrical box, without consequences for the environment or people, occurred at one of the plants in Germany. A small fire in a waste container outside the plant occurred at one of the Swedish units.

Climate-related risks

Three of the plants have identified flooding as a climate-related risk and certain precautions have been taken. Three facilities are located in areas that could be exposed to extreme weather. 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, the Group invested 17.5 MSEK (19.1) in the environmental and occupational health and safety area. The investments were primarily targeted at energy optimisation (18 percent), air-purification (17 percent) and improved work environment (37 percent). Environmental and work-related costs were higher than previous year and amounted to 27.6 MSEK (22.7). The costs include administration, running the purification systems and fees to authorities and certification bodies. The main cost item pertained to fees for the management of waste and accounted for 67 percent (60) of the total costs.

Environmental and work-environment-related measures resulted in savings of 10.8 MSEK (14.1). Measures involving energy optimisation, safety measures 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.

VOLUNTEERS FROM RHETECH HELP VICTIMS OF THE HURRICANE ON HAITI

An October evening, 2016, a team of HEXPOL RheTech employees, families and friends contributed to help package food to be delivered to Haiti in the wake of Hurricane Matthew. The 15-member team helped package more than 285,000 meals to be immediately shipped to Haiti by Lifeline Christian Mission. The volunteers were informed that more than 1.5 million meals have been shipped to Haiti by this organization in response to the hurricane.



SOCIAL RESPONSIBILITY

PREVENTIVE MEASURES FOR OCCUPATIONAL HEALTH AND SAFETY

During 2016, there were 127 occupational accidents (111) resulting in more than one day's absence from work. Total absence due to occupational accidents amounted to 2,319 days (2,058). Almost one third of the units were completely injury-free during the year, but the total number injuries and lost workdays were higher than in the previous year. 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 million hours worked is 13.6 accidents. The outcome of the year was slightly above average and amounted to 15.1 accidents per million working hours and is at the same level as other manufacturing industries. The causes of the occupational accidents consist primarily of falls, equipment, manual work and heavy lifting. Three occupational accidents involving contractors was reported and 13 work-related illnesses (8) were confirmed. Impaired hearing, allergies and injury to muscles and skeleton are examples of illnesses that occurred during the year. We cannot show a clear downward trend in the number of work accidents and occupational diseases.

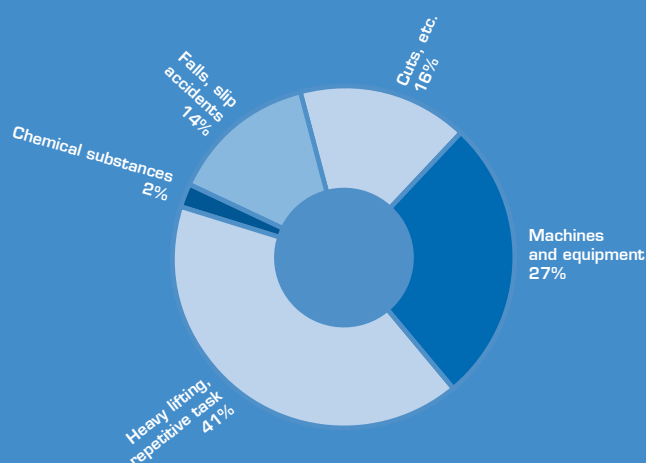
The Group has a zero vision regarding accidents and diseases, and efforts have been directed at preventive activities, training and a systematic approach. One example is the OHSAS 18001 occupational health and safety system which was introduced in the facilities in Sri Lanka and during the year in one facility in UK. 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 94 percent (86) 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 the few 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 2016. Such systems have been introduced in 82 percent (86) of the units and are being used in an efficient manner. A total of 308 near misses (365) 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 79,000 hours (88,600) in 2016. This corresponds to 19 hours (23) per employee. About 2,650 employees (2,400) participated in developmental discussions or other form of performance reviews. Surveys of employee views of the work situation are conduc-

CAUSES OF OCCUPATIONAL ACCIDENTS 2016



ted at several of the units and ten such surveys were conducted during the year. The results show that employees are satisfied with the company and their own situation, but also areas that can be improved, such as better internal communication and personal development opportunities. HEXPOL Burton Rubber received the award "Best Workplace 2016" in an independent evaluation based on employee assessments.

Training programmes involving the environment, occupational health and safety were conducted regularly during the year and included an average of 8.5 hours (8.1) per person. The training programmes pertained to protection against fire and accidents, evacuation exercises, safe 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 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 one third of the plants and this applies in Sweden, Sri Lanka, Germany, Spain 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 48-55 and in the Sustainability Report.

HEXPOL NAFTA COOPERATIVE EDUCATION PROGRAM MENTORING TOMORROW'S LEADERS

To help ensure continued success and growth, HEXPOL NAFTA has always been committed to investing in the company's most appreciable asset: people. Not only for our current valued associates, but university and technical school students as well. We are dedicated to mentoring students who are studying for a career in the elastomer compounding industry.

The HEXPOL Cooperative Educational Program (Co-Op) offers students the opportunity to gain hands-on experience in their field of study, whether it's to become a chemical engineer, development chemist, or environmental health and safety professional, to name a few. Leadership development skills, applicable to all areas of the compounding business, are an important part of the mentoring process. Students get the chance to work on real projects that help them prepare to enter the workforce after graduation.

Efforts to expand and enhance the Co-Op Program – spearheaded by Don Purdy, Director of University Relations & Development for Co-op Programs – began several years ago. Today there are Co-Op programs at all 11

HEXPOL campuses across NAFTA. During the last five years 92 students have participated and 16 have become full time HEXPOL associates.

A very popular feature of our Co-Op offering is the Rotation Program, which provides students with work experience at three different HEXPOL campuses: Burton/Middlefield, OH; Dyersburg, TN; and Kennedale, TX. Students complete the program by preparing and presenting a "Highlights and Accomplishments" report to each location's management team. HEXPOL recruits co-op students from 20 different educational institutions throughout North America. Youngstown State, Akron University, and The Ohio State University are the hub schools for chemical engineering students.



RHETECH SCHOLARSHIP PROGRAM

The Janice L. Pearson Memorial Scholarship program at RheTech started in 2013 and the first awards were made in 2014. The scholarship funds are generated through private donors and the company RheTech LLC. The awards are provided to immediate family members (children or grandchildren) of a current RheTech employee based upon an application process managed and controlled by an independent company. For 2016, RheTech awarded four \$2,500 scholarships and seven \$1,000 scholarships. The winners of the \$2,500 scholarships included: Audrey Braun (daughter of Deb Braun from RheTech

Colors accounting), Jaime Hansen (daughter of Jeff Hansen RheTech Manager of Technical Services), Alexandra Clave (daughter of Shelley Clave Customer Service Manager RheTech) and Sarah Richardson (not pictured - daughter of Tom Richardson RheTech Colors Sales). Over \$54,000 has been awarded to RheTech employee children since the program began making awards three years ago.



BURTON RUBBER PROCESSING LISTED AMONG 2016 TOP WORKPLACES IN NORTHEAST OHIO

HEXPOL Compounding LLC (Burton Rubber Processing) was recently honored in 2016 Top Workplaces listing, ranked number two among Northeast Ohio midsize companies. Burton Rubber Processing, located in Burton, Ohio, made the prestigious list for the second year in a row. Founded in 1957, 220 associates currently work at the campus.

"Our goal is to keep all aspects of Burton Rubber Processing amazing – amazing to our associates, valued customers, and the community we serve," said John Gorrell, General Manager, Burton Rubber Processing. "It's an honour and privilege to have our company recognized for the second consecutive year. We are proud to be associated with so many other well respected businesses in our region."

The 2016 Top Workplaces list was published in the Plain Dealer on June 19. Employees of participating companies responded to a detailed survey conducted by an independent workplace consultant. Company rankings were based solely on employee responses to 20 statements addressing multiple work-related factors.

Engaged employees agree that they are motivated to do excellent work and deliver quality products and services to their customers. Survey results certainly support that premise, with respondents indicating that the HEXPOL Burton Rubber Processing campus

is comprised of individuals who are dedicated to HEXPOL through meaningful work and a vibrant connection with the company. They stressed the benefits of a positive culture and the support provided through personal and leadership development programs. Respondents also have a strong belief that HEXPOL Compounding is moving in the right direction.

"We continually train our associates and equip them with the skills they need to take on new responsibilities when advancement opportunities appear," Gorrell said. "It's very rewarding to add value to their lives and watch them grow, better serving our customers and progressing into leadership positions. If we don't care about the people we lead, we have no business leading them."

Respondents also felt that HEXPOL leadership provides a clear vision of company goals and makes a significant effort to ensure each associate feels valued and recognized for contributions to HEXPOL's success.



HEXPOL TPE HELP TO INSPIRE THE NEXT GENERATION OF POLYMER SCIENTISTS

As a member of the British Plastics Federation (BPF), HEXPOL TPE's ELASTO UK site, were among the companies sponsoring the Polymer Study Tours 2016. The Polymer Study Tours are courses for teachers of science and design technology. They are designed to improve knowledge and understanding of the curriculum related to polymers.

The courses include a mixture of lectures, laboratory and workshop sessions as well as visits to plastics processing companies. The sessions are delivered by leading figures from industry and academia who are keen to encourage discussion on all things polymer

related. Delegates are given valuable teaching resources which relate to the curriculum and promote the knowledge of polymers and their importance to the quality of everyday life. The courses are located at three centres around the UK; Edinburgh Napier University, London Metropolitan University and Manchester University.



Corporate Governance Report



HEXPOL is a public company listed on NASDAQ Stockholm, Large Cap. The governance of the HEXPOL Group is based on Swedish legislation, primarily the Companies Act, HEXPOL's Articles of Association, the NASDAQ Stockholm's rules for issuers and the Swedish Code of Corporate Governance (the Code).

SHAREHOLDERS

Refer to pages 14-15 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 formalize 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

A General Shareholder Meeting is HEXPOL's highest decision-making body, which all shareholders are entitled to attend. At a General Shareholder meeting, all shareholders have the opportunity to exert an influence over the company by exercising the votes attached to their respective shareholdings. At the Annual General Meeting (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 April or 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 Annual General Meeting 2016

The 2016 AGM was held on April 29, 2016 in Malmö, Sweden. At the AGM, shareholders in attendance represented approximately 59 percent of the total voting rights. The Chairman of the Board, Melker Schörling, was elected Chairman

of the Meeting. At the Meeting the income statement and balance sheet and the consolidated income statement and balance sheet, was approved. The Meeting approved the dividend according to the Board's proposal of SEK 1.70 per share for the 2015 fiscal year. Melker Schörling, Georg Brunstam, Alf Göransson, Jan-Anders E. Månson, Malin Persson, Ulrik Svensson and Märta Schörling Andreen were re-elected and Kerstin Lindell was elected, as members of the Board. Melker Schörling was re-elected as Chairman of the Board. The Meeting approved the Board's proposed guidelines for remuneration to HEXPOL's senior executives. At the meeting it was decided to introduce a warrants program for the CEO, Group Management, senior executives and key employees within the HEXPOL Group through a direct issue of 2,100,000 subscription warrants, each warrant entitles the holder to subscribe for one share of series B in HEXPOL AB.

Annual General Meeting 2017

HEXPOL's Annual General Meeting 2017 will be held April 28, 2017 in Malmö, Sweden. For information about the AGM, refer to page 103.

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 2016 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 2017 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 2017, 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 2017 AGM.

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	Holdings of warrants
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	300,000
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	–	–	–
Märta Schörling Andreen	1984	Swedish	2014	Yes	No	Yes	No	–	–	–
Kerstin Lindell	1967	Swedish	2016	No	No	Yes	Yes	–	5,000	–

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 2016.

*Ulrik Svensson resigned from HEXPOL AB's Board, at his own request, late in 2016.

THE BOARD OF DIRECTORS AND ITS WORK

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. HEXPOL's Articles of Association contain no provisions regarding appointment or dismissal of Board members or amendments to the Articles. The Board is elected annually at the AGM for the period up until the next AGM. HEXPOL's AGM on April 29, 2016 resolved to elect a Board consisting of Melker Schörling (Chairman), Georg Brunstam, Alf Göransson, Malin Persson, Ulrik Svensson, Jan-Anders E. Månson, Märta Schörling Andreen and Kerstin Lindell. The Board was elected for the period up to the 2017 AGM. Ulrik Svensson resigned from HEXPOL AB's Board, at his own request, late in 2016. 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 presen-

ted 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 above, 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.

Evaluation of the Board's work

Evaluation of the Board's work, including its committees, are conducted annually. The evaluation covers the Board's work processes, competence and composition, including Board members' backgrounds, experience and diversity. The evaluation is presented to the Nomination Committee.

Board committees

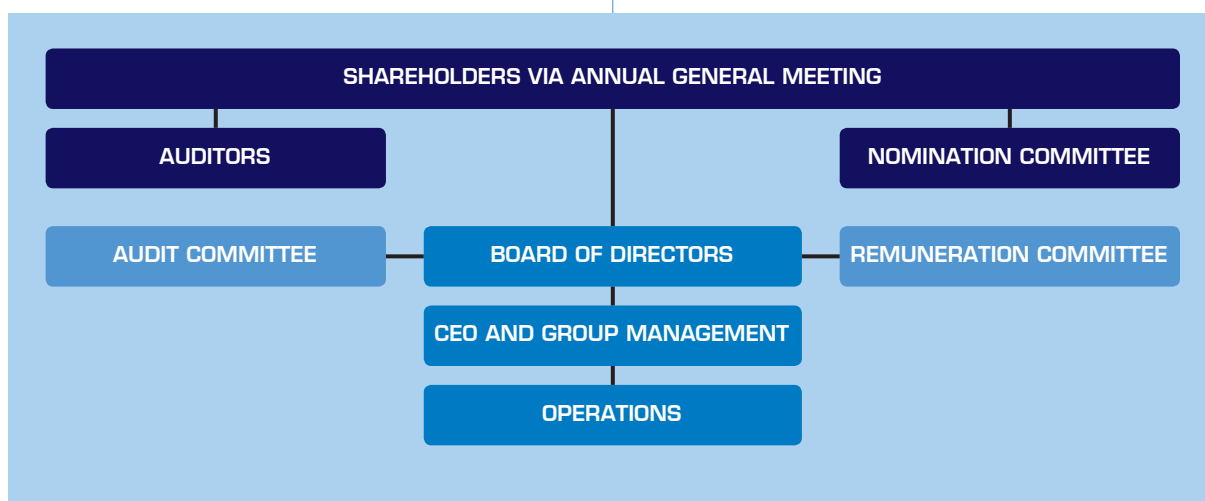
The Board has established two committees from among its members: the Audit Committee and Remuneration Committee. The Board's Audit Committee, which is a preparatory function in the contact between the board and auditors, follows a written instruction and should through its operations meet the requirements of the Companies Act and the EU Audit Regulation. The Audit Committee's tasks include, among other things, to assist the Nomination Committee in preparing the proposal of auditors and auditing fees to the General Shareholder Meeting, the Committee shall monitor so that the auditor's mandate does not exceed the applicable rules, procure audit services and submit a recommendation in accordance with the EU Audit Regulation. The Committee shall also review and monitor the auditor's impartiality and independence, and paying particular attention if the auditor provides the company with services other than auditing. The Committee shall also issue guidelines for services other than auditing provided by auditors and when appropriate to approve such services in accordance with the issued guidelines. The Committee shall participate in the planning of the audit work and related reporting and should regularly consult and discuss with the external auditors to keep informed about the direction and scope of the audit. The Committee shall also review and monitor the Group's financial statements, the work of the external auditors, the company's internal control system, the current risk profile and the company's financial information.

The committee's tasks also include making recommendations and suggestions to ensure the reliability of financial reporting as well as other issues the Board assigns the Committee to prepare. The Audit Committee shall meet regularly with HEXPOL's auditors and report back to the Board. The committee has not, except as expressly stated in the Board's adopted written instructions for the Audit Committee, authority to make any decisions on behalf of the Board. The Board appoints the members of HEXPOL's Audit Committee annually. At least one member shall possess accounting or auditing qualifications, and all the Committee members must be familiar with economic and financial issues. The Audit Committee for 2016 comprised Ulrik Svensson (Chairman), Malin Persson and Märta Schörling Andreen. During the period, the Audit Committee held three minuted meetings, each attended by all 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 2016, 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 2016

During the year, the Board held a total of nine Board meetings, where of one statutory meeting. At the meetings, HEXPOL's CEO reported on the market position and financial position as well as significant events that affected the company's operations. The Board has also, among others, addressed questions related to investment, interim reports, annual report and auditors' report on the audit work.



During 2016, 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 2016 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, Nordenskiöldsgatan 24, SE-203 14 Malmö, Sweden.

The auditors for the forthcoming term will be elected at the 2017 AGM.

INTERNAL AUDIT

The Board shall according to the Code annually evaluate the need for a separate audit function (internal audit) to ensure that established principles for financial reporting and internal control and that the company's financial statements are prepared in accordance with the law, applicable accounting standards and other requirements for listed companies. The Board have with regard to HEXPOL's work and procedures for internal control assessment that there is no need for a special review. The issue of a special audit function will be reviewed again in 2017.

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 and 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 102, 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 86-87 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.

HEXPOL has a communication policy, whose aims include ensuring that the Company fulfils the requirements concerning information disclosure to the stock market. HEXPOL's financial and other communication activities must always comply with the EU Market Abuse Regulation, NASDAQ Stockholm Exchange's regulations, generally acceptable behaviour in the stock market and other relevant regulations and legal obligations to which HEXPOL may be subject. Communication activities shall also be designed to create a flow of uniform actions between the Company, the employees and the business environment. The policy establishes the distribution of responsibility for information matters and stipulates who may represent the Company as a spokesperson. The policy also includes procedures for interim reports, Annual Reports, Annual General Meetings, press releases, meetings with investors and the Company's website. The company's prevailing communication policy is reviewed annually.

The company's systems for internal control pertaining to financial reporting for the 2016 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, which are described 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 communication 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 STATEMENT

MSEK	Note	2016	2015
Sales	1	10,879	11,229
Cost of goods sold		-8,315	-8,660
Gross profit		2,564	2,569
Sales costs		-169	-167
Administration costs		-416	-376
Research and development costs		-82	-78
Other operating income		29	21
Other operating expense		-5	-5
Operating profit	1,2,3,4,5,8,9	1,921	1,964
Financial income	6	8	15
Financial expenses	6	-16	-36
Profit before tax		1,913	1,943
Tax	7	-516	-550
Profit after tax		1,397	1,393
of which, attributable to Parent Company's shareholders		1,397	1,393
Earnings per share, SEK		4.06	4.05
Average number of shares before and after dilution, thousands		344,201	344,201

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MSEK	2016	2015
Profit after tax	1,397	1,393
Items that will not be re-classified to the income statement		
Re-measurement of defined benefit pension plans	-1	1
Income tax relating to items that will not be re-classified to the income statement	0	0
	-1	1
Items that may be re-classified to the income statement		
Hedge of net investment	-62	-19
Income tax relating to items that may be re-classified to the income statement	14	4
Translation difference	550	218
	502	203
Other comprehensive income after tax	501	204
Total comprehensive income	1,898	1,597
of which, attributable to Parent Company's shareholders	1,898	1,597

CONSOLIDATED BALANCE SHEET

MSEK	Note	2016	2015
ASSETS			
Fixed assets			
Intangible fixed assets	8	4,577	4,151
Tangible fixed assets	9	1,745	1,646
Deferred tax assets	7	101	71
Total fixed assets		6,423	5,868
Current assets			
Inventories	10	786	702
Accounts receivable	11	1,181	1,045
Current tax receivables		97	54
Other current receivables		26	47
Prepaid expenses and accrued income		38	29
Cash and cash equivalents		1,297	978
Total current assets		3,425	2,855
TOTAL ASSETS		9,848	8,723
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		69	69
Other capital contributions		598	598
Reserves		1,291	790
Profit brought forward		4,204	3,383
Profit for the year		1,397	1,393
Total equity attributable to parent company's shareholders	12	7,559	6,233
Attributable to non-controlling interests		0	0
Total shareholders' equity		7,559	6,233
Non-current liabilities			
Interest-bearing liabilities	13	-	492
Deferred tax liabilities	7	407	349
Pension provisions	14	21	19
Total non-current liabilities		428	860
Current liabilities			
Interest-bearing current liabilities	13	29	32
Accounts payable		1,405	1,210
Current tax liabilities		70	38
Other current liabilities		31	25
Other provisions	15	6	13
Accrued expenses and deferred income	16	320	312
Total current liabilities		1,861	1,630
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		9,848	8,723

CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY

MSEK	Attributable to Parent Company's shareholders				Total
	Share capital	Other capital contributions	Reserves	Profit brought forward	
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
2016					
Total comprehensive income					
Profit after tax	-	-	-	1,397	1,397
Other comprehensive income	-	-	501	-	501
Total comprehensive income	-	-	501	1,397	1,898
Transactions with shareholders					
Issue of subscription warrants	-	-	-	13	13
Dividend	-	-	-	-585	-585
December 31, 2016	69	598	1,291	5,601	7,559

CONSOLIDATED CASH FLOW STATEMENTS

MSEK	Note	2016	2015
Cash flow from operating activities	18		
Operating profit		1,921	1,964
Adjustment for non-cash items		216	209
Net financial items		-13	-28
Tax paid		-484	-515
Cash flow from operations before changes in working capital		1,640	1,630
Cash flow from changes in working capital			
Changes in operating receivables		42	78
Changes in operating liabilities		28	52
Cash flow from operations		1,710	1,760
Investing operations			
Investments in tangible fixed assets		-163	-156
Sales of tangible fixed assets		16	41
Investments in intangible fixed assets		-3	-3
Acquisition of business combinations	20	-295	-1,043
Cash flow from investing activities		-445	-1,161
Financing activities			
Loans raised		550	1,295
Amortisation of liabilities		-1,053	-1,361
Issue of subscription warrants		13	-
Dividend		-585	-413
Cash flow from financing activities		-1,075	-479
Cash flow for the year		190	120
Cash and cash equivalents at January 1		978	826
Exchange-rate differences in cash and cash equivalents		129	32
Cash and cash equivalents at December 31		1,297	978

OPERATING CASH FLOW, GROUP

MSEK	2016	2015
Operating profit	1,921	1,964
Depreciation/amortisation/impairment	216	209
Change in working capital	70	130
Sales of tangible fixed assets	16	41
Investments	-166	-159
Operating cash flow	2,057	2,185

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 85.

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, 2016 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, replaces IAS 39. IFRS 9 have other measurement categories for financial assets and a new model for impairment testing. The classification and measurement of financial liabilities are largely unchanged. The standard is to apply to fiscal years beginning on or after January 1, 2018. Early adoption is permitted. IFRS 9 is approved by the EU. The Group has not yet evaluated the impact of the introduction of the standard.

IFRS 15 – Revenue from Contracts with Customers regulates the manner in which revenue is recognised. The expanded disclosure obligation entails that information must be submitted concerning the category of revenue, settlement date, uncertainty linked to revenue recognition and cash flow attributable to the company's customer contracts. According to IFRS 15, revenue must be recognized when the customer gains control of the sold goods or services. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and the associated SIC and IFRIC guidance. IFRS 15 comes into effect on January 1, 2018. Early adoption is permitted. IFRS 15 is approved by the EU. The Group has not yet evaluated the impact of the introduction of the standard.

IFRS 16 – Leases. In January 2016, the IASB published a new standard for leases, IFRS 16. The implementation of the standard will mean that almost all leases will be recognised in the balance sheet, as a distinction between operating and finance leases no longer exists. According to the new standard, an asset (the right to use a leased asset) and a financial commitment to pay leasing fees, shall be recognised. Contracts of short duration and contracts of less value are excluded. The standard is to apply to fiscal years beginning on or after January 1, 2019. Early adoption is permitted. The standard has not yet been adopted by the EU. The standard will mainly affect the presentation of consolidated operating leases. The Group has not yet assessed the impact of IFRS 16.

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 financial 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 recognized 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 recognized 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 revealing 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 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 recognized 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 capitalized as follows: Capitalisation of development expenditures in the Group occurs only in exceptional cases and is only applied to new products where significant development expenditures 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 recognized 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.

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
Land improvements	5-30 years

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.

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 recognized 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 recognized 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 recognized 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. When establishing fair value, official market listings on the balance-sheet date are used, and valuations in accordance with Level 2.

Loan receivables and accounts receivables

Loan receivables and accounts receivables are financial assets that are not derivatives. Loan receivables and accounts receivables are initially measured at fair value and, subsequently, at amortized cost, less any provisions for impairment. Receivables are recognized at the amount expected to be received after individual assessment. Credit risk is assessed case by case, based on the current customer's ability to pay. Impairment of accounts receivables are reported in operating expenses.

Cash and cash equivalents

Cash and cash equivalents comprise liquid funds and credit balances at banks and similar institutions.

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.

Cash flow hedges

The effective portion of changes in fair value of derivatives that are designated as cash flow hedges and which meet the conditions in terms of hedge accounting are recognised in other comprehensive income and accumulated amounts in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as other income or expenses. Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects earnings. The gain or loss relating to the effective portion of foreign exchange forward contracts are recognised in operating profit.

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 recognized 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, 2016, Alecta's surplus in the form of the collective consolidation level was 148 percent (155).

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 impairment of goodwill and shares in subsidiaries 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 recognized 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 receivables, inventories, other receivables, tangible and intangible fixed assets, as well as accrued income and operating liabilities, such as account payables, 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	
	2016	2015	2016	2015	2016	2015
Sales, external	10,028	10,402	851	827	10,879	11,229
Operating profit	1,806	1,859	115	105	1,921	1,964
Operating margin, %	18.0	17.9	13.5	12.7	17.7	17.5
Net financial items					-8	-21
Tax					-516	-550
Profit for the year					1,397	1,393
Operating assets	7,880	7,175	473	445	8,353	7,620
Unallocated assets	-	-	-	-	1,495	1,103
Group Total	7,880	7,175	473	445	9,848	8,723
Operating liabilities	1,642	1,462	114	98	1,756	1,560
Unallocated liabilities	-	-	-	-	533	930
Group Total	1,642	1,462	114	98	2,289	2,490
Investments	145	139	21	20	166	159
Depreciation/amortisation	191	183	25	26	216	209

MSEK	Sales per recipient country		Fixed assets	
	2016	2015	2016	2015
Sweden	347	342	306	309
Europe excluding Sweden	2,921	2,794	1,546	1,326
NAFTA	7,077	7,538	4,205	3,864
Asia	534	555	366	369
Total	10,879	11,229	6,423	5,868

NOTE 2 RELATED-PARTY TRANSACTIONS

Transactions between Group companies occur on market-based conditions. In 2016, the Group purchased energy for 10 MSEK (10) from the associated company, Megufo AB, in Sweden. On December 31, 2016, the Group had a liability of 1 MSEK (1) to this associated company.

NOTE 3 EMPLOYEES AND PERSONNEL COSTS

Cost for remuneration for employees MSEK		
	2016	2015
Salaries and remuneration, etc.	1,253	1,200
Total	1,253	1,200
Pension costs	24	23
Social-security costs	171	162
Total	195	185

Remuneration of the Board of Directors					
TSEK	Board fee		Committee fee		Total
	2016	2015	2016	2015	2016 2015
Melker Schörling, chairman	650	600	75	75	725 675
Alf Göransson	320	300	-	-	320 300
Kerstin Lindell	320	-	-	-	320 -
Jan-Anders E. Månson	320	300	-	-	320 300
Malin Persson	320	300	100	100	420 400
Mårta Schörling Andreen	320	300	100	-	420 300
Ulrik Svensson*	213	300	167	250	380 550
Total	2,463	2,100	442	425	2,905 2,525

* Ulrik Svensson left his position as Board member at the end of 2016.

Average number of employees				
	2016	of whom men	2015	of whom men
Sweden	299	64%	316	63%
Belgium	61	77%	63	81%
Czech Republic	120	94%	117	93%
Germany	197	90%	197	91%
Mexico	300	90%	254	90%
Luxembourg	4	75%	3	67%
USA	1,436	88%	1,421	88%
China	303	64%	287	67%
Sri Lanka	1,005	96%	1,010	96%
UK	216	88%	103	84%
Spain	87	94%	87	93%
Total	4,028	87%	3,858	87%

Personnel costs per country MSEK		
	2016	2015
Sweden	229	230
Belgium	39	41
Czech Republic	27	23
Germany	95	96
Mexico	30	30
Luxembourg	19	18
USA	800	783
China	43	39
Sri Lanka	43	42
UK	79	43
Spain	44	40
Total	1,448	1,385

Remuneration of senior executives

TSEK	Basic salary		Variable salary		Pension costs		Car, housing and other benefits		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Georg Brunstam, President and CEO	9,333	8,479	4,406	9,174	3,739	3,392	348	722	17,826	21,767
Other members of Group management, 5 (5,5) persons	19,937	18,555	9,017	20,705	1,608	1,388	884	792	31,446	41,440
Total	29,270	27,034	13,423	29,879	5,347	4,780	1,232	1,514	49,272	63,207

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 the 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	2016	2015
EY		
Audit assignment	7	5
Audit activities in addition to audit	1	1
Tax consultancy	0	1
Other services	0	0
Total	8	7

NOTE 5 BREAKDOWN OF EXPENSES BY NATURE

MSEK	2016	2015
Employee benefits expenses	-1,448	-1,385
Depreciation/amortisation/impairment	-216	-209
Input costs and other external expenses	-7,318	-7,687
Other operating expenses	-5	-5
Total	-8,987	-9,286

No development expenditures were capitalised during 2016.

NOTE 6 FINANCIAL INCOME AND EXPENSES

MSEK	2016	2015
Interest income	3	2
Exchange rate gains	5	13
Other financial income	0	0
Financial income	8	15
Interest expenses	-10	-18
Exchange rate loss	-3	-14
Other financial expenses	-3	-4
Financial expense	-16	-36
Net financial expense	-8	-21

In other financial expenses are expenses for the Group's credit facilities reported.

NOTE 7 TAXES

MSEK	2016	2015
Current tax expense		
Tax expense on profit for the year	-475	-533
Total	-475	-533
Deferred tax expense		
Deferred tax pertaining to temporary differences	-44	-17
Utilised/revaluation of loss carry forwards	3	0
Total	-41	-17
Total recognised tax expense	-516	-550

Reconciliation of effective tax MSEK	2016	%	2015	%
Profit before tax	1,913		1,943	
Tax according to applicable tax rate for the Parent Company	-421	-22	-428	-22
Effect of other tax rates for foreign subsidiaries	-97	-5	-130	-6
Non-deductible expenses	-17	0	-9	0
Non-taxable income	3	0	4	0
Deductible goodwill amortisation	7	0	8	0
Revaluation of tax-loss carry forwards/temporary differences	-1	0	7	0
Tax attributable to prior years	10	0	-2	0
Total reported tax expense	-516	-27	-550	-28

At December 31, 2016, the Group had loss carry forwards of 54 MSEK (58) that had not been capitalised due to uncertainty concerning their value for tax purposes. Of the total, 49 MSEK (47) expires within five years.

Deferred tax assets/liabilities

MSEK	Opening balance		Recognised in profit/loss		Acquisitions		Recognised directly in comprehensive income		Translation differences		Closing balance	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Intangible assets	-222	-138	-41	-23	21	-52	-	-	-24	-9	-266	-222
Tangible assets	-114	-103	-2	-5	-	-	-	-	2	-6	-114	-114
Current assets	14	6	6	7	-3	-	-	-	3	1	20	14
Operating liabilities	13	9	-6	4	-	-	-	-	0	0	7	13
Loss carry forwards	0	0	3	0	-	-	-	-	0	0	3	0
Liabilities	31	26	-1	0	-	-	14	5	0	0	44	31
Total	-278	-200	-41	-17	18	-52	14	5	-19	-14	-306	-278

NOTE 8 INTANGIBLE FIXED ASSETS

MSEK	Goodwill		Other intangible assets		Total		Goodwill distributed by operating segment		
Accumulated acquisition value	2016	2015	2016	2015	2016	2015	MSEK	2016	2015
Opening balance, January 1	3,909	3,253	344	194	4,253	3,447	HEXPOL Compounding	4,348	3,870
Acquisitions*	224	526	-48	137	176	663	HEXPOL Engineered Products	30	28
Investments	-	-	3	3	3	3			
Reclassification	-	-	10	-	10	-			
Translation difference	256	130	22	10	278	140			
Closing balance, December 31	4,389	3,909	331	344	4,720	4,253	Closing balance, December 31	4,378	3,898
Accumulated amortisation									
Opening balance, January 1	-11	-11	-91	-72	-102	-83			
Acquisitions	-	-	-10	-	-10	-			
Amortisation according to plan for the year	-	-	-20	-17	-20	-17			
Reclassification	-	-	-4	-	-4	-			
Translation difference	0	-	-7	-2	-7	-2			
Closing balance, December 31	-11	-11	-132	-91	-143	-102			
Carrying amount, December 31	4,378	3,898	199	253	4,577	4,151			

*Including adjustments of prior preliminary purchase price allocation.

Other intangible assets pertain mainly to acquired customer relations and remaining amortisation period is between 9 and 14 years.

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 9.7 percent before tax (10.0) 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 assumptions involves sales growth and development of operating margin, and are based on experience and current information on the market development. According to 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							
Non-cancellable leasing payments amount to			MSEK		Land and buildings		Machinery and equipment		Total	
MSEK	2016	2015	Accumulated acquisition value		2016	2015	2016	2015	2016	2015
Within one year	48	41	Opening balance, January 1		958	754	3,283	2,619	4,241	3,373
Between one and five years	68	69	Acquisitions		39	190	210	489	249	679
Longer than five years	18	23	Investments		1	18	162	138	163	156
			Divestments, disposals		-10	-25	-28	-21	-38	-46
Total	134	133	Reclassification		18	9	-28	-9	-10	0
			Translation difference		57	12	203	67	260	79
Leasing expenses			Closing balance, December 31		1,063	958	3,802	3,283	4,865	4,241
MSEK	2016	2015	Accumulated depreciation value							
Minimum leasing fees	50	51	Opening balance, January 1		-354	-256	-2,226	-1,674	-2,580	-1,930
Total	50	51	Acquisitions		-25	-67	-169	-366	-194	-433
			Depreciation according to plan for the year		-32	-32	-164	-161	-196	-193
			Divestments, disposals		2	3	22	4	24	7
			Reclassification		-	-	4	-	4	-
			Translation difference		-22	-2	-141	-29	-163	-31
			Closing balance, December 31		-431	-354	-2,674	-2,226	-3,105	-2,580
The Group's operational leasing agreement primarily includes facilities, cars, forklifts and office equipment.			Accumulated impairment							
Distribution of depreciation/amortisation impairment of tangible and intangible assets for the year			Opening balance, January 1		-4	-4	-11	-12	-15	-16
MSEK	2016	2015	Impairment		-	-	0	-	0	-
Costs of goods sold	202	196	Reversed impairment		-	-	-	1	-	1
Selling costs	1	1	Translation difference		0	0	0	0	0	0
Administration costs	11	10	Closing balance, December 31		-4	-4	-11	-11	-15	-15
Product development costs	2	2	Carrying amount, December 31		628	600	1,117	1,046	1,745	1,646
Other	0	0								
Total	216	209								

NOTE 10 INVENTORIES

MSEK	2016	2015
Raw materials	453	468
Goods in production	41	36
Finished goods	292	198
Total	786	702

No significant impairments have been made.

NOTE 11 ACCOUNTS RECEIVABLE

Age distribution of accounts receivable		
MSEK	2016	2015
Not due	1,024	894
Past due, 1-30 days	143	135
Past due, 31-60 days	9	12
Past due, more than 60 days	5	4
Accounts receivable	1,181	1,045

Provisions for bad debt losses		
MSEK	2016	2015
Opening balance	-38	-53
Provision for the year	-2	-1
Acquisitions	-	6
Actual losses	2	1
Reversal	1	11
Translation differences	-3	-2
Closing balance	-40	-38

NOTE 12 SHAREHOLDERS' EQUITY

Changes in the number of shares	Class A shares		Class B shares		Total	
	2016	2015	2016	2015	2016	2015
Opening balance, January 1	14,765,620	1,476,562	329,435,660	32,943,566	344,201,280	34,420,128
Share split 10:1	-	13,289,058	-	296,492,094	-	309,781,152
Closing balance, December 31	14,765,620	14,765,620	329,435,660	329,435,660	344,201,280	344,201,280
					2016	2015*
Average number of shares					344,201,280	344,201,280

*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

The Annual General Meeting in April 2016, resolved to implement an incentive program (2016/2020) for senior executives and key employees through a directed issue of maximum 2,100,000 subscription warrants. During the third quarter 2016, 1,408,000 subscription warrants have been subscribed for by 39 senior executives and key employees. The issue rate was SEK 9 per subscription warrant and every warrant give the right to subscribe for a new class B share at subscription rate SEK 89.20.

NOTE 13 INTEREST-BEARING LIABILITIES

Non-current liabilities			Loans			
MSEK	2016	2015	MSEK	2016 Utilised	2016 Unutilised	2015 Utilised
Liabilities to credit institutions	-	492		-	1,137	-
Non-current liabilities	-	492	Bilateral loan, 125 MUSD	-	1,500	1,044
			Bilateral loan, 1,500 MSEK	-	492	1,008
			Total non-current liabilities	-	492	
Current liabilities			Other			
MSEK	2016	2015		2016 Utilised	2016 Unutilised	2015 Utilised
Liabilities to credit institutions	29	32		29	0	32
Current liabilities	29	32	Total current liabilities	29	32	32

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 2019.

The three-year credit agreement with a limit of 1,500 MSEK has an option to extended twice, one year at a time, where as one extension was exercised to August 2019. 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, 2016.

HEXPOL had no interest-bearing or currency derivatives at December 31, 2016, involving external borrowing.

NOTE 14 PENSION PROVISIONS

MSEK	2016	2015
Provisions for pension	21	19
Total	21	19
Change in provision		
MSEK	2016	2015
Opening balance, January 1	19	20
Provisions for the year	2	-1
Closing balance, December 31	21	19

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

NOTE 15 OTHER PROVISION

MSEK	2016	2015
Opening balance	13	29
Provision for the year	2	2
Utilised during the year	-10	-18
Translation difference	1	0
Closing balance	6	13

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	2016	2015
Personnel-related expenses	245	218
Accrued expenses for goods and services	58	31
Other	17	63
Total	320	312

NOTE 17 PLEDGED ASSETS AND CONTINGENT LIABILITIES

Pledged assets MSEK	2016	2015
Fixed assets	-	0
Current assets	4	2
Total	4	2
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	2016	2015
Financial income received	8	15
Financial expenses paid	-21	-43
Total	-13	-28

Adjustments for non-cash items

MSEK	2016	2015
Depreciation/amortisation/impairment	216	209
Total	216	209

NOTE 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As regards the risks and the risk management, see page 62 in the Board of Directors' Report.

Financial instruments per category and measurement level

December 31, 2016				
		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				
Derivate instruments	-	0	2	0
Accounts receivable	1,181	-		1,181
Cash and cash equivalents	1,297	-		1,297
Total	2,478	0		2,478
		Financial liabilities measured at fair value through profit or loss		
MSEK	Other financial liabilities	Carrying value	Measurement level	Total
Liabilities in the balance sheet				
Derivate instruments	-	0	2	0
Interest-bearing current liabilities	29	-		29
Accounts payable	1,405	-		1,405
Total	1,434	0		1,434
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				
Derivate 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				
Derivate 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

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

Derivate instruments outstanding for managing currency risks are related to financial assets and liabilities

The Parent Company applies hedge accounting including 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		2016		2015	
MSEK		Nominal value		Nominal value	
Currency forward contracts		129		144	
Currency distribution		Nominal value	Average hedging rate	Nominal value	Average hedging rate
CZK/SEK		129	0.35	144	0.34
Sell forward contracts outstanding, December 31		2016		2015	
MSEK		Nominal value		Nominal value	
Sell forward contracts outstanding, December 31		-		89	
Currency distribution		Nominal value	Average hedging rate	Nominal value	Average hedging rate
GBP/SEK		-	-	89	12.35

Derivate instruments outstanding for managing currency risks are related to commercial assets and liabilities

Regarding the Group's transaction exposure, the following forward contracts were outstanding at December 31. All forward contracts fall due within one year and are measured at level 2 in the fair value hierarchy.

Forward contracts outstanding, December 31		2016		2015	
MSEK		Nominal value		Nominal value	
Currency forward contracts		31		-	
Currency distribution		Nominal value	Average hedging rate	Nominal value	Average hedging rate
EUR/GBP		31	1.17	-	-

Financial liabilities, December 31, 2016		Total amount		Fall due within 1 year		Fall due within 1-2 years		Fall due within 2-5 years	
MSEK		2016	2015	2016	2015	2016	2015	2016	2015
Non-current liabilities									
Liabilities to banks and credit institutions		-	492	-	-	-	-	-	492
Total non-current liabilities		-	492	-	-	-	-	-	492
Current liabilities									
Liabilities to banks and credit institutions		29	32	29	32	-	-	-	-
Accounts payable		1,405	1,210	1,405	1,210	-	-	-	-
Accrued expenses		320	312	320	312	-	-	-	-
Other current liabilities		31	25	31	25	-	-	-	-
Total current liabilities		1,785	1,579	1,785	1,579	-	-	-	-

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

NOTE 20 ACQUISITIONS

Acquisitions during 2016

Acquisition within Compounding

In June the HEXPOL Group acquired 100% of the Berwin Group Ltd. Berwin has close to 60 years experience within Rubber compounding and is a leading Rubber Compounder on the UK market.

The acquisition price for the Berwin Group amounted to 25 MGBP on a cash and debt free basis. The purchase price allocation is preliminary and the business was consolidated as of June 2016. The sales amounted to 22 MGBP and profit after tax to 1 MGBP for the period June to December 2016. For the full year 2016 the sales amounted to 40 MGBP and profit after tax to 2 MGBP.

Transaction costs for the above acquisition amounted to 3 MSEK and has been reported in the operating profit.

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

MSEK

Purchase consideration	363
Fair value of acquired net assets	196
Goodwill	167

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 expands our capacity and ability to serve our customers in a more efficient way. The fair value of the acquired net assets includes 23 MSEK for the estimated value of acquired intangible assets.

MSEK

Cash and cash equivalents	68
Accounts receivables	120
Current assets	27
Tangible assets	55
Intangible assets	23
Accounts payables	-77
Current liabilities	-14
Deferred tax liabilities	-6
Acquired net assets	196

Goodwill	167
Purchase considerations	363

Cash and cash equivalents in acquired operations	68
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Change in the Group's cash and cash equivalents	295
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Acquisitions during 2015

Acquisition within TP Compounding

In January 2015, the HEXPOL Group acquired 100% of the RheTech Group. RheTech has more than 50 years' experience of polymer-compounding 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.

Transaction costs for the above acquisitions amounted to 3 MSEK and has been reported in the operating profit.

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

MSEK

Purchase consideration	1,008
Fair value of acquired net assets	417
Goodwill	591

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-term, in the areas of purchasing, product development, sales and administration. The fair value of the acquired net assets includes 56 MSEK for the estimated value of acquired intangible assets.

MSEK

Cash and cash equivalents	29
Accounts receivables	123
Current assets	154
Tangible assets	194
Intangible assets	56
Deferred tax assets	4
Current liabilities	-111
Financial liabilities	0
Deferred tax liabilities	-32
Acquired net assets	417

Goodwill	591
Purchase considerations	1,008

Cash and cash equivalents in acquired operations	29
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Change in the Group's cash and cash equivalents	979
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NOTE 21 SIGNIFICANT SUBSEQUENT EVENTS

No significant events have occurred after the balance sheet date.

Parent Company

PARENT COMPANY'S INCOME STATEMENT

MSEK	Note	2016	2015
Sales	22	42	46
Administration costs		-68	-63
Operating profit	23, 24	-26	-17
Financial income	25	1,249	452
Financial expense	25	-27	-69
Profit after financial items		1,196	366
Appropriations		-32	-
Profit before tax		1,164	366
Tax	26	-21	-3
Profit after tax		1,143	363

Comprehensive income matches profit after tax.

PARENT COMPANY'S BALANCE SHEET

MSEK	Note	2016	2015
ASSETS			
Fixed assets			
Tangible fixed assets	27	-	0
Interest-bearing intra-Group receivables		737	671
Financial fixed assets	30	4,939	4,322
Deferred tax assets		0	1
Total fixed assets		5,676	4,994
Current assets			
Intra-Group operating receivables		132	51
Interest-bearing intra-Group receivables		1,305	1,385
Prepaid expenses and accrued income		9	9
Cash and cash equivalents		1,119	680
Total current assets		2,565	2,125
TOTAL ASSETS		8,241	7,119
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		1,925	2,129
Profit after tax		1,143	363
Total non-restricted shareholders' equity		3,666	3,090
Total shareholders' equity		3,735	3,159
Untaxed reserves		32	-
Non-current liabilities			
Liabilities to credit institutions	29	-	434
Total non-current liabilities		-	434
Current liabilities			
Accounts payable		1	1
Current tax liabilities		21	3
Interest-bearing intra-Group liabilities		4,408	3,476
Interest-bearing liabilities to credit institutions	29	0	0
Accrued expenses and prepaid revenues	28	44	46
Total current liabilities		4,474	3,526
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		8,241	7,119

CHANGES IN THE PARENT COMPANY'S SHAREHOLDERS' EQUITY

MSEK	Share capital	Share premium reserve	Accumulated earnings	Total shareholders' equity
December 31, 2014	69	598	2,542	3,209
2015				
Total comprehensive income				
Profit after tax	-	-	363	363
Transaction with shareholders				
Dividend	-	-	-413	-413
December 31, 2015	69	598	2,492	3,159
2016				
Total comprehensive income				
Profit after tax	-	-	1,143	1,143
Transaction with shareholders				
Issue of subscription warrants	-	-	18	18
Dividend	-	-	-585	-585
December 31, 2016	69	598	3,068	3,735

PARENT COMPANY'S CASH FLOW STATEMENTS

MSEK	2016	2015
Cash flow from operations		
Operating profit	-26	-17
Adjustment for non-cash items, depreciations	0	1
Financial income received	45	43
Financial expenses paid	-29	-68
Tax paid	-4	0
Cash flow from operations before changes in working capital	-14	-41
Cash flow from changes in working capital		
Changes in current receivables	0	-4
Changes in current liabilities	1	6
Cash flow from operations	-13	-39
Investing operations		
Sales of tangible fixed assets	0	22
Change in interest-bearing receivables	-66	-687
Dividends from subsidiaries	1,075	359
Shareholders' contribution	-252	0
Incorporation of subsidiaries	0	-
Group contributions received	50	50
Acquisition	-365	-
Cash flow from investing activities	442	-256
Financing operations		
Issue of subscription warrants	18	-
Change in interest-bearing liabilities	577	808
Dividend	-585	-413
Cash flow from financing operations	10	395
Cash flow for the year	439	100
Cash and cash equivalents, January 1	680	580
Cash and cash equivalents, December 31	1,119	680

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	2016	2015
Women	3	3
Men	2	2
Total	5	5

Salaries, other remunerations and social-security MSEK	2016	2015
Board of directors	3	3
CEO	14	18
Other employees	6	8
Social security costs, pension costs and payroll tax	13	14
Total	36	43

NOTE 24 FEES AND EXPENSE REIMBURSEMENT TO AUDITORS

TSEK	2016	2015
EY		
Audit assignment	807	746
Tax consultancy	15	0
Other services	0	100
Total	822	846

NOTE 25 FINANCIAL INCOME AND EXPENSE

MSEK	2016	2015
Dividend	1,075	359
Group contributions	130	50
Interest income	1	0
Interest income from Group receivables	43	43
Exchange-rate gains	0	0
Other financial income	0	0
Financial income	1,249	452
Interest expense	-9	-16
Interest expense from Group liabilities	-16	-5
Exchange-rate loss	0	-45
Other financial expense	-2	-3
Financial expenses	-27	-69

NOTE 26 TAXES

MSEK	2016	2015
Current tax expense		
Tax expense for the year	-21	-3
Deferred tax expense		
Deferred tax pertaining to temporary differences	0	0
Total reported tax expense	-21	-3

NOTE 27 TANGIBLE FIXED ASSETS

Accumulated acquisition value MSEK	Land and buildings		Machinery and equipment		Total	
	2016	2015	2016	2015	2016	2015
Opening balance, January 1	-	25	0	0	0	25
Divestments, disposals	-	-25	0	0	0	-25
Closing balance, December 31	-	0	0	0	0	0
Accumulated depreciations MSEK	Land and buildings		Machinery and equipment		Total	
	2016	2015	2016	2015	2016	2015
Opening balance, January 1	-	-2	0	0	0	-2
Depreciations for the year	-	-1	0	0	0	-1
Divestments, disposals	-	3	0	0	0	3
Closing balance, December 31	-	0	0	0	0	0
Carrying amount, December 31	-	0	0	0	0	0

NOTE 29 INTEREST-BEARING LIABILITIES TO CREDIT INSTITUTIONS

MSEK	2016	2015
Non-current liabilities		
Liabilities to credit institutions	-	434
Non-current liabilities	-	434
Current liabilities		
Liabilities to credit institutions	-	-
Current liabilities	-	-
Bilateral loan 1,500 MSEK	-	434
Bilateral loan 125 MUSD	-	-
Total non-current liabilities	-	434

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 28 ACCRUED EXPENSES AND DEFERRED INCOME

MSEK	2016	2015
Personnel-related expenses	40	41
Other	4	5
Total	44	46

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

Subsidiaries	Corp. Reg. No.	Registered office	2016		2015	
			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	
HEXPOL Holding AB	559078-6405	Malmö, Sweden	100	0	-	
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	702	100	469
HEXPOL Compounding Sprl		Belgium	100		100	
Socofin Sprl-u		Belgium	100		100	
Corvus bvba		Belgium	100		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	0	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
HEXPOL Compounding GmbH		Germany	100	70	100	70
HEXPOL TPE GmbH		Germany	100		100	
HEXPOL Compounding Viersen CoKG		Germany	100		100	
HEXPOL Compounding Viersen Verwaltungs GmbH		Germany	100		100	
Stellana Deutschland GmbH		Germany	100		100	
HEXPOL TPE AB	556191-5777	Åmål, Sweden	100	261	100	261
HEXPOL TPE Ltd.		UK	100	23	100	23
HEXPOL sàrl		Luxembourg	100	0	100	0
HEXPOL Compounding S.L.U		Spain	100	33	100	14
Berwin Group Limited		UK	100	365	-	
Flexi-Cell (UK) Ltd		UK	100		-	
Berwin Rubber Company Limited		UK	100		-	
Berwin of Lydney Limited		UK	100		-	
Berwin Industrial Polymers Limited		UK	100		-	
HEXPOL Holding Inc.		USA	100	231	100	231
RheTech LLC		USA	100		100	
RheTech Engineered Plastics LLC		USA	100		100	
RheTech Thermocolor LLC		USA	100		100	
Robbins Holding Inc.		USA	100		100	
Robbins LLC		USA	100		100	
Synpol LLC		USA	100		100	
HEXPOL UK Ltd		UK	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		UK	100		100	
Chase Elastomer (UK) Ltd.		UK	100		100	
HEXPOL Compounding Services Querétaro S.A. de C.V. ⁵⁾		Mexico	100		100	
HEXPOL Compounding Querétaro S.A. de C.V. ⁶⁾		Mexico	100		100	
HEXPOL H.K Co., Ltd.		China	100		100	
HEXPOL Asia LLC		USA	100		100	
HEXPOL Compounding (Foshan) Co., Ltd.		China	100		100	
HEXPOL Finance UK Ltd		UK	100	2,535	100	2,535
Total carrying amount in the Parent Company				4,939		4,322

1) Gislaved Gummi AB owns 200 shares included in this holding.

The remaining 0.4% of the shares is owned by the 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% and HEXPOL Compounding Querétaro S.A. de C.V. owns 1% of the shares.

6) HEXPOL Compounding LLC owns 99% and HEXPOL Compounding Services Querétaro S.A. de C.V. owns 1% of the shares.

Holdings of shares in Group Companies

MSEK	2016	2015
Opening balance	4,322	4,322
Shareholder contributions	252	-
Incorporation of subsidiaries	0	-
Acquisitions	365	-
Carrying amount	4,939	4,322

NOTE 31 ASSETS PLEDGED

MSEK	2016	2015
Sureties for subsidiaries	57	114
Total	57	114

NOTE 32 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	1,925,891
Share premium reserve	597,880
Profit of the year	1,142,658
Total unrestricted funds	3,666,429

The Board proposes that the unappropriated funds be disposed of as follows: that the shareholders be paid a dividend of 4.75 sek per share, consisting of an ordinary dividend of 1.75 sek per share (1.70) and a special dividend of 3.00 sek per share.

Total dividend from profit brought forward	1,634,956
To be carried forward	2,031,473
Total	3,666,429

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, Sweden, March 14, 2017

Melker Schörling
Chairman of the Board

Alf Göransson
Board Member

Malin Persson
Board Member

Märta Schörling Andreen
Board Member

Kerstin Lindell
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, 2017. 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 28, 2017 for adoption.

Our audit report was submitted on March 14, 2017

ERNST & YOUNG AB

Johan Thuresson
Authorized Public Accountant, Auditor-in-charge

Auditor's report

To the general meeting of the shareholders of HEXPOL AB (publ), corporate identity number 556108-9631

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of HEXPOL AB (publ) except for the corporate governance statement on pages 72-77 for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 56-97 in this document.

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 2016 and its financial performance and cash flow 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 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 72-77. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Goodwill and shares in subsidiaries

The carrying value of goodwill as of 31 December 2016 amounts to 4.378 MSEK in the consolidated balance sheet, which represents 44% of total assets. Shares in subsidiaries amounts to 4.939 MSEK in the parent company's balance sheet, which represents 60% of total assets. The company performs an impairment test annually, and when there is an indication of impairment, to ensure the carrying value does not exceed the estimated recoverable value. The recoverable amount is determined for each cash generating unit by calculating the present value of future cash flows. Future cash flows are based on management's business plans and forecasts, and includes a number of assumptions, including earnings performance, growth, investment requirements and the discount rate. For shares in subsidiaries the recoverable amount is the higher of fair value and value in use.

Changes in assumptions have a major impact on the calculation of the recoverable amount and the assumptions that the Company applied will be of significant importance for the assessment whether an impairment requirement exists. We have therefore assessed the accounting for goodwill and shares in subsidiaries as a key audit matter.

The impairment test for 2016 did not result in any impairment. A description of the impairment test is shown in Note 8 "Intangible assets" and under Accounting Principles section "Significant estimates and assumptions".

In our audit, we evaluated and tested management's process for preparing impairment test, including evaluating past accuracy of forecasts and assumptions. We also made comparisons with other companies in order to evaluate the reasonableness of future cash flows and growth assumptions and with the help of our valuation specialists examined the selected discount rate and assumptions about long-term growth. We have also reviewed the company's model and method for preparing the impairment test and assessed the company's sensitivity analyzes. We also assessed whether the disclosures in the financial statements are appropriate.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-55 as well as pages 100-111. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they 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.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of HEXPOL AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general 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.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions

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. At the proposal of a

dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. 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.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 72-77 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our 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. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Malmö, Sweden, March 14 2017

Ernst & Young AB

Johan Thuresson

Authorized Public Accountant

Board of Directors, Auditors and Group Management

Board of Directors

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 2016.

	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	Holding of warrants
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	300,000
Alf Göransson	1957	Swedish	2007	No	No	Yes	No	–	–	–
Malin Persson	1968	Swedish	2007	Yes	No	Yes	Yes	–	–	–
Jan-Anders E. Månson	1952	Swedish	2008	No	No	Yes	Yes	–	–	–
Märta Schörling Andreen	1984	Swedish	2014	Yes	No	Yes	No	–	–	–
Kerstin Lindell	1967	Swedish	2016	No	No	Yes	Yes	–	5,000	–



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 and AAK AB. Member of the Board of H&M Hennes & Mauritz AB.

HEXPOL holding: 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 holding: 1,000,000 Class B shares 300,000 warrants.



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 the Board of Loomis AB. Member of the Board of Axel Johnson Inc., USA.

HEXPOL holding: –



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 Peab AB, Getinge AB and Mekonomen Group AB, among others.

HEXPOL holding: –

Jan-Anders E. Månson

Born in 1952, M.Sc. (Eng.) and Doctor of Technology.
Member of the Board since 2008.

Other assignments: Professor at Purdue University. Director at Composite Manufacturing Simulation Center. 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 holding: –



Märta Schörling Andreen

Born in 1984, B.Sc. (Econ.)
Member of the Board since 2014.
Member of the Audit Committee.

Other assignments: Member of the Board of Melker Schörling AB (MSAB) and AAK AB.

HEXPOL holding: –



Kerstin Lindell

Born in 1967, Master Business Administration, Ph D Polymer Chemistry and Master Chemical Engineering.
Member of the Board since 2016.

Other assignments: CEO of Bona AB. Vice Chairman of The Chamber of Commerce and Industry of Southern Sweden. Member of the Board of HMS Networks AB and Peab AB.

HEXPOL holding: 5,000 Class B shares.



Auditor



Johan Thuresson

Born in 1964. Authorised Public Accountant and member of FAR SRS.

Other audit assignments: Precise Biometrics AB, Glycorex Transplantation AB, AB Tetra Pak, Axis AB.

Group Management



Karin Gunnarsson

Born in 1962, B.Sc. (Econ.)
Chief Financial Officer and Investor Relations Manager, employed in 2008.

Other assignments:

–

HEXPOL holding:
123,250 Class B shares,
75,000 warrants.

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 holding:
1,000,000 Class B shares,
300,000 warrants.



Tracy Garrison

Born in 1967, Engineer.
President of HEXPOL Compounding
NAFTA and President HEXPOL TP
Compounding, employed in 2002.

Other assignments: Member of
the Board of Cherokee Sports LLC.

HEXPOL holding:
834,500 Class B shares,
100,000 warrants.

Jan Wikström

Born in 1972, M.Sc. (Eng.)
President of HEXPOL Wheels and
HEXPOL Gaskets, employed in
2009.

Other assignments:

–

HEXPOL holding:
800,000 Class B shares,
75,000 warrants.



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 holding:
100,000 Class B shares,
75,000 warrants.

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 holding:
88,500 Class B shares,
75,000 warrants.



Shareholder Information

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on April 28, 2017, at 3:00 p.m. CET in Malmö, Sweden (Börshuset, Skeppsbron 2). The Annual Report for 2016 will be available on HEXPOL's website and at the head office no later than April 7, 2017 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 22, 2017, and notify their intention to participate not later than April 24, 2017. Shareholders whose shares are registered with a trustee must temporarily re-register the shares in their own name not later than April 22 to be entitled to participate in the AGM. Since Saturday April 22, 2017 is a bank holiday, Euroclear Sweden AB will issue the share register for the AGM the immediately preceding business day, Friday April 21, 2017. 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 21, 2017. 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 28 a dividend of 4.75 SEK per share, consisting of an ordinary dividend of 1.75 SEK per share (1.70) and a special dividend of 3.00 SEK per share.

CALENDAR FOR FINANCIAL INFORMATION

HEXPOL AB will publish financial information on the following dates:

Activity	Date
2016 Annual Report, published	April 7, 2017
Interim report January-March 2017	April 28, 2017
Annual General Meeting	April 28, 2017
Half year report January-June 2017	July 19, 2017
Interim report January-September 2017	Oct. 26, 2017
Year-end report 2017	Feb. 2018

Financial information is also available in Swedish and English on HEXPOL AB's website www.hexpol.com.

Shareholders, who wish to receive printed annual reports, please send name and address to ir@hexpol.com or on HEXPOL AB's website www.hexpol.com.

For more information, contact:

Karin Gunnarsson,
Chief Financial Officer, Investor Relations
Tel: +46 70 555 47 32

Nine-year summary

MSEK	2016	2015	2014	2013	2012	2011	2010	2009	2008
INCOME STATEMENTS, condensed									
Sales	10,879	11,229	8,919	8,036	8,007	7,197	3,798	2,608	3,190
Operating expenses	-8,958	-9,265	-7,463	-6,781	-6,938	-6,302	-3,402	-2,445	-2,880
Operating profit	1,921	1,964	1,456	1,255	1,069	895	396	163	310
Net financial items	-8	-21	-20	-19	-22	-23	-26	-23	-52
Profit before tax	1,913	1,943	1,436	1,236	1,047	872	370	140	258
Tax	-516	-550	-388	-306	-294	-253	-97	-38	-75
Result after tax	1,397	1,393	1,048	930	753	619	273	102	183
BALANCE SHEETS, condensed									
Assets									
Fixed assets	6,423	5,868	4,832	3,946	3,971	3,365	3,438	1,977	2,167
Current assets	2,128	1,877	1,626	1,335	1,372	1,286	1,155	494	692
Cash and cash equivalents	1,297	978	826	597	564	557	318	317	342
Total assets	9,848	8,723	7,284	5,878	5,907	5,208	4,911	2,788	3,201
Shareholders' equity and liabilities									
Shareholders' equity	7,559	6,233	5,049	3,617	2,909	2,473	1,327	1,217	1,157
Interest-bearing liabilities	29	524	567	962	1,809	1,698	2,592	1,128	1,535
Other liabilities and provisions	2,260	1,966	1,668	1,299	1,189	1,037	992	443	509
Total shareholders' equity and liabilities	9,848	8,723	7,284	5,878	5,907	5,208	4,911	2,788	3,201
CASH FLOW STATEMENTS, condensed									
Cash flow from operating activities	1,710	1,760	1,432	1,223	1,115	726	387	359	393
Net investments in tangible and intangible fixed assets	-150	-118	-118	-136	-177	-103	-32	-23	-105
Acquisitions of operations	-295	-1,043	-413	-3	-926	1	-1,827	0	0
Cash flow from financing activities	-1,075	-479	-777	-1,060	33	-390	1,498	-358	-194
Cash flow for the year	190	120	124	24	45	234	26	-22	94
Cash and cash equivalents, January 1	978	826	597	564	557	318	317	342	228
Exchange rate differences in cash flow	129	32	105	9	-38	5	-25	-3	20
Cash and cash equivalents, December 31	1,297	978	826	597	564	557	318	317	342

MSEK	2016	2015	2014	2013	2012	2011	2010	2009	2008
Key figures									
Average shareholders' equity, MSEK	6,826	5,887	4,333	3,263	2,691	2,038	1,268	1,187	1,091
Average capital employed, MSEK	7,186	6,861	5,116	4,664	4,458	4,057	2,780	2,530	2,562
Return on shareholders' equity %	20.5	23.7	24.2	28.5	28.0	30.4	21.5	8.6	16.8
Return on capital employed, %	26.8	28.6	28.5	27.0	24.0	22.3	13.9	6.4	13.2
Net sales growth excl. currency effects, %	-4	11	6	6	-2	-9	-11	-8	1
Operating margin, %	17.7	17.5	16.3	15.6	13.4	12.4	10.4	6.3	9.7
Profit margin before tax, %	17.6	17.3	16.1	15.4	13.1	12.1	9.7	5.4	8.1
Earnings per share, SEK*, **	4.06	4.05	3.05	2.70	2.19	1.87	0.93	0.35	0.62
Net cash, MSEK	1,268	454	259	-312	-1,215	-1,096	-2,239	-760	-1,193
Net debt/equity ratio, multiple	0.0	0.0	0.0	0.1	0.4	0.4	1.7	0.6	1.0
Equity/assets ratio, %	77	72	69	62	49	48	27	44	36
Shareholders' equity per share, SEK*, **	21.96	18.11	14.67	10.51	8.45	7.19	4.49	4.14	3.94
Dividend, MSEK	585	413	310	207	172	103	27	-	-
Dividend per share, SEK**	1.70	1.20	0.90	0.60	0.50	0.30	0.10	-	-
Operating Cash Flow, MSEK	2,057	2,185	1,676	1,418	1,209	911	506	462	411
Cash flow from operating activities, MSEK	1,710	1,760	1,432	1,223	1,115	726	387	359	393
Cash flow from operating activities per share, SEK*, **	4.97	5.11	4.16	3.55	3.24	2.19	1.32	1.22	1.34
Average number of employees	4,028	3,858	3,493	3,411	3,112	3,041	2,133	1,809	2,315
Number of employees at year-end	4,140	3,867	3,666	3,433	3,332	3,020	3,037	1,827	2,230
Sales per employee, MSEK	2.70	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	1,921	1,964	1,456	1,255	1,069	895	460	261	310
Operating margin, %	17.7	17.5	16.3	15.6	13.4	12.4	12.1	10.0	9.7
Profit before tax, MSEK	1,913	1,943	1,436	1,236	1,047	872	434	238	258
Profit after tax, MSEK	1,397	1,393	1,048	930	753	619	318	172	183
Earnings per share, SEK*, **	4.06	4.05	3.05	2.70	2.19	1.87	1.08	0.59	0.62
Return on shareholders' equity, %	20.5	23.7	24.2	28.5	28.0	30.4	25.1	14.5	16.8
Return on capital employed, %	26.8	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.

Data on alternative performance measures are presented in the Interim reports.

Financial definitions

AVERAGE CAPITAL EMPLOYED Average of the last four quarters capital employed.

AVERAGE SHAREHOLDERS EQUITY Average of the last four quarters shareholders' equity. For 2014 and earlier year calculation was based on two measuring points.

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 outstanding.

EARNINGS PER SHARE Profit after tax, attributable to Parent Company shareholders, divided by average number of shares outstanding.

EARNINGS PER SHARE AFTER DILUTION Profit after tax attributable to Parent Company shareholders divided by average number of shares outstanding adjusted for the dilution effect of warrants.

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 outstanding at the end of the period.

INVESTMENTS Purchases less sales of intangible and tangible fixed assets, excluding those included in acquisitions and divestments of subsidiaries.

NET DEBT, NET CASH Interest-bearing liabilities less cash and cash equivalents and interest-bearing assets.

NET DEBT/EQUITY RATIO Interest-bearing liabilities less cash and cash equivalents and interest-bearing assets divided by shareholders' equity.

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 the sales.

PROFIT MARGIN BEFORE TAX Profit before tax as a percentage of the sales.

RETURN ON EQUITY Profit after tax, 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.

SALES GROWTH EXCLUDING CURRENCY EFFECTS Sales growth excluding currency effects compared to the sales for the corresponding year-earlier period.

SALES GROWTH EXCLUDING CURRENCY EFFECTS AND ACQUISITIONS Sales growth excluding currency effects and acquisitions compared to the sales for the corresponding year-earlier period.

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). HEXPOL 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 Classification, Labelling and Packaging, an 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.

COMPRESSION MOULDING Moulding and vulcanization of the polymer product by means of injection whereby the polymer 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).

CONFLICT MINERALS Tantalum, tin, gold and tungsten are known as conflict minerals and they derive from the Democratic Republic of 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.

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.

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 anticorruption.

GRI Global Reporting Initiative has established voluntary global guidelines for how companies and other organizations to report on their activities in sustainable development. GRI G4 was introduced during 2013.

HCFC Hydrochlorofluorocarbons, also known as freons, are used as coolants. Substances that deplete the ozone layer.

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 9001 is a management system standard for quality processes in a company or organization. A management system that describes how the company continually improves and adjusts its operations to meet customer needs.

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 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.

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.

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.

SULPHUR DIOXIDE (SO₂) Sulphur dioxide is formed when petroleum products are burned. The gas 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 Thermoplastic compounds is a plastic material that becomes pliable or mouldable above a specific temperature and solidifies upon cooling.

TPE Thermoplastic elastomer compounds 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.

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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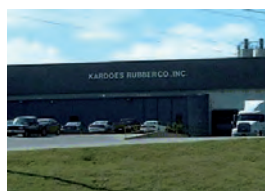
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